

## Lancashire County Council

### Audit and Governance Committee

Monday, 27th January, 2014 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

### Agenda

#### Part 1 (Open to Press and Public)

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

3.	<b>Minutes of the Meeting held on 25 November 2013</b>	(Pages 1 - 4)
	To be confirmed, and signed by the chair.	

4.	<b>Accounts of Lancashire County Developments Limited 2012/13</b>	(Pages 5 - 32)
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5.	<b>Update on Treasury Management Activity</b>	(Pages 33 - 44)
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6.	<b>Internal Audit Service Progress Report</b>	(Pages 45 - 58)
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7.	<b>External Audit - update report January 2014</b>	(Pages 59 - 78)
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8.	<b>Urgent Business</b>
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An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

**9. Date of Next Meeting**

The next meeting of the Committee will be held on Monday 31 March 2014 at 2pm at County Hall, Preston.

I M Fisher  
County Secretary and Solicitor

County Hall  
Preston

# Agenda Item 3

## Lancashire County Council

### Audit and Governance Committee

**Minutes of the Meeting held on Monday, 25th November, 2013 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

#### Present:

#### County Councillors

K Brown	R Shewan
T Brown	V Taylor
C Dereli	D Westley
K Ellard	B Winlow
A Schofield	

County Councillors K Ellard and R Shewan replaced County Councillors C Prichard and D Clifford on the committee respectively.

#### Officers in attendance

George Graham – deputy county treasurer  
Ruth Lowry – chief internal auditor  
Karen Murray – director, Grant Thornton  
Len Cross – manager, Grant Thornton  
Ian Young – deputy county secretary and solicitor  
Andy Wilkinson - external relations team leader  
Roy Jones - assistant county secretary  
Cath Rawcliffe – committee support officer

#### 1. Apologies

None received.

#### 2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

#### 3. Minutes of the Meeting held on 30 September 2013

Attention was drawn to the narrative at resolution 4 of the Minutes. It was confirmed that reference to the Chief External Auditor in the last sentence of paragraph 3 should be deleted and replaced with reference to the Chief Internal Auditor.

**Resolved:** That, subject to the above amendment, the Minutes of the meeting held on the 30 September 2013 be confirmed and signed by the Chair.

#### **4. External Audit Lancashire County Council and Lancashire County Pension Fund - Annual Audit Letter 2012/13**

Karen Murray, director, Grant Thornton presented the external auditor's Annual Audit letter for 2012/13 which summarised for members the key findings of the annual audit for 2012/13 including:

- The audit of the 2012/13 financial statements for the County Council and the Lancashire County Pension Fund and the Whole of Government accounts Submission;
- An assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources;
- The certification of grant claims and returns.

The External Auditor concluded that the accounts gave a true and fair view of the financial position of the County Council and the Lancashire County Pension Fund.

An unqualified conclusion had also been provided in respect of the council's arrangements in respect of 'value for money'. However, it was reported that weaknesses in the overall framework had been identified in relation to procurement and some aspects of good governance.

It was noted that the council was currently investigating these weaknesses and that pending the conclusion of this work, the External Auditor was unable to issue an Audit Certificate for 2012/13 confirming the completion of the audit.

In response to questions raised by the Members, the external auditor reported that she was satisfied with the progress being made in respect of these areas of concern and would report back to the committee if she felt there was any unnecessary delay.

**Resolved:** That the Annual Audit letter for 2012/13 be noted.

#### **5. Information Governance Arrangements Update**

Ian Young, Deputy County Secretary and Solicitor presented a progress report on the information governance (IG) arrangements within the County Council.

The committee noted the progress that had been made to date and the proposals for further steps to ensure that robust arrangements are in place to manage the County Council's responsibilities to properly maintain the confidentiality and security of information.

The committee was advised that there were a number of areas where good progress had been made, notably the putting in place of appropriate policies and

procedures, the appointment of a Senior Information Risk Owner (SIRO) and Caldicott Guardian and the establishment of a Corporate Information Governance Group at senior level to ensure IG was managed and communicated properly across the Authority.

Efforts had been made to remind all staff across the Authority of their IG responsibilities but it was recognised that much more needed to be done.

It was therefore proposed that the County Council, as a matter of urgency, would appoint a Head of Information Governance, one of whose first priorities when appointed would be to assess the level of resource required to manage this highly important area of work. In the interim, a senior officer within the County Secretary and Solicitor's Group had been nominated Information Governance Lead and his main focus would be to ensure any security breaches were handled properly, that action would be taken to mitigate against such breaches and to progress work to ensure the County Council met the requirements of the NHS IG toolkit.

As for the toolkit, it was reported that good progress was being made and there was now only one assessment category on which the County Council had yet to achieve the required 'Level 2' attainment. In order to address this, a cross directorate task and finish group had been established and was working to pull together an up to date Information Asset register for the Council and to identify IA Owners by mid-December 2013.

It was noted that some progress had also been made on moving towards a 'Level 3' attainment which the County Council is required to do by April 2014.

The committee welcomed the progress being made but expressed concern at the potential financial and reputational risks to the council.

It was also noted that the committee would continue to receive updates on the progress being made to ensure risks around information governance were being adequately managed.

**Resolved:**

- i) Regretting the decision to place the Council's information governance functions with One Connect Limited leading to the current situation, the committee welcome the work now being undertaken to enable the council to effectively fulfil its obligations on information governance to a high standard, for the benefit of the people we serve.
- ii) That an update on the progress being made to ensure risks around information governance are being adequately managed be presented to a future meeting of the committee.

**6. Urgent Business**

There were no items of urgent business,

**7. Date of Next Meeting**

That the next meeting of the committee be held on Monday 27 January 2014 at 2.00pm at County Hall, Preston.

I M Fisher  
County Secretary and Solicitor

County Hall  
Preston

# Agenda Item 4

**Audit and Governance Committee**  
Meeting to be held on 27 January 2014

Electoral Division affected: All
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**Accounts of Lancashire County Developments Limited 2012/13**  
(Appendix 'A' refers)

Contact for further information:  
Beryl Rhodes, Head of Finance (Commercial & Central)  
01772 533603,  
beryl.rhodes@lancashire.gov.uk

## **Executive Summary**

This report sets out the Financial Statements of Lancashire County Developments Limited for 2012/13.

## **Recommendation**

The Committee is requested to note the 2012/13 Statement of Accounts for Lancashire County Developments Limited.

## **Background**

Lancashire County Developments Limited (LCDL) is the council's economic development company and is focussed on delivery in line with the County Council's Economic Development Framework.

On the 17th July 2003, the Full Council, on the recommendation of the Cabinet, resolved that the Lancashire County Developments Limited audited Statement of Accounts be reported to the Audit Committee for information.

An overview of 2012/13 for the company by its Chair may be seen on pages 3 and 4 of the Financial Statements for LCDL, which are attached at Appendix 'A'. Beryl Rhodes, LCDL Head of Commercial and Central Finance, will attend the meeting to respond to any questions.

The LCDL Group of Companies are legally required to have their financial records audited annually. The appointed Auditors are Grant Thornton Chartered Accountants.

The following points summarise the key points from the 2012-2013 financial year (ending on 31<sup>st</sup> March 2013)

1. LCDL Group profit pre tax £4,663,998 for the period

In summary:

	<b>£k</b>
Profit from normal operations	506
Gain on disposal of assets as a result of fire	8,212
Loss on Revaluation of Property Portfolio	(4,054)
<hr/>	
Pre tax Profit after exceptional items	4,664

2. The major reason for this profit is a £8,212,062 gain on disposal of fixed assets arising from the insurance proceeds received as a result of the fire at the Lancashire Business Park in Leyland. The building was fully insured and our insurers have accepted liability and paid £16.2million to the Company. The accounts reflect the loss of the building but also this year reflects the costs of the replacement buildings as Assets in Construction of £11,840,754.
3. There is within the accounts a loss of £4,054,284 resulting from the reduction in the valuation of the property assets following a requirement by the Auditors to have the Leyland property externally valued. The revaluation of the property portfolio results in the property portfolio therefore now valued at £25,950,000
4. The Bank Balance stands at £20,543,673 on the Group Balance sheet but this is offset by an overdraft amount in creditors of £11,541,956. Therefore the net bank balance for the Group is £9,001,717.
5. The Balance sheet net worth of the LCDL Group of companies totals £36,078,397

The report and accounts was submitted to the LCDL Audit Committee, who recommended the accounts to the Board for signature. The accounts have subsequently been approved for signature by the LCDL Board and filed at Companies House.

### **Consultations**

N/A

### **Advice**

N/A

### **Implications:**

This item has the following Risk Management implications:



N/A

**Implications:** Other

This item has the following implications:

N/A

**Local Government (Access to Information) Act 1985  
List of Background Papers**

Paper	Date	Contact/Directorate/Ext
Financial Statements working papers	2011/12	Beryl Rhodes, LCDL Tel : 01772 533603

Reason for inclusion in Part II, if appropriate

N/A



# Financial Statements Lancashire County Developments Limited

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For the year ended 31 March 2013



Company No 1624144

## Company information

<b>Company registration number :</b>	1624144
<b>Registered office :</b>	P O Box 78 County Hall Preston Lancashire PR1 8XJ
<b>Directors :</b>	Ms N D Penney M J Welsh (Resigned 4 June 2013) H Henshaw (Resigned 4 June 2013) J R C Lawrenson (Resigned 4 June 2013) G Driver M P France (Resigned 4 June 2013) T M Ashton (Resigned 4 June 2013) P Halsall (Resigned 5 August 2013) M Green (Resigned 4 June 2013) D Watts (Appointed 29 July 2013) D Borrow (Appointed 23 July 2013) B Winlow (Appointed 29 July 2013) T Martin (Appointed 29 July 2013) J Gibson (Appointed 25 July 2013) D J Mein (Appointed 10 July 2013)
<b>Secretary :</b>	I M Fisher
<b>Bankers :</b>	The Royal Bank of Scotland Plc 97 Fishergate Preston PR1 2DP
<b>Auditor :</b>	Grant Thornton UK LLP Statutory Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

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## Chair's statement

The LCDL Group continues to play a key role in delivering economic prosperity and business growth across Lancashire by delivering its agreed business plan and investment strategy. This has been achieved whilst maintaining the business on a sound financial footing. During the 2012/13 financial year, the Group made a pre-tax profit of £4.6M, with a balance sheet net worth of £36.1M.

The activity of the Group has been re-focused to become a key economic delivery body of Lancashire County Council and the wider Lancashire Enterprise Partnership. The work of the Group is playing an important role in supporting the development and delivery of key initiatives.

LCDL's Strategic Development and Special Projects Team have been instrumental in bringing forward physical investment and development activity to stimulate and promote economic growth within the County. Over the course of the year, the team has worked extensively to bring forward large footprint development sites (Cuerden, Lancashire Business Park, and Burnley Bridge), to support development and employment growth in specific sectors (Hillhouses, Heysham, Enterprise Zone and Arcelle Supplier Village) to promote innovation (Lancaster University and UCLAN) and to maintain the economic position and offer of key urban centres (Preston, Lancaster, Burnley). In addition, the team have also played a key part in securing the Preston, South Ribble and Lancashire City Deal establishing an Infrastructure Delivery Programme and Investment Fund, with a combined value of £434million.

The Business Growth and Innovation Team has also continued to play a key role in resourcing, aligning and delivering business support to key businesses within the County. In 2012/13 the team identified and worked with over 300 local businesses, provided over £700,000 in loans and equity investments in Lancashire companies and secured £7.2m funding for Boost – an information and advice hub which will provide services to more than 1,500 Lancashire companies, create 1,200 new jobs and increase local output by £20m over the next two years.

The Group's own business parks have also out-performed industry benchmarks, notwithstanding difficult market conditions, whilst its Rosebud fund continues to invest in high value local businesses.

The key movements in the Group's financial accounts are explained by a £8.2M gain on disposal of fixed assets arising from the insurance proceeds received as a result of a fire at the Lancashire Business Park in Leyland in December 2011. The buildings destroyed were fully insured and our insurers have accepted liability and paid £16.2M to the Company. The accounts reflect the loss of the buildings, but also the cost of the replacement buildings as Assets in Construction of £11.4M. There is also within the accounts a loss of £4,054,284 resulting from the reduction in the valuation of the Group's property assets following the requirements of accounting standards to externally value Lancashire Business Park. As a result, the property portfolio is now valued at £25.9M.

Overall, the Group remains in robust financial health, with a clear vision and business plan guiding its on-going work programme.



Niki Penney  
Chair of LCDL Group

## Report of the directors

The directors present their report together with the audited financial statements of the company and the group for the year ended 31 March 2013

### Principal activities

The principal activities of the group are to invest in Lancashire with a view to acting as a catalyst in promoting the economic development of industry in the County, to provide industrial premises and associated facilities for businesses and to promote job creation and training particularly associated with new technologies

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989

### Business review

A detailed review of operations of the group during the year and a commentary on the state of affairs, financial position and plans for the future is contained in the Chair's statement

The group profit before taxation amounted to £4,663,998 (2012 £4,251,122) The group profit after taxation amounted to £4,659,277 (2012 profit £4,198,368), which has been transferred to reserves

### Capital funding

Lancashire County Developments Limited is a company limited by guarantee, therefore, does not have a share capital

### Directors and employees

The Board of Directors during the year ended 31 March 2013 is shown below All served on the Board throughout the year and thereafter, unless otherwise indicated

Ms N D Penney  
M J Welsh (Resigned 4 June 2013)  
H Henshaw (Resigned 4 June 2013)  
J R C Lawrenson (Resigned 4 June 2013)  
G Driver  
M P France (Resigned 4 June 2013)  
T M Ashton (Resigned 4 June 2013)  
P Halsall (Resigned 5 August 2013)  
M Green (Resigned 4 June 2013)  
D Watts (Appointed 29 July 2013)  
D Borrow (Appointed 23 July 2013)  
B Winlow (Appointed 29 July 2013)  
T Martin (Appointed 29 July 2013)  
J Gibson (Appointed 25 July 2013)  
D J Mein (Appointed 10 July 2013)

At 31 March 2013, the group had no paid employees (2012 Nil), because with effect from 1 January 2004 all employees of the group were transferred to become employees of Lancashire County Council Management services were also provided by the staff of Lancashire County Council and by professional advisers

## Report of the directors (continued)

### Statement of directors' responsibilities

The directors are responsible for preparing the Report of the directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


In so far as each of the directors is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Auditors

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed to be reappointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 unless the company receives notice under 488(1) of the Companies Act 2006.

BY ORDER OF THE BOARD



I M Fisher  
Secretary  
19 September 2013



## Report of the independent auditor to the members of Lancashire County Developments Limited

We have audited the financial statements of Lancashire County Developments Limited for the year ended 31 March 2013 which comprise the principal accounting policies, the consolidated profit and loss account, the statement of total recognised gains and losses, the group and parent company reconciliation of movement in members' funds, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2013 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*Grant Thornton UK LLP*

STUART MUSKETT (Senior Statutory Auditor)  
For and on behalf of  
GRANT THORNTON UK LLP  
STATUTORY AUDITOR  
CHARTERED ACCOUNTANTS  
MANCHESTER

*19 December 2013*

## Principal accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention modified by the revaluation of certain fixed assets

The principal accounting policies of the group are set out below

### **Basis of consolidation**

The group financial statements combine the financial statements of Lancashire County Developments Limited and all of its subsidiary undertakings

In the year of acquisition, the consolidated profit and loss account incorporates the group's share of the results of subsidiary undertakings from the date of acquisition

The group also holds corporate investments in certain companies where its shareholding is in excess of 20% of the total voting capital of these companies. In order to reflect the investment nature of all holdings, the group accounts for profits and losses on all of its corporate investments upon realisation. As the investments are held primarily for the purpose of promoting economic development, disclosure of share capital, reserves and results for the year of each investment, as required by the Companies Act 2006, is not considered appropriate

### **Income from investments**

Investment income is the amount of income receivable in the accounting period from investments and loans

### **Income from property**

Property income comprises rents arising from investment properties in the accounting period, but excludes service charges which are credited against the relevant expenditure

### **Grant income**

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible assets. This does not comply with paragraphs 17 and schedule 27 Schedule 1 to SI 2008/410, which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grants to be treated as deferred income

As stated above no depreciation is provided on investment properties and there would therefore be no corresponding release of any deferred income to the profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of affairs of the company at the balance sheet date

### **Assets under the course of construction**

Assets under the course of construction are capitalised at cost less any provision for impairment

## Principal accounting policies (continued)

### **Investment properties**

In accordance with Statement of Standard Accounting Practice No 19, certain of the group's properties are held for long-term investment and are included in the balance sheet at their open market values. The surplus(es) or deficit(s) on revaluation of such properties are transferred to the investment property revaluation reserve. Depreciation is not provided in respect of freehold investment properties. Leasehold investment properties are not amortised where the unexpired term is over twenty years.

This policy represents a departure from statutory accounting principles, which require depreciation to be provided on all fixed assets. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

### **Corporate investments**

Investments are stated at cost less provision for impairment. Provision is made against investments if, in the opinion of the directors, the diminution in value is considered permanent and likely to crystallise in the foreseeable future. All costs incurred in connection with the making of corporate investments are written off in the period in which they are incurred.

### **Government and EEC grants**

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible fixed assets. This does not comply with paragraphs 17 and 27 of Schedule 1 to SI 2008/410, which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grant to be treated as deferred income.

As stated above no depreciation is provided on investment properties and therefore, there would be no corresponding release of any deferred income to profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of the affairs of the group at the balance sheet date.

### **Deferred taxation**

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### **Leased assets**

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## Consolidated profit and loss account

	Note	2013 £	2012 £
<b>Continuing activities</b>			
Operating income	2	6,449,209	6,109,987
Expenditure		<u>(5,702,130)</u>	<u>(5,722,196)</u>
<b>Operating profit</b>		<b>747,079</b>	<b>387,791</b>
Profit on disposal of tangible fixed assets	7	8,212,062	6,000,000
Unrealised loss on revaluation of investment properties		<u>(4,054,284)</u>	<u>(1,894,355)</u>
<b>Profit on ordinary activities before interest and taxation</b>		<b>4,904,857</b>	<b>4,493,436</b>
Interest receivable	3	34,689	34,697
Interest payable and similar charges	3	<u>(275,548)</u>	<u>(277,011)</u>
<b>Profit on ordinary activities before taxation</b>	2	<b>4,663,998</b>	<b>4,251,122</b>
Taxation on profit on ordinary activities	5	(4,721)	(52,754)
<b>Profit retained and transferred to reserves</b>	13	<u><b>4,659,277</b></u>	<u><b>4,198,368</b></u>

## Statement of total recognised gains and losses

	2013 £	2012 £
Profit for the financial year	4,659,277	4,198,368
Unrealised loss on revaluation of investment properties	<u>(5,265,498)</u>	<u>(14,065,819)</u>
Total recognised gains and losses relating to the year	<u><b>(606,221)</b></u>	<u><b>(9,867,451)</b></u>

## Reconciliation of movement in members' funds/(deficit)

<b>Group</b>	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Profit for the year	4,659,277	4,198,368
Unrealised revaluation of investment properties	(5,265,498)	(12,344,819)
Realisation of prior years' revaluation of investment properties	-	(1,721,000)
Net (reduction in) members' funds	<u>(606,221)</u>	<u>(9,867,451)</u>
Members' funds at beginning of the year	<u>29,425,500</u>	<u>39,292,951</u>
Members' funds at end of the year	<u><u>28,819,279</u></u>	<u><u>29,425,500</u></u>
 <b>Company</b>		
Loss for the year	(212,464)	(975,302)
Members' deficit at beginning of the year	<u>(13,475,249)</u>	<u>(12,499,947)</u>
Members' deficit at end of the year	<u><u>(13,687,713)</u></u>	<u><u>(13,475,249)</u></u>

**The accompanying notes form part of these financial statements.**

## Consolidated balance sheet

	Note	2013 £	2012 £
<b>Fixed assets</b>			
Investment properties	7	25,950,000	23,250,032
Corporate investments	8	3,416,266	3,639,089
		<u>29,366,266</u>	<u>26,889,121</u>
<b>Current assets</b>			
Debtors	9	3,221,169	10,176,144
Cash at bank and in hand		9,004,077	3,718,922
		<u>12,225,246</u>	<u>13,895,066</u>
<b>Creditors :amounts falling due within one year</b>	10	<u>(5,527,795)</u>	<u>(3,974,398)</u>
<b>Net current assets</b>		<b>6,697,451</b>	<b>9,920,668</b>
<b>Total assets less current liabilities</b>		<u><b>36,063,717</b></u>	<u><b>36,809,789</b></u>
<b>Financed by</b>			
Capital funding reserve	13	8,730,878	8,730,878
Investment property revaluation reserve	13	-	5,265,498
Profit and loss account	13	20,088,401	15,429,124
<b>Members' funds</b>		<u><b>28,819,279</b></u>	<u><b>29,425,500</b></u>
<b>Creditors amounts falling due after more than one year</b>	11	<b>7,230,000</b>	<b>7,230,000</b>
<b>Provisions for liabilities</b>	12	<b>14,438</b>	<b>154,289</b>
		<u><b>36,063,717</b></u>	<u><b>36,809,789</b></u>

These financial statements were approved by the Board on 19 September 2013 and signed on their behalf by

Cllr N Penney

 Chair

Company no. 1624144

The accompanying notes form part of these financial statements.

## Company balance sheet

	Note	2013 £	2012 £
<b>Fixed assets</b>			
Corporate investments	8	<u>9,219,729</u>	<u>9,319,734</u>
		<b>9,219,729</b>	<b>9,319,734</b>
<b>Current assets</b>			
Debtors	9	<u>2,958,287</u>	<u>1,149,503</u>
Cash at bank and in hand		<u>920</u>	<u>-</u>
		<b>2,959,207</b>	<b>1,149,503</b>
<b>Creditors : amounts falling due within one year</b>	10	<u>(18,636,650)</u>	<u>(16,714,486)</u>
<b>Net current liabilities</b>		<b>(15,677,443)</b>	<b>(15,564,983)</b>
<b>Total assets less current liabilities</b>		<u><b>(6,457,714)</b></u>	<u><b>(6,245,249)</b></u>
<b>Financed by:</b>			
Capital funding reserve	13	<u>7,660,241</u>	<u>7,660,241</u>
Profit and loss account	13	<u>(21,347,955)</u>	<u>(21,135,490)</u>
<b>Members' deficit</b>		<b>(13,687,714)</b>	<b>(13,475,249)</b>
<b>Creditors : amounts falling due after more than one year</b>	11	<u>7,230,000</u>	<u>7,230,000</u>
		<u><b>(6,457,714)</b></u>	<u><b>(6,245,249)</b></u>

These financial statements were approved by the Board on 19 September 2013 and signed on their behalf by

Cllr N Penney



Chair

Company no: 1624144

The accompanying notes form part of these financial statements.



## Consolidated cash flow statement

	Note	2013 £	2012 £
<b>Net cash inflow from operating activities</b>	14	9,182,453	29,623
<b>Returns on investments and servicing of finance</b>			
Interest received		34,689	34,697
Interest paid		<u>(275,548)</u>	<u>(277,011)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(240,859)</b>	<b>(242,314)</b>
<b>Taxation paid</b>		<b>(34,478)</b>	-
<b>Capital expenditure and financial investment</b>			
Purchase of investment properties		(12,019,750)	(627,845)
Purchase of corporate investments		(820,647)	(2,259,888)
Disposal and repayment of corporate investments		1,060,195	1,231,219
Sale of tangible fixed assets		<u>8,212,062</u>	<u>-</u>
<b>Net cash outflow from capital expenditure and financial investment activities</b>		<b>(3,568,140)</b>	<b>(1,656,514)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>5,338,976</b>	<b>(1,869,205)</b>
<b>Financing</b>			
Repayment of bank loans		<u>(53,821)</u>	<u>9,903</u>
<b>Net cash (outflow)/inflow from financing</b>	15	<b>(53,821)</b>	<b>9,903</b>
<b>Increase/(decrease) in cash in the year</b>	16	<b><u>5,285,155</u></b>	<b><u>(1,859,302)</u></b>

The accompanying notes form part of these financial statements.

## Notes to the financial statements

### 1 Constitution

Lancashire County Developments Limited is a company limited by guarantee. At 31 March 2013 there were 3 members (2012: 3), each of whom on a winding-up had undertaken to contribute an amount not exceeding £1.

### 2 Operating income and profit on ordinary activities before taxation

Operating income and profit on ordinary activities before taxation are attributable to the group's principal activities, which were carried out entirely within the United Kingdom. The profit on ordinary activities before taxation is stated after charging:

	2013	2012
	£	£
Auditors' remuneration		
– audit services	30,430	23,434
– non-audit services	22,420	44,295
Management fee paid to Lancashire County Council	408,543	204,060
Operating lease rentals		
– land and buildings	<u>58,244</u>	<u>96,895</u>

Non-audit services relate primarily to tax compliance and advisory fees.

### 3 Net interest

	2013	2012
	£	£
<b>Interest payable and similar charges</b>		
Bank loans	<u>275,548</u>	<u>277,011</u>
<b>Interest receivable</b>		
Bank interest receivable	<u>34,689</u>	<u>34,697</u>

### 4 Directors and employees

The chairman received £Nil (2012: £Nil) during the year. The total received from the group by the other directors was £Nil (2012: £Nil).

The employees of the group were officially transferred to Lancashire County Council with effect from 1 January 2004. The average number of employees in the year ended 31 March 2013 was £Nil (2012: Nil). Employee costs of £1,405,253 for the year (2012: £1,541,335) were recharged from Lancashire County Council to Lancashire County Developments Limited and are included within administrative expenses.

## Notes to the financial statements

### 5 Taxation

	2013	2012
	£	£
Corporation tax on profit on ordinary activities at 24% (2012 26%)		
– current year	140,559	30,465
– adjustment in respect of prior years	4,013	-
	<u>144,572</u>	<u>30,465</u>
Deferred taxation		
– current year (other)	(139,851)	22,289
– adjustment in respect of prior years	-	-
	<u>(139,851)</u>	<u>22,289</u>
	<u>4,721</u>	<u>52,754</u>
Tax on profit on ordinary activities		

#### Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 24% (2012 26%). The differences are explained as follows

	2013	2012
	£	£
Profit on ordinary activities before taxation	<u>4,663,995</u>	<u>4,251,122</u>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 24% (2012 26%)	1,119,358	1,105,292
Effect of		
Expenses not deductible for tax purposes	2,302,064	187,031
Differences between capital allowances and depreciation	142,259	(40,857)
Non-taxable income	(3,240,953)	(8,186)
Pension	-	(3,013)
Marginal relief	-	(2,238)
Profit on disposal	-	(1,207,564)
Fixed asset differences	(163,333)	-
Adjustment in respect of prior years	4,013	-
Unrelieved tax losses and other deductions in the period	(3,675)	-
Additional deduction for land remediation expenditure	(15,161)	-
	<u>144,572</u>	<u>30,465</u>

## Notes to the financial statements

### 6 Profit and loss accounts

Under the provisions of s480 of the Companies Act 2006, Lancashire County Developments Limited has not published its own profit and loss account. The loss dealt with in the financial statements of the parent undertaking is £212,464 (2012 £975,032)

### 7 Investment properties

Group	Freehold	Assets under the course of construction	Total
	£	£	£
<b>Cost or valuation and net book value</b>			
At 1 April 2012	22,779,055	470,972	23,250,027
Additions	649,973	11,369,782	12,019,755
Revaluation in the year	(4,500,152)	(4,819,630)	(9,319,782)
At 31 March 2013	<u>18,288,876</u>	<u>7,021,124</u>	<u>25,950,000</u>
<b>Cumulative grants</b>			
At 31 March 2013			<u>3,143,188</u>
At 31 March 2012			<u>3,143,188</u>

The properties were externally revalued on an open market basis as at 31 March 2013 by King Sturge LLP. The historical cost of the premises are as follows

	£
At 31 March 2012	35,127,027
Additions	12,019,755
At 31 March 2013	<u>47,146,782</u>

*In December 2011 a significant part of one of the group's properties was destroyed in a fire. The disposal of this asset has been reflected in these financial statements.*

#### Company

At the year end the cost and net book value of the assets was £Nil (2012 £Nil)

#### Capital commitments

At 31 March 2013, the group and the company had capital commitments of £Nil (2012 £Nil)

## Notes to the financial statements

### 8 Corporate investments

	2013 £	Group 2012 £	2013 £	Company 2012 £
Shares in subsidiary undertakings	-	-	200	200
Shares in associated undertaking	163,136	163,136	-	-
Loans to subsidiary undertakings	-	-	9,219,529	9,219,529
Other investments in shares	467,709	1,120,464	100,005	100,005
Other participating interests	6,188	28,687	-	-
Other loans	2,779,233	2,326,802	-	-
	<u>3,416,266</u>	<u>3,639,089</u>	<u>9,319,734</u>	<u>9,319,734</u>

Subsidiary undertakings	Principal activity	% of ordinary shares	% of preference shares
Lancashire County Developments (Investments) Limited	Investment company	100	-
Lancashire County Developments (Property) Limited	Property investment	100	-
Lancashire Enterprises (Investments) Limited	Investment company	100	100
Lancashire County Enterprises (Leasing) Limited	Dormant	100	-
The Lancashire Rosebud (Small Firms) Fund Company Limited (Limited by guarantee)	Dormant	-	-

#### Associated undertaking

North West Regional Fund Limited	Investment company	25	-
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#### Other participating interests

Other participating interests at 31 March 2013 represent investments in The HSBC (UK) Enterprise Fund for the North West and the Enterprise Venture Fund. The interests are 11.9% and 15.7% respectively (2012: 11.9% and 15.7% respectively).

## Notes to the financial statements

### 8 Corporate investments (continued)

#### Group

	Shares in associated undertakings £	Other participating interests £	Other investment in shares £	Loans £	Total £
<b>Cost</b>					
At 1 April 2012	163,136	28,687	1,810,307	3,892,237	5,894,367
Additions	-	-	-	820,647	820,647
Amounts written off	-	-	(822,151)	(330,280)	(1,152,431)
Repayments	-	(39,224)	-	(898,839)	(938,063)
Transfer	-	-	(253,457)	251,731	(1,726)
Net share of profits of other participating interests	-	16,725	-	-	16,725
At 31 March 2013	163,136	6,188	734,699	3,735,496	4,639,519
<b>Provisions</b>					
At 1 April 2012	-	-	640,847	1,614,431	2,255,278
Charge for the year	-	-	(69,396)	172,619	103,223
Amounts written off	-	-	(958,455)	(175,067)	(1,133,522)
Transfer	-	-	548,387	(550,113)	(1,726)
At 31 March 2013	-	-	161,383	1,061,870	1,223,253
<b>Net book value</b>					
At 31 March 2013	163,136	6,188	573,316	2,673,626	3,416,266
At 31 March 2012	163,136	28,687	1,120,464	2,326,802	3,639,089

Other investments	Principal activity	% of ordinary shares held at 31 March 2013	% of ordinary shares held at 31 March 2012
Manhattan Showers Limited	Manufacture of shower screens	-	20
North West Regional Fund Limited	Investment company	25	25
Plant Impact Plc	Development of crop nutrients and natural pesticides	1.9	3.72
SOL Publications Limited	Publishing and Media company	15	15
Outerline Limited (formerly EXML Systems)	Development of Expense World Expenses System	-	2
ISIS Forensics Limited	Development of software	7.46	-

The group holds other investments in which more than 20% of share capital is held. The group does not include these as associated undertakings as no significant influence is exerted over these companies.

## Notes to the financial statements

### 9 Debtors: amounts falling due within one year

	2013 £	Group 2012 £	2013 £	Company 2012 £
Trade debtors	1,866,841	1,731,232	893,105	258,607
Accrued income and prepayments	168,684	8,109,986	45,190	29,798
Amounts owed by parent undertaking	-	157,989	890,898	667,481
Other debtors	76,618	1,320	5,386	-
Social security and other taxes	1,109,026	175,617	1,109,026	175,617
Deferred taxation (note 12)	-	-	14,682	18,000
	<u>3,221,169</u>	<u>10,176,144</u>	<u>2,958,287</u>	<u>1,149,503</u>

Included within accrued income and prepayments in 2012 is an amount representing the expected insurance proceeds of £8,000,000, please see note 7 for further details

### 10 Creditors: amounts falling due within one year

	2013 £	Group 2012 £	2013 £	Company 2012 £
Bank overdraft	-	-	11,541,596	542,554
Bank loans (note 11)	-	53,821	-	53,821
Trade creditors	630,225	1,106,300	627,368	1,106,300
Amounts owed to parent undertaking	-	-	-	-
Amounts owed to other group undertakings	-	-	5,266,437	14,451,786
Corporation tax	140,559	30,465	-	-
Accruals and deferred income	4,757,011	2,783,812	1,201,249	560,025
	<u>5,527,795</u>	<u>3,974,398</u>	<u>18,636,650</u>	<u>16,714,486</u>

## Notes to the financial statements

### 11 Creditors: amounts falling due after more than one year

	Group and Company	
	2013	2012
	£	£
Amount owed to parent undertaking - Lancashire County Council	7,230,000	7,230,000
	<u>7,230,000</u>	<u>7,230,000</u>

The loan from Lancashire County Council included in creditors amounts falling due after more than one year of £7,230,000 is interest free and is repayable in full on 30 September 2030

### 12 Provisions for liabilities

#### Deferred taxation

	Group	Company
	£	£
Provision/(asset) at 1 April 2012	154,289	(18,000)
Charge for the year	(139,851)	3,318
Provision/(asset) at 31 March 2013	<u>14,438</u>	<u>(14,682)</u>

Deferred taxation provided for in the financial statements is set out below

	Group		Company	
	Amount provided 2013	Amount provided 2012	Amount provided 2013	Amount provided 2012
	£	£	£	£
Accelerated capital allowances	14,438	132,000	(14,682)	(18,000)
Other timing differences	-	22,289	-	-
	<u>14,438</u>	<u>154,289</u>	<u>(14,682)</u>	<u>(18,000)</u>



## Notes to the financial statements

### 13 Reserves

Group	Capital funding reserve	Investment property revaluation reserve	Profit and loss account	
	£	£	£	£
At 1 April 2012	8,730,878	5,265,498	15,429,124	
Profit for the year	-	-	4,659,277	
Unrealised movement on revaluations	-	(5,265,498)	-	
At 31 March 2013	<u>8,730,878</u>	<u>-</u>	<u>20,088,401</u>	

Company	Capital funding reserve	Profit and loss account
	£	£
At 1 April 2012	7,660,241	(21,135,490)
Loss for the year	-	(212,464)
At 31 March 2013	<u>7,660,241</u>	<u>(21,347,955)</u>

### 14 Net cash inflow from operating activities

	2013	2012
	£	£
Operating profit	747,079	387,791
Decrease in debtors	6,954,975	457,337
(Decrease) in creditors	1,497,124	(809,516)
Share of profit in participating interests (note 8)	(16,725)	(5,989)
Net cash inflow from operating activities	<u>9,182,453</u>	<u>29,623</u>

### 15 Reconciliation of net cashflow to movement in net funds/(debt)

	2013	2012
	£	£
Increase/(decrease) in cash in the year	5,285,155	(1,859,302)
Cash outflow from movement of debt	53,821	9,903
Movement in net funds	5,338,976	(1,869,205)
Opening net debt	(3,564,899)	(1,695,694)
Closing net funds/(debt)	<u>1,774,077</u>	<u>(3,564,899)</u>

## Notes to the financial statements

### 16 Analysis of changes in net funds/(debt)

	At 31 March 2012 £	Cashflows £	At 31 March 2013 £
Cash at bank	3,718,922	5,285,155	9,004,077
Bank loans			
The Royal Bank of Scotland plc	(53,821)	53,821	-
Other loans			
Lancashire County Council	(7,230,000)	-	(7,230,000)
	<u>(3,564,899)</u>	<u>5,338,976</u>	<u>1,774,077</u>

### 17 Operating lease commitments

Operating lease payments due within one year are as follows

	2013 Land and Buildings £	2012 Land and Buildings £
Expiring after five years	<u>-</u>	<u>96,895</u>

### 18 Related parties

Sales from Lancashire County Council during the year amount to £2,235,389 (2012 £2,488,260)  
 Purchases with Lancashire County Council amount to £2,510,058 (2012 £3,734,591) The amount owed by this related party at 31 March 2013 is £586,883 (2012 £808,831) The amount owed to this related party at 31 March 2013 is £6,310 (2012 £932,202)

### 19 Contingent liabilities

The company has issued a cross guarantee secured on assets held by the company and other companies within the group

The cross guarantee relates to a borrowing facility and covers the obligations of each other company in the group The total amount outstanding by the group at 31 March 2013 was £Nil (2012 £Nil)

There are outstanding public liability claims addressed to both Lancashire County Developments Limited, Lancashire County Developments (Property) Limited and Lancashire County Council relating to a fire in one of Lancashire County Developments (Property) Limited's properties in December 2011 These are currently in the hands of insurers and lawyers who are defending these claims on behalf of all three entities At this stage it is not possible to provide an accurate estimate of any costs that will arrive as a result of this claim

## **Audit and Governance Committee** Meeting to be held on 27 January 2014

Electoral Division affected: None
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### **Update on Treasury Management Activity** Appendix A refers

Contact for further information:  
Mike Jensen, County Treasurer's Department, (01772) 534742  
mike.jensen@lancashire.gov.uk

#### **Executive Summary**

The report set out at Appendix A is a review of the County Council's treasury management activities for the period from August to November 2013. Treasury management activities are regulated by the CIPFA Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment
- Borrowing activity
- Investment activity
- Actual results measured against 2013/14 prudential indicators and Treasury Management Indicators.

#### **Recommendation**

The Committee is recommended to note the review of treasury management activities for the third quarter of 2013.

#### **Background and Advice**

As part of the County Council's governance arrangements for its treasury management activities, the Audit Committee is charged with oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity for the third quarter of 2013 and sets this activity against the current economic background including risk

management strategies to protect the capital value of the County Council's reserves and balances.

### **Consultations**

Arlingclose provides advice on treasury management.

This item has the following implications, as indicated:

### **Risk management**

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

### **Local Government (Access to Information) Act 1985 List of Background Papers**

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2013/14	Feb 2013	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

## Treasury Management Activity 3<sup>rd</sup> Quarter Report 2013-14

### 1. Background

As part of the County Council's governance arrangements for its treasury management activities, the Audit and Governance Committee is charged with oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee.

This report considers treasury management activity between August and November 2013.

### 2. Economic Overview

There has been no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates. Unemployment was 7.6% in the three months to September 2013. On the probability of unemployment reaching the 7% threshold, the MPC attaches only a two-in-five chance to the rate having reached the 7% level by the end of 2014. The corresponding figures for the end of 2015 and 2016 are around three-in-five and two-in-three respectively. These forecasts were revealed in the November Inflation Report and brought forward market expectations of a bank rate rise.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.2% in October 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and a second estimate of 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

On the inflation side CPI for October fell more than expected from 2.7% to 2.2% but it is expected that regulated and administered prices are likely to keep CPI above target in the near term. In the medium term Inflation is set to fall back to around the 2% target over the next year or so as the impetus from past increases in import

prices fades and a gradual revival in productivity growth, together with a persistent margin of spare capacity, curbs domestic price pressures.

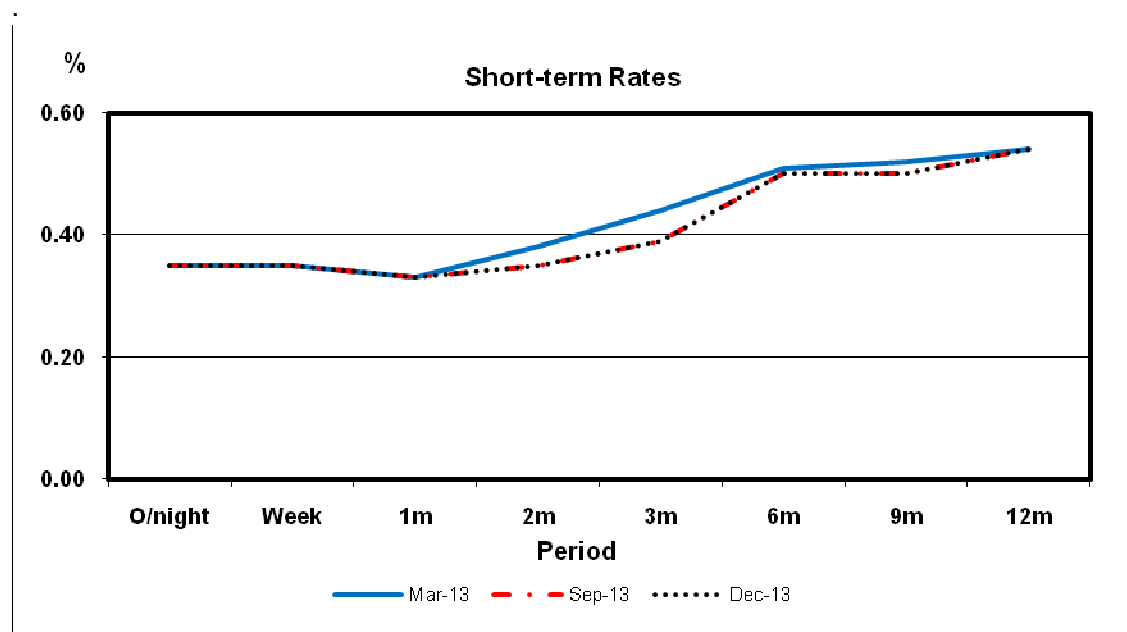
House price inflation is likely to rise due to the government's help to buy scheme, where it will guarantee up to 15% of purchasers' 95% mortgages. This could lead to a housing bubble, which in turn could come under pressure if rates were to rise quickly. The Funding for Lending scheme was curtailed to only cover business lending and not mortgages, due to concerns around the housing market overheating.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September as had been originally expected and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim. US GDP grew by more than expected in the third quarter and the unemployment rate fell to 7.0%, further towards the 6.5% the Federal Reserve looks for under US forward guidance. The US government shutdown and political deadlock over the debt ceiling could return in 2014 as the solutions to the situation were only temporary.

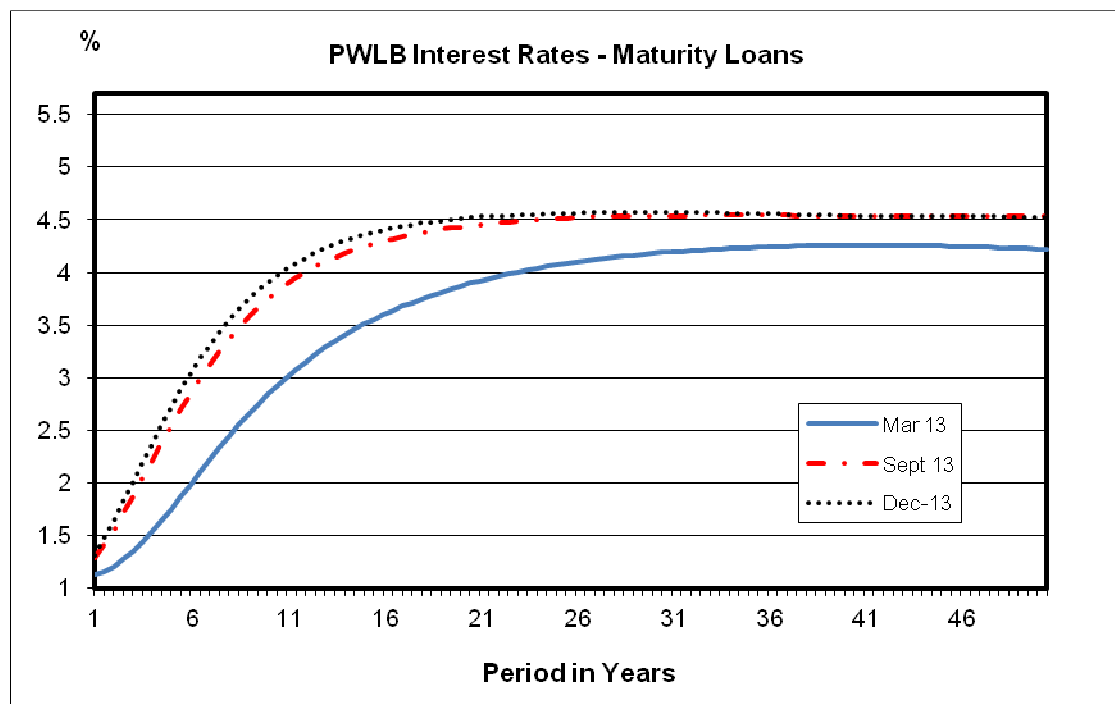
In Europe the situation seems to have calmed. The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third long term refinancing operation, as credit conditions remain challenging for European banks.

## 2.1 Interest Rate Environment

Short term interest rates continue at the very low levels since the Bank of England reduced base rate to 0.5% in March 2009. The chart below shows that there has been very little movement in short term interest rates over the first three quarters of the current financial year.



Current longer term PWLB rates are shown below.



Central bank liquidity injections, the abatement of the euro crisis and the fragile economic recovery has seen a reduction in demand for safe haven assets including UK Government gilts. This resulted in an increase in gilt yields during the summer and consequently in Public Works Loan Board interest rates, with a noticeable steepening of the curve in the medium term. Rates have hardly changed in the 3<sup>rd</sup> quarter of the year.

## 2.2 Outlook for Interest Rates

Treasury Consultants Arlingclose Ltd forecast the path for short term interest rates to remain flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop, however upside risks now weight more heavily at the end of the forecast horizon.

Gilt yields are projected to climb on an upward path through the medium term. However, the recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US. Yields are slowly drifting lower now that tapering is less likely to occur in the near-term.

Period	Bank Rate	3 month LIBID	12 month LIBID	20-year Gilt Rate
Q3 2013	0.50	0.45	0.90	3.25
Q4 2013	0.50	0.45	0.95	3.30
Q1 2014	0.50	0.50	0.95	3.35
Q2 2014	0.50	0.55	0.95	3.40
Q3 2014	0.50	0.55	1.00	3.45
Q4 2014	0.50	0.55	1.05	3.50
H1 2015	0.50	0.60	1.15	3.55
H2 2015	0.50	0.65	1.20	3.65
H1 2016	0.50	0.70	1.25	3.75
H2 2016	0.50	0.80	1.30	4.05

### 3. Current Treasury Management Policy

The current borrowing policy of keeping a higher proportion of borrowing at variable rates or short dated maturities is enabling the County Council to take advantage of the very low rates available on short term borrowing. Rates will be carefully monitored and the proportion of borrowing held on longer term fixed rates will be increased as rates start to rise. The interest rate indicators approved by Full Council on 12 December restrict the rate increase to 5% this is then a trigger point for the Chief investment officer to "lock" the existing borrowing at the lowest possible rates to minimise debt costs.

The current investment policy of accessing high credit quality institutions through bond investments as opposed to placing fixed term deposits directly with banks continues to be appropriate given the continued difficult credit environment.

#### 3.1 Investment Activity

The table below shows investment activity between 1<sup>st</sup> September and 30<sup>th</sup> November 2013

##### Bank Deposits

	Call £m	Fixed £m	Structured £m	Total £m
Balance 31 Aug	31.31	31.50	72.64	135.45
Maturities	(398.30)	0	0	(398.30)
New Investments	368.71	10.00	0.59	379.30
Balance 30 Nov	1.72	41.50	73.23	116.45



## Bonds

	Local Authority Bonds £m	UK Govt Gilts £m	Corporate & Supra- nationals £m	Total £m
<b>Balance 31st Aug</b>	<b>20.28</b>	<b>223.53</b>	<b>324.32</b>	<b>568.13</b>
Maturities	(0.05)	0	(109.57)	<b>(109.62)</b>
New Investments	0	1.42	0	<b>1.42</b>
<b>Balance 30<sup>th</sup> Nov</b>	<b>20.23</b>	<b>224.95</b>	<b>214.75</b>	<b>459.93</b>

Overall the level of investments has decreased by £127.20m mainly through the sale of corporate and supranational bonds. This reduction is in line with cash flow movements and requirements.

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 2.775% which compares favourably with the benchmark 7 day LIBID which averages 0.36% over the same period.

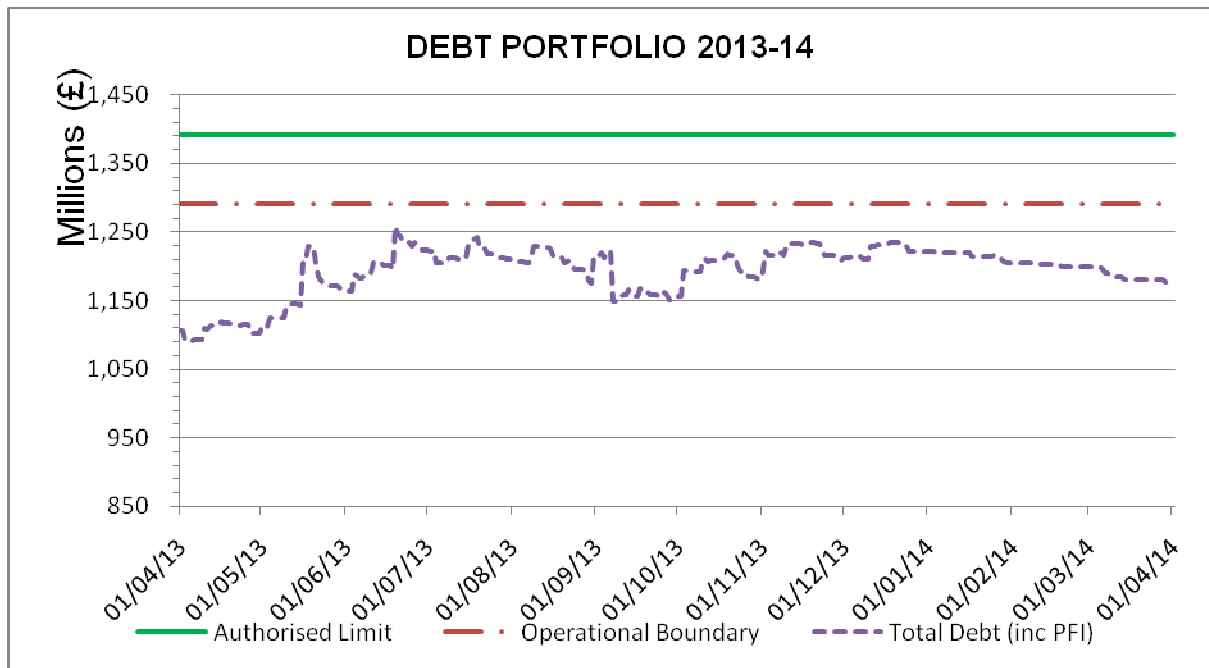
### 3.2 Borrowing Activity

Current market conditions continue to enable the County Council to take advantage of short term market borrowing. The table below shows the borrowing activity which has taken place between the end of August and the end of November 2013.

	PWL Fixed Rate £m	PWL Variable Rate £m	Long Term Market Loan £m	Other Locals £m	Police, Fire and Lancashire District Councils £m	Total £m
<b>Balance 31<sup>st</sup> August</b>	<b>170.40</b>	<b>125.75</b>	<b>51.81</b>	<b>342.75</b>	<b>115.29</b>	<b>806.00</b>
Maturities	45.70	0.00	0.00	177.02	121.51	<b>344.23</b>
New Borrowing	(3.00)	0.00	(0.10)	(194.50)	(142.52)	<b>(340.11)</b>
<b>Balance 30<sup>th</sup> November</b>	<b>213.10</b>	<b>125.75</b>	<b>51.71</b>	<b>325.27</b>	<b>94.29</b>	<b>810.12</b>

Borrowing has remained largely constant over the period with total borrowing now standing at £1,213m including the financing of £403m of assets through Private Finance Initiative schemes.

The graph below shows the level of debt for each day of the current financial year compared with the prudential indicator operational and authorised boundaries. There have been no breaches of the prudential indicator boundary although the graph clearly shows the peaks in borrowing, which occur at the end of each month as salaries are paid.



The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.921%, which compares favourably with the average rate for all English County Councils of 4.78%.

#### 4. Budget Monitoring Position

The financing charges budget is forecasted to be on budget at the end of the financial year. This differs to the £1.27m underspend reported to Cabinet on 7 November. The increased spend is a result of the reduction in the market value of traded investments.

This position is kept under regular review taking account both of ongoing performance and also market movements and the forecast is provided to the County Treasurer on a monthly basis.

#### 5. Prudential Indicators

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 30 November 2013 compared to the prudential indicators set in the treasury management strategy for 2013/14 is set out

below. The information below shows that the Council complied with its Treasury Management Prudential Indicators for 2013/14,

### Treasury Management Prudential Indicators

2013/14  
£M

30<sup>st</sup>Nov  
Actual  
£M

#### 1. Adoption of CIPFA TM Code of Practice

ADOPTED

#### 2. Authorised limit for external debt - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.

Borrowing	891	810
Other long-term liabilities(PFI schemes)	500	403
TOTAL	1,391	1,213

#### 3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.

Borrowing	841	810
Other long-term liabilities	450	403
TOTAL	1,291	1,213

#### 4. Capital financing requirement to gross debt

	Estimate	Actual
Capital financing requirement (excl PFI)	618.273	618.273
Estimated gross debt	768.000	810.120
Debt to CFR	124%	131%

Gross borrowing appears higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation.

Actual debt to CFR is currently 7% higher than the target. This is only a short term situation (as is consistent with the code of practice), due to the shared investment scheme holding more cash than estimated at the beginning of the year and the need to borrow short term for salaries at month end.

#### 6. Treasury Management Indicators

The following indicators are set as part of adopting the treasury management code. As proposed in the mid year report Interest rate exposure indicators have been revised and the new indicators were approved by Full Council at its meeting on 12

December 2013.

The code states that local authorities should have regard to the following treasury indicators.

A comparison of the agreed indicators and the actual position at 30<sup>th</sup> November 2013 is set out below.

**1. Interest rate exposure**

	<b>Upper limit</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Net Interest Payable Fixed rate	37.6	-1.8
Net Interest Payable Var rate	5.0	1.4
1yr impact of 1% rise	25.0	4.7

The above is a measure of the revised interest rate indicator as approved by Full Council on 12 December.

**2. Maturity structure of debt**

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	14
12 months and within 2 years		75	39
2 years and within 5 years		75	5
5 years and within 10 years		75	8
10 years and above	25	100	34

**3. Investments over 365 days**

	<b>Upper limit</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Total invested over 364 days	550	572

The level of these investments reflects the portfolio structure adopted by the County Council to reduce credit risk by holding a proportion of the portfolio in government and supranational securities, which although highly liquid have maturities in excess of 364 days.

In practice these investments can be liquidated at one day's notice to meet any short term cash flow requirements.

**4. Minimum Average Credit Rating**

	<b>Benchmark</b>	<b>Actual</b>
Average counterparty credit rating	A+	AA

**5. Minimum cash available within 3 months**

	<b>Requirement</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Minimum cash available within 3 months:		
Without borrowing	100	100
With borrowing	500	500

This report on the latest Treasury management activity shows that the Treasury Management Strategy set in February is still appropriate for the current market conditions and that the level of borrowing and investments are in line with this strategy and within the indicator limits.



## Audit and Governance Committee

Meeting to be held on 27 January 2014

Electoral Division affected: All
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## Internal Audit Service Progress Report

(Appendices A and B refer.)

Contact for further information:

Ruth Lowry, (01772) 534898

### Executive Summary

In the context of fulfilling its responsibility to consider periodic reports of internal audit activity and outcomes, the committee is asked to consider the progress report and outcomes of the Internal Audit Service's work for the nine months to 31 December 2013 (Appendix A and B).

### Recommendation

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the nine months to 31 December 2013.

### Background and advice

The committee may be interested to understand the internal audit work performed, the key issues emerging from it and management's responses to it.

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

### Internal audit assurance

Internal audit assurance is stated in the following terms:

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

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

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

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

**Consultations**

Not applicable.

**Implications**

Not applicable.

**Risk management**

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

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

Paper	Date	Contact
Not applicable.		

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



## **Matters arising from internal audit work completed during the period**

### **1 Introduction**

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights key issues arising from the work undertaken during the period to 31 December 2013 by the Internal Audit Service under the internal audit plan for 2013/14.
- 1.2 A full table of all the audit work currently planned, progressing and completed for 2013/14 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where reviews have been completed. The terminology used in the table reflects the risk-based audit methodology followed by the Internal Audit Service, which uses a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

### **2 Key issues**

- 2.1 Audit work is taking place within the service directorates and this is progressing well. However as was reported in September 2013 a number of high profile issues have impacted on the plan over recent months, including the suspension and departure of the former chief executive, and a number of matters relating to the council's strategic partnership with BT plc.
- 2.2 As a result, a number of areas of the audit plan have slipped behind schedule and will be deferred, but the Audit Managers are working hard with the Chief Internal Auditor to ensure that the audit plan remains on track as far as possible.
- 2.3 Whilst many of the risks facing the council are being well controlled, the council faces significant challenges at present. In particular it is operating in the context of unprecedented financial challenge, resulting in the loss of significant numbers of staff and significant operational change across every service area.
- 2.4 Whilst the Internal Audit Service is itself experiencing difficulties in completing our audit programme as planned, a number of service areas are likewise experiencing delays in implementing the actions agreed as necessary to improve internal controls. Examples of the delays identified during the year to date include the following, which arise from areas that the Internal Audit Service regards as being of high or moderate risk:
  - Action to ensure the council's compliance with the Working Time Directive;
  - Actions relating to initial assessments of direct payments to vulnerable adults and in particular to ensure compliance with the council's responsibilities under the Mental Capacity Act;
  - The use by staff of assessment tools for adults social care to ensure the objective and efficient calculation of individual service user budgets;

## **Internal Audit Service progress against plan 2013/14**

Audit and Governance Committee meeting 27 January 2014

- Action to support the operation of the Working Together With Troubled Families programme, data management in particular and the need to obtain access to data from different organisations, and the requirement to identify initial needs and track performance;
  - Actions supporting the children's social care case file audit process;
  - Actions to track the high priority ('starred') recommendations for children's social care made by Independent Reviewing Officers;
  - Action to ensure that a regular review of allowances is undertaken to ensure the needs of the adopted and fostered children and their families continue to be met; and
  - Actions to better identify schools approaching financial difficulties and to improve the monitoring of schools in financial difficulty.
- 2.5 A number of internal controls are reliant upon both the operation of the Oracle HR/ Payroll and expenses systems, and management action based on accurate and timely information. Controls are not adequately designed or operating effectively in relation to payments to staff in addition to normal salary payments, or reimbursement to staff for travel claims. Controls over the significant numbers of additional payments to staff (primarily overtime and additional allowances) are strongly reliant upon management understanding of what those controls are, and their ability to operate them effectively. However this understanding is generally inadequate and managers across the council generally lack proficiency and understanding in using the system.
- 2.6 Further, the Oracle system itself has some inbuilt control weaknesses and a lack of validation controls. As a result there have been a number of cases of overpayments to staff. The failure to update elements of the expenses system, in particular data tables linked to large groups of staff, has also resulted in significant overpayments of mileage claims. In addition, limitations to the reports available to managers from Oracle impede their access to useful management information; for example information relating to staff annual leave balances.
- 2.7 There is a need both to more establish more closely the council's expectations of its managers, and to ensure that the Oracle and other systems are operated more effectively to meet the council's requirements.

### 3 Work completed

3.1 As can be seen in more detail in Appendix B, the work completed and on which draft reports have been issued since the last report to the Audit and Governance Committee is as set out in the table below. Each area has been given a weighting to indicate the degree of risk associated with it.

<b>Audit area</b>	<b>Risk weighting</b>	<b>Assurance</b>
<b>Common controls: financial controls</b>		
Payroll data analysis (Oracle self-service, supporting additional payments to staff)	High	Limited
Treasury management	High	Substantial
VAT	Low	Substantial
Oracle release 12 – testing programmes for the fixed assets and procurement modules	Moderate	Substantial
<b>Service specific controls</b>		
<b>Adult Services, Health and Wellbeing Directorate</b>		
Care decision-making panels.	Moderate	Substantial
Direct payments initial assessments.	High	Limited
FACE ('Functional Analysis in Care Environments') – resource allocation within individual budgets.	Moderate	Not applicable: previously substantial
<b>Benefits Service</b>		
Care and Urgent Needs Support Scheme – system testing prior to go-live	Moderate	Limited
<b>Directorate for Children and Young People</b>		
Working Together With Troubled Families Programme	High	Limited
Lancashire Music Service	Low	Limited
Independent Reviewing Officers.	High	Limited
Adoption and fostering allowances	Moderate	Not applicable: previously substantial
<b>LCCG</b>		
Building cleaning	Low	Substantial
<b>Counter fraud work</b>		
Expense payments to staff	Moderate	Nil

## Internal Audit Service progress against plan 2013/14

Audit and Governance Committee meeting 27 January 2014

- 3.2 Of the 12 reviews completed during the period, six have provided limited assurance, five have provided substantial assurance, and one no assurance. Three of the reviews completed earlier in the year provided limited assurance and three provided substantial assurance. Taken with the on-going lack of assurance over the council's information governance arrangements, the council's internal audit assessments for the year to date are as follows:

<b>Assurance provided</b>	<b>Number of audit reviews</b>	<b>Percentage of audit reviews</b>
Full	0	0
Substantial	8	42%
Limited	9	47%
Nil	2	11%
<b>Total</b>	<b>19</b>	<b>100%</b>

Control	Audit review	Audit scope	Comments	Assurance
<b>Corporate controls</b>				
<b>Governance</b>				
	Corporate performance monitoring.	RACE-based review.	The corporate performance monitoring framework was amended at the start of the year and we now propose to defer this work until 2014/15.	-
	Responses to complaints - compliance with time limits and adequacy of responses.	RACE-based review	This work has not yet begun and will now be deferred.	-
	Members' allowances and expenses, and declarations of interests, gifts and hospitality.	RACE-based review.	We reported in January 2013 that action had been taken to amend the operation of the scheme and that further work was planned to train new elected members, using plain English in the guidance. A further full review of this area has been deferred.	-
	Officers' declarations of interests, gifts and hospitality.	Follow-up of agreed action plan.	This work has not yet begun but will be completed during the year.	
<b>Working in strategic partnership</b>				
	Performance data quality and monitoring of OCL by LCC.	RACE-based review.	Fieldwork is ongoing.	
	Funds flow between LCC and One Connect Ltd.	RACE-based review.	Our fieldwork is complete and a draft report will be issued shortly for consideration by management.	
<b>Legislative compliance</b>				
	Advance consideration of the legal implications of decisions.	Follow-up of agreed action plan.	This work has not yet begun but will be completed during the year.	
	Assessment of the council's compliance with the Working Time Directive.	Data analysis and support to management.	As previously reported, we have undertaken data analysis that suggests that the council employs a number of staff on multiple contracts, or who have additional contracts with the county's schools, or who work additional hours above their contracted hours, and who therefore work on average in excess of 48 hours per week. In three cases we believe that staff have worked in excess of 60 hours per week. These findings have been discussed with One Connect Limited's HR team but, to date, no further action has been taken to develop more effective controls and support to management.	Limited
<b>Information governance</b>				
	Overall corporate arrangements.	Information gathering and assessment.	As the Committee is aware, information governance arrangements are subject to further development and the Internal Audit Service is supporting this work but, at present no assurance can be given that the council's risks are adequately understood and managed.	Nil
<b>Business continuity and emergency planning</b>				
	Corporate arrangements for emergency planning.	Follow-up of agreed action plan.	As already reported, a comprehensive emergency planning framework has been developed and, in particular, the risk assessment process and emergency planning carried out with the Lancashire Resilience Forum demonstrate good practice. Work is continuing to ensure that business continuity plans are effective and to develop the links between the council's business continuity arrangements and those of One Connect Limited relating to the services they provide to the council.	Not applicable: previously substantial
<b>Cross-service controls</b>				
<b>Reablement service</b>				
	The commissioning and provision of reablement.	RACE-based re-review – previously limited assurance.	A review of the arrangements for the assessment of service users and the associated support plans will commence in January 2014.	
<b>Transport</b>				
	Accessible transport arrangements including internal re-charges.	RACE-based re-review.	Audit work on this area was being planned but has now been deferred.	
	Safeguarding children's transport.	RACE-based re-review – previously limited assurance.	As already reported, this work related to the 2012/13 audit plan and the controls in place are now regarded as satisfactory where we have previously been able to provide only limited assurance.	Substantial

Control	Audit review	Audit scope	Comments	Assurance
<b>Lone workers</b>				
	Health and safety of lone workers.	RACE-based review.	<p>Detailed guidance and procedures, and generic risk assessments are available relating to lone workers. Significant work has been undertaken by the Corporate Health, Safety and Wellbeing Team in certain operational areas of the council to assess the implementation and operation of arrangements relating to lone workers within services: specific audits of lone workers have been undertaken within the Environment Directorate as well as generic health and safety audits covering lone worker protocols across other directorates.</p> <p>Various local arrangements and procedures are in place across the council, although they do not cover every area that employs lone workers. These local arrangements establish different practices in different directorates and services, but these are generally appropriate to local circumstances. We have been unable to establish in all cases that staff members are aware of and compliant with the local procedures or that the procedures are kept under regular review and are therefore current. However there are some examples of good practice that could usefully be taken and implemented across the whole council under corporate procedures. We also found that a number of risk assessments for lone workers have not been undertaken. There are a number of different support systems in place to monitor the safety of lone workers, using different hardware and software packages. It was intended that the project to rationalise telecare for vulnerable adults would also provide appropriate support to lone workers, but this project is currently in abeyance.</p>	Substantial
<b>Capital programme management</b>				
	Capital programme management.	RACE-based review.	This work has begun and is ongoing within the Environment directorate. Audit work addressing the other directorates will be deferred and undertaken in 2014/15.	
<b>Common controls</b>				
<b>Financial controls</b>				
	Accountable body role; managing grant funding received by the council.	RACE-based review.	This work has not yet begun and will now be deferred until 2014/15.	Substantial
	Grant award and monitoring arrangements: managing grants awarded by the council.	RACE-based review.	This work has not yet begun and it is likely that it will be deferred until 2014/15.	
	Accounts payable.	Compliance testing.	Compliance testing of orders raised during the period April to September 2013 has been completed and work is continuing to test the arrangements operated from September to the end of the year.	
	Accounts receivable.	Compliance testing.	This work has begun.	
	Budgetary monitoring and control.	RACE-based review.	This review will commence in February 2014.	
	Cash and banking.	Compliance testing.	This work has begun.	
	Capital accounting.	RACE-based review	This review will begin in March 2014, and will consider the new Fixed Assets module of Oracle.	
	Expenses payments.	Compliance testing.	Work on mileage payments to staff and teachers has been completed as part of our counter fraud work.	
	General ledger.	Compliance testing.	This work will begin in January 2014.	
	Payroll.	Compliance testing.	This work will begin in January 2014.	
	Treasury management.	RACE-based review.	<p>A draft report was issued to senior management for consideration in October 2013. We can provide substantial assurance over the majority of the controls operated in respect of the council's treasury management function. Our detailed testing of bond activity during this period provides assurance that the bond transactions complied with the investment strategy in terms of required credit rating, limits on individual transactions and total amount invested per instrument type.</p> <p>However there was insufficient oversight of the appropriateness of bond purchase and sale activity in the period April to June 2013. The chief investment officer arranges bond purchases and sales and, in the absence of adequate separation of duties over bond transactions, senior management oversight of weekly investment reports should provide a compensatory control. However reports of bond transactions were not submitted to the county treasurer and deputy county treasurer during this period.</p> <p>Investment transaction data is not aligned to the instrument groupings as defined by the investment strategy matrix, and no cumulative totals per instrument type are maintained. This information should be readily available to support regular investment decisions, to ensure that the maximum limits for each instrument type are not breached.</p>	

Control	Audit review	Audit scope	Comments	Assurance
	Payroll data analysis – a Oracle self-service, supporting additional payments to staff.	Database interrogation.	<p>This work was planned after concerns were brought to the Service's attention relating to substantial payments made to staff in addition to normal salary payments, for example for overtime and work-related allowances. A draft report was issued and discussed with OCL senior managers in December 2013 and action has been agreed in principle to address the issues raised.</p> <p>A number of key controls are not being applied consistently across service areas and within the Oracle system and there is a general lack of understanding amongst managers and staff regarding the operation of the self service system.</p> <p>Our additional limited testing found a significant number of incorrect payments. Net overpayments of approximately £4,000 were made during the period January to March 2013 in three of the 10 teams we visited, including £2,000 of duplicate payments. Another investigation undertaken after this review identified overpayments of approximately £18,000 to three employees.</p> <p>It is clear that managers are not consistently validating claims made by staff before approving them and a significant number of errors occur, including: the use of incorrect element codes; incorrect calculations of hours worked; claims made against incorrect scale points for employees with multiple roles; and duplicate entry of claims.</p> <p>The Oracle system itself has inbuilt control weaknesses, in that weekend enhancements are able to be claimed on weekdays, and bank holiday enhancements can be claimed on non bank holiday dates, and there is a lack of validation controls within the system that could otherwise highlight inappropriate inputs. Managers generally lack proficiency and understanding in using the Oracle system. The Oracle e-learning facility relating to the input and approval of pay claims provides a good reference guide but completion of the e-learning modules is not compulsory, and the managers we contacted during this review were either not aware of them or had not been requested to complete them. During January 2014 courses have been offered to both managers and staff on the Oracle self-service system, although these are purely voluntary.</p>	Limited
	VAT.	Compliance testing.	<p>Our fieldwork is complete and a draft report will be issued in January 2014, but we will be able to provide substantial assurance that the controls in place are satisfactory.</p>	Substantial
	Oracle release 12 - ongoing implementation and further work on the controls established in phase 1 and phase 2.	RACE-based review.	<p>Work has continued on this project, including work on the new fixed assets and procurement modules, and we have provided substantial assurance over the testing performed for both systems.</p>	Substantial
<b>HR controls</b>				
	Leave and absence management.	RACE-based review.	<p>This work is contingent on obtaining appropriate reports from the Human Resource service, but as yet these have not been made available. Discussions about these have now been on-going for over a year and it is therefore unlikely that this audit will be undertaken during 2013/14.</p>	-
	Long term sickness absence.	RACE-based review.	<p>This work has not yet begun and will now be deferred.</p>	-
	Hierarchies in the Oracle HR/ payroll system.	Follow-up of agreed action plan.	<p>This review is planned to commence in March 2014.</p>	-
<b>ICT controls</b>				
	Email usage.	Compliance testing.	<p>We have completed our fieldwork and will shortly discuss our findings with service management.</p>	
	Team mailboxes.	RACE-based review.	<p>This work has begun.</p>	
	Access databases.	RACE-based review.	<p>This work has not yet begun but is planned to take place in March 2014.</p>	
	Data protection legislation.	RACE-based review.	<p>This work has not yet begun and will now be deferred.</p>	-
	IT assets.	Compliance testing.	<p>This work has begun.</p>	
	Change management.	Compliance testing.	<p>This work has not yet begun but is planned to take place in March 2014.</p>	
	Password security.	Compliance testing.	<p>This work has not yet begun but is planned to take place in February 2014.</p>	
	Database security.	Compliance testing.	<p>Our fieldwork is complete and a draft report will be issued in January 2014.</p>	
	Network user management.	Compliance testing.	<p>Our fieldwork is complete and a draft report will be issued in January 2014.</p>	
	Incident management.	Compliance testing.	<p>This work has not yet begun but is planned to take place in March 2014.</p>	
	Backup arrangements.	Compliance testing.	<p>This work has begun.</p>	
	Help desk.	RACE-based review.	<p>As already reported, documented procedures are in place that provide an efficient and effective service to customers.</p>	Substantial

Control	Audit review	Audit scope	Comments	Assurance
	Security of mobile devices.	RACE-based review.	As reported in September 2013, we are satisfied that the security products deployed for mobile devices are fit for purpose although it was not possible to confirm that every product has been implemented and thoroughly security tested. Whilst the council's information governance and assurance requirements are subject to review it will be important to ensure that the current and any future arrangements for mobile devices meet the appropriate standard.	Limited
<b>Procurement</b>				
	Contracts and sourcing modules.	RACE-based review.	As the contracts and sourcing module is not yet operational this review will be deferred until 2014/15.	-
	Procurement controls across the council.	Compliance testing.	This review will be deferred to 2014/15.	-
<b>Service specific controls</b>				
<b>Adult Services, Health and Wellbeing</b>				
	Social care supervision. Commissioning arrangements. Care decision-making panels.	RACE-based review. RACE-based review. RACE-based review.	Our fieldwork is complete and a draft report will be issued for management consideration in January 2014. As the current arrangements are subject to review by senior managers this review will be deferred. A draft report was issued in September 2013 and discussed with senior management. It will be discussed by the directorate's Core Group shortly. We sought to determine the adequacy and effectiveness of making adult social care decisions through the panel process focusing on panel membership, frequency of meetings, criteria used for making decisions, the consistency of decisions across client groups and geographical areas and the transparency of decision making within the case management system. We also considered the efficiency and effectiveness of how the panel process is managed, including the timeliness of decisions and the feedback of quality issues identified; and how these areas impact on the customer journey and staff development. Finally, we considered the robustness of the controls introduced to ensure that the panel process is used in all relevant cases in accordance with the scheme of delegation. Whilst we can provide substantial assurance over the adult social care panel decision making process and the associated admin support function, we identified a number of areas where controls should be improved to address the quality issues identified by the panel, and to ensure that decisions not made by the panel are appropriate, transparent and consistent with the scheme of delegation. Although we have not identified any significant examples of non compliance, given the intention to increase the financial responsibility of operational managers in the future, improvements in the management of quality issues will be necessary. This review has been removed from this year's audit plan and replaced with a review of support planning arrangements at the request of the directorate (see below). This review has been added to the plan and will commence in January 2014. Our fieldwork is ongoing.	- Substantial
	Hospital discharge model and social care support.	RACE-based review.	This review has been removed from this year's audit plan and replaced with a review of support planning arrangements at the request of the directorate (see below). This review has been added to the plan and will commence in January 2014.	-
	Support planning. Social care case referrals management. Non residential care system. Payment and monitoring system. ISSIS replacement: advice and support re controls over configuration, security and implementation of replacement system. Direct payments initial assessments.	RACE-based review. Compliance testing. Compliance testing. Compliance testing. Advice and support. RACE-based re-review.	Our fieldwork is complete and a draft report will be issued in January 2014. Our fieldwork is complete and a draft report will be issued in January 2014. As previously reported, the Internal Audit Service is represented on the project board and work is ongoing. Input is being coordinated with work on the CYP project board.	-
			We have reviewed the progress made by in implementing the actions agreed following our previous internal audit work and our report issued in December 2012. Good progress has been made and the controls we tested were generally operating satisfactorily. However in a sample of 20 direct payments made to service users with learning disabilities, a mental capacity assessment had been completed in just three of 17 relevant cases. Furthermore, of nine direct payment agreements, only two were signed as approved by the relevant person. We have therefore again been able to provide only limited assurance over the direct payments processes and controls, as there is still a significant risk that the council is failing to appropriately demonstrate compliance with its responsibilities under the Mental Capacity Act. The risk has been recognised by the directorate and action is now being taken to address it. We have agreed with the directorate that mental capacity will be given prominence in the mandatory direct payment training programme that is currently being developed.	Limited



Control	Audit review	Audit scope	Comments	Assurance
	FACE ('Functional Analysis in Care Environments') – resource allocation within individual budgets.	Follow-up of agreed action plan.	FACE is a company that designs assessment tools for social and health care, and the council has purchased FACE software which sits within ISSIS. The key element of the new software is a resource allocation model linked to the overview assessment, with the aim of producing a more objective and efficient calculation of individual service user budgets. We have reviewed the progress made in addressing the actions agreed in our report of July 2013. This has been slower than was originally anticipated and as a result revised dates for implementation have been agreed. One of the key concerns at the time our original report was being finalised was that a high number of staff were not routinely using FACE, despite having completed the relevant training. We understand however, that this position is now improving since staff have been given the clear message that failure to utilise the FACE software will affect the volume of data that is able to be migrated to the Liquid Logic Adult Services system. We are also aware that the learning disability resource model has recently gone live.	Not applicable: previously substantial
<b>Benefits service</b>				
	Direct payments financial assessment. Assessment of service users' income and collection of their contributions to their social care costs. Care and Urgent Needs Support Scheme administration of community care grants and crisis loans.	RACE-based review. RACE-based review. RACE-based review.	As noted previously, since these services have only relatively recently transferred to OCL, these reviews will be deferred and not undertaken during 2013/14.  Although we have not undertaken a full RACE-based review, we have assessed the user acceptance testing programme undertaken before the new ICT system went live. The timescale for this project was very compressed as the software was unavailable until very close to the go-live date and there was therefore insufficient time to complete a full testing programme. As a result, we can only provide limited assurance that the system met the service's requirements before implementation. However, we understand that the system is now operating satisfactorily.	- - Limited
<b>Customer service centre</b>				
	Care Connect.	RACE-based review.	Our fieldwork is complete and a draft report will be issued in January 2014.	
<b>Public health</b>				
	To be determined.	RACE-based review.	Work in this area has been deferred until 2014/15.	-
<b>Children and Young People</b>				
	Working Together With Troubled Families programme.	RACE-based review: second phase.	A report has been issued and was discussed with the programme's Governance Group in December 2013. Only limited progress has been made in addressing the actions agreed following the first phase of our audit in 2012/13, leaving some key risks to the programme unmitigated. We previously provided only limited assurance over the processes in place supporting the operation of the programme, in particular, data management and the need to obtain access to data from different organisations, including central government. The second phase of our work has confirmed this assessment. Although significant steps have been taken to improve data extraction for the payment-by-results claim and to maximise the claim, certain criteria for the programme have yet to be finalised and agreed with central government. The programme is aiming to have begun working with 1,841 families by 31 March 2014. As at 30 September 2013, the programme had begun working with 1,136 families and was therefore at risk of receiving delayed or reduced funding for 2014/15. Throughout the three-year programme, £8.7 million of funding will be made available, £3.5 million of which is made through a payment-by-results scheme. Further, families participating in the project should, where appropriate, provide written consent that their details can be shared with partner organisations, but audit found inconsistencies in the processes to obtain and record consent. Tracker forms should also be completed by the lead professionals as an assessment tool to identify initial needs and then to track performance against agreed targets, but only two tracker forms were completed in a sample of ten.	Limited
	Children's centres performance monitoring. Early intervention programme. Targeted youth support. Personnel file documentation. Case file audit process.	RACE-based review. RACE-based review. RACE-based review. Follow-up of agreed action plan. RACE-based re-review.	This work has not yet begun but is planned to take place in Quarter 4. This work has not yet begun and will be deferred. This work has begun. This work will be considered as part of our audit plan for 2014/15 but will not take place this year. We were previously able to provide only limited assurance over this area, but our work has been delayed until the fourth quarter of the year as the service has delayed implementation of the agreed actions.	- -
	Direct payments – initial assessments.	RACE-based re-review.	We have completed our audit fieldwork and a draft report is being produced.	

Control	Audit review	Audit scope	Comments	Assurance
	Lancashire Music Service.	RACE-based review.	This work was added to the audit plan following concerns raised with the Internal Audit Service by the directorate. We issued our final report in December 2013. Lancashire Music Service provides tuition in schools and music centres throughout the county and provides curriculum support, music workshops and specific music programmes for schools in Lancashire. The service uses a number of specialist self-employed music tutors who have been paid on the production of invoices for the work undertaken. However the HMRC's Employment Status Indicator tool suggests that HMRC may consider these workers to be employees with the consequent risk of financial penalties on the Authority. The physical security and maintenance of the musical instrument assets is generally good. However, storage of IT equipment (laptops and iPads) was insecure and recording of the IT equipment was less secure with limited segregation of duties and record keeping around recording and authorisation of disposals of assets. A draft report has been issued to management. The actions agreed following our last audit review have not yet been fully implemented and, in addition, further issues have been identified.	Limited
	Independent Reviewing Officers.	RACE-based re-review.	In particular we noted previously in January 2013 that high priority ('starred') recommendations are not fully logged and the log is not adequately monitored to ensure that actions are taken as required. It is still the case that not all actions on the log are fully documented or implemented in a timely manner, although we understand that all the recommendations had been implemented. Other outstanding matters relate to the need for Independent Reviewing Officers to complete actions within the required timescales. An additional concern relates to an issue to ensure that cases are not allocated to ceased workers or managers. A similar issue has previously been raised in a separate report on Case Management. We found two service users allocated to a Quality and Review Manager who had left the council but the cases had not been reallocated. These cases have since been reallocated and a report will be produced in future to identify all cases allocated to staff who have left the council.	Limited
	Emergency payments to families.	RACE-based re-review.	Our audit has been delayed until after the new social care system has been implemented, but we will perform some interim follow-up work on the system in the meantime and review the proposed design of the new system. We are also looking at the PayPoint scheme which is being piloted.	-
	Partnership working with the NHS to support children with mental health needs.	RACE-based re-review.	This work has been deferred until 2014/15 as contractual arrangements with the NHS have not been finalised.	-
	School budget formula.	Follow-up of agreed action plan.	We have completed our follow-up work and all agreed actions have been implemented.	Not applicable: previously substantial
	Lancashire Safeguarding Children's Board – budget monitoring.	RACE-based re-review.	We have completed our re-review and limited progress has been made to implement the actions agreed to support effective monitoring of the LSCB budget.	Limited
	Adoption and fostering allowances.	Follow-up of agreed action plan.	We have followed up the progress made in implementing the actions agreed following our previous audit work. Although some progress has been made, a number of actions remain outstanding, in particular the need to ensure that a regular review of allowances is undertaken to ensure the needs of the child and/ or families continue to be met.	Not applicable: previously substantial
	School Performance and Financial Monitoring.	Follow-up of agreed action plan.	We have completed our follow-up work. The actions agreed to improve controls over monitoring schools in financial difficulty and identifying schools approaching financial difficulty have yet to be fully implemented.	Not applicable: previously substantial
	Children's trusts.	Follow-up of agreed action plan.	This work has not yet begun but is planned to take place before the end of the year.	
	Children's residential homes.	Follow-up of agreed action plan.	This work has not yet begun but is planned to take place before the end of the year.	
	Children's centres – follow-up.	Follow-up of agreed action plan.	Our work is nearing completion.	
	Education Funding Agency grant certification.	Grant certification audit.	We have completed our audit fieldwork and draft reports are being prepared.	
	Liquid Logic and ContrOCC system implementation.	Advice and support.	As previously reported, the Internal Audit Service is represented on the project board and work has begun. Input is being coordinated with work on the Adult Services, Health and Wellbeing project board.	

Control	Audit review	Audit scope	Comments	Assurance																																								
<b>Schools and sixth forms</b>																																												
	School reviews.	Whole-school reviews.	Work has been completed as follows: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2">School type</th> <th rowspan="2">Number of audits</th> <th colspan="4">Level of assurance</th> </tr> <tr> <th>Full</th> <th>Substantial</th> <th>Limited</th> <th>None</th> </tr> </thead> <tbody> <tr> <td>High school</td> <td>10</td> <td>0</td> <td>10</td> <td>0</td> <td>0</td> </tr> <tr> <td>Primary school</td> <td>28</td> <td>0</td> <td>23</td> <td>4</td> <td>1</td> </tr> <tr> <td>Special school</td> <td>2</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Nursery school</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Total</td> <td>40</td> <td>1</td> <td>34</td> <td>4</td> <td>1</td> </tr> </tbody> </table>	School type	Number of audits	Level of assurance				Full	Substantial	Limited	None	High school	10	0	10	0	0	Primary school	28	0	23	4	1	Special school	2	1	1	0	0	Nursery school	0	0	0	0	0	Total	40	1	34	4	1	
School type	Number of audits	Level of assurance																																										
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Nursery school	0	0	0	0	0																																							
Total	40	1	34	4	1																																							
	Follow-up of school reviews.	Follow-up review.	We will follow up all recommendations where we have given a school limited or no assurance, and schools that do not make satisfactory progress will be notified to the School Improvement Challenge Board. This work will be completed by the end of the year.																																									
	Schools with public sports facilities.	Thematic review	This work was carried forward from 2012/13 and is now complete. Our findings were shared with all schools with sports facilities during September 2013, but the circumstances of each school we visited were specific to those schools and we identified no common themes.																																									
	Pupil referral units.	Thematic review	As noted in September 2013 the areas covered by our thematic reviews may be changed depending on the risks and new challenges facing schools, and this review has been removed from the plan, and replaced with a review of schools operating a payroll other than that provided by the council.	-																																								
	Schools operating non LCC payroll.	Thematic review	This work has begun and will be completed before the year end.																																									
	Schools opening their own bank account.	Thematic review	This work has begun and will be completed before the year end.																																									
	Online payments.	Thematic review	This work has begun and will be completed before the year end.																																									
<b>Environment</b>																																												
	Controls over use of contractors by Highways Service.	RACE-based review.	Work has commenced.																																									
	Disposal of scrap metal – issues arising from 2012/13.	RACE-based review.	This review has not begun and will now be deferred.	-																																								
	Waste contract performance measures.	RACE-based review.	Our fieldwork is nearing completion and a draft report will be issued shortly.																																									
	Schools' premises management framework.	RACE-based re-review.	This review has not begun and will now be deferred.	-																																								
	Corporate premises management framework – overall arrangements.	RACE-based re-review.	This review has not begun and will now be deferred until 2014/15.	-																																								
	Development control – section 106.	RACE-based re-review.	This review has not yet begun and it is likely to be deferred to 2014/15.	-																																								
	Highways asset management including corporate manslaughter.	Follow-up of agreed action plan.	This review has not yet begun but it is intended to complete this before the year end.																																									
	Winter highways information management system.	Follow-up of agreed action plan.	This review has not yet begun but it is intended to complete this before the year end.																																									
	Grant audit: Citizen Rail.	Grant certification audit.	This work has been completed.	N/A																																								
	Grant audit: CIVINET.	Grant certification audit.	This work has been completed.	N/A																																								
	Grant audit: ENVIREO.	Grant certification audit.	This work has been completed.	N/A																																								
	Grant audit: Growth Point.	Grant certification audit.	Work on this audit certificate has not yet been requested.																																									
	Grant audit: Interreg IVB SusStations (NWE).	Grant certification audit.	This work has been completed.	N/A																																								
	Grant audit: Local Transport Capital	Grant certification audit.	This work has been completed.	N/A																																								
<b>Lancashire County Commercial Group</b>																																												
	Building cleaning.	RACE-based review.	We have provided substantial assurance over the internal controls supporting the Building Cleaning service.	Substantial																																								
	Payroll and additional payments – local arrangements.	RACE-based review.	This work will be deferred.	-																																								
	Food stocks in schools.	Follow-up of agreed action plan.	This work has begun.																																									
	Catering income.	Follow-up of agreed action plan.	This work has begun.																																									
	Bus service operators grant.	Grant certification audit.	This claim is made twice-yearly and both claims have been audited.	N/A																																								

Control	Audit review	Audit scope	Comments	Assurance
<b>Economic Development</b>				
	Superfast broadband implementation and grant funding.	RACE-based review.	Audit work has not yet begun and is likely to be deferred into 2014/15.	-
	Intensive Business Start Ups grant.	Grant certification audit.	This work is no longer required as the funding has ceased.	-
<b>Counter fraud service</b>				
<b>Counter fraud</b>				
	School income testing.	Compliance testing directed by data analysis.	This work has commenced and will identify schools that have not banked income for a particular period. Unannounced visits will be carried out during the fourth quarter of the year. This work was initiated by concerns raised by an employee who realised that they were receiving payment for mileage claims at the incorrect rate. We have analysed the mileage rates paid to employees and identified overpayments totalling approximately £300,000 relating to approximately 1,300 staff, caused by the use of outdated data tables for various groups of established posts. A recovery policy has been proposed and has been considered by the Management Team, and the tax implications for individuals will also be considered. As at 31 December the Human Resource service was awaiting approval from the Management Team to recover the overpayments. This work has commenced and will be completed during the fourth quarter of the year.	Nil
	Review of expense payments.	Compliance testing directed by data analysis.		
	Review of supplier payments.	Compliance testing directed by data analysis.		
<b>National Fraud Initiative</b>				
	National Fraud Initiative testing.	Investigation of data matches.	In January 2013 a large number of data matches were provided and we are continuing to work with a range of managers around the council to investigate these.	-
<b>Reactive work</b>				
	Responsive work to support management.	Individual investigations.	We have supported management, and continue to provide on-going support, on a number of investigations and disciplinary procedures.	-

# Agenda Item 7

**Audit and Governance Committee**  
Meeting to be held on 27 January 2014

Electoral Division affected: All
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**External Audit – update report January 2014**  
Appendix A refers

Contact for further information:  
Karen Murray 0161 234 6364, Grant Thornton  
Karen.l.murray@uk.gt.com

## **Executive Summary**

This report summarises the areas of work that will be undertaken in carrying out the 2013/14 Audit. It also includes:

- a summary of emerging issues and developments that may be relevant to the Council;
- a number of challenge questions in respect of these emerging issues which the Audit & Governance Committee may wish to consider.

## **Recommendation**

The committee is asked to note the report.

## **Background and Advice**

Karen Murray, Director at Grant Thornton, will attend the meeting to present the report and respond to questions.

## **Consultations**

None

## **Implications:**

N/A

## **Risk management**

N/A

Local Government (Access to Information) Act 1985  
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Lancashire County Council 2013/14 progress update	January 2014	Karen Murray Grant Thornton 0161 234 6364

Reason for inclusion in Part II, if appropriate - N/A



# Audit & Governance Committee Update for Lancashire County Council

Year ended 31 March 2014

27 January 2014

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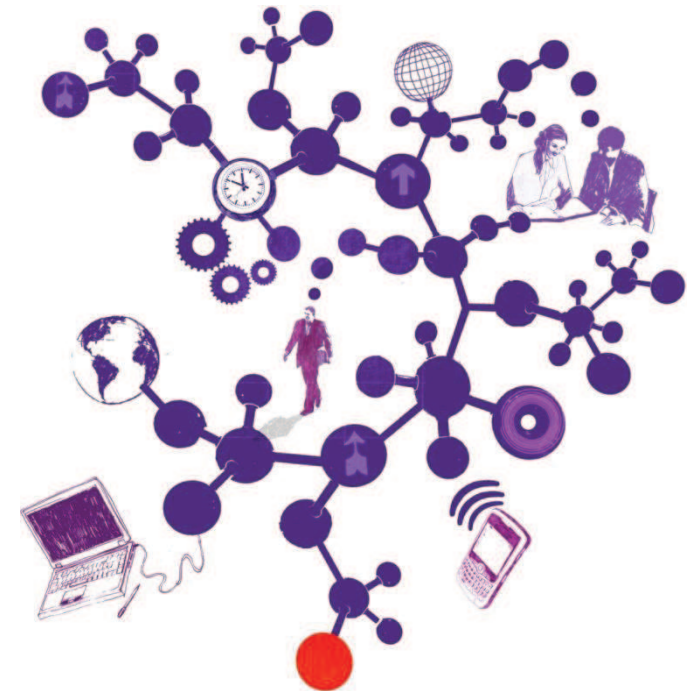
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business 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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# Introduction

This paper provides the Audit & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a County Council
- includes a number of challenge questions in respect of these emerging issues which the Audit & Governance Committee may wish to consider.

Members of the Audit & Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Karen Murray Engagement Lead T [0161 234 6364] M [07780 456205] [karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)  
Len Cross Manager T [0161 234 6387] M [07780 456198] [leonard.e.cross@uk.gt.com](mailto:leonard.e.cross@uk.gt.com)

# Progress at January 2014

Work	Planned date	Complete?	Comments
<p><b>2012-13 Grant claims</b>            We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place six to nine months after the end of the financial year.</p> <p>We have certified one return for the financial year 2012/13, the Teacher's Pension return relating to expenditure of £71.47million</p>	<p>June – December 2013</p>	<p>Yes</p>	<p>There are no issues arising from our certification work on the Teacher's Pension return which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements in place to compile an accurate and timely claim for audit certification.</p> <p>The Audit Commission set an indicative scale fee for grant claim certification. This fee was based on the 2010/11 certification fees for the Council. The indicative scale fee for the Council for 2012/13 is £3,700. However, we have agreed a "fee variation" to reduce this fee to £1,190. This reflects the fact that the indicative fee anticipated the Schools Centred Initial Teacher Training (SCITT) return would be subject to audit under the Audit Commission's certification regime. This return has since been withdrawn from the regime.</p> <p>The Council is still required by the grant paying department, the National College for Teaching and Leadership (NCTL) to have this return certified, albeit outside the Audit Commission regime. The Council has asked that we undertake this. We are now liaising with NCTL to agree the scope of the work required.</p>

# Progress at January 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the County Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	April 2014	Underway	Our planning for the 2013-14 audit has commenced. We plan to issue the detailed Audit Plan in April 2014.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• initial Value for Money planning.</li> </ul>	January to April 2014	On track	We have commenced our planning for 2013-14 and expect to complete our interim accounts audit by the end of April 2014.
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council 's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September 2014		<p>We will again be holding annual accounts closedown workshops, jointly with CIPFA Finance Advisory Network (FAN). Workshops are being held on various dates during February and March 2014, and invitations have been sent to officers.</p> <p>We will prepare an Audit Findings Report and present this to the Audit and Governance Committee (scheduled for 29 September 2014) prior to issuing our audit report.</p>

# Progress at January 2014

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of work to inform the 2013/14 VfM conclusion requires us to assess whether the Council has proper arrangements:</p> <ul style="list-style-type: none"> <li>• in place for securing financial resilience;</li> <li>• for challenging how it secures economy, efficiency and effectiveness</li> </ul> <p>In planning work to support the conclusion on arrangements to secure VfM we will have regard to relevant risk indicators across these two criteria in considering the extent and focus of our local VfM work.</p>	<p>January to September 2014</p>		<p>We will update our risk assessment and set out a planned programme of VfM work to inform our 2013-14 conclusion.</p> <p>We will report our detailed findings within our Audit Findings Report in September 2014.</p>
<p><b>Annual Audit Letter</b></p> <p>We are required by October 2014 to summarise our work performed at the Council, including:</p> <ul style="list-style-type: none"> <li>• Accounts audit</li> <li>• VfM audit work</li> <li>• Grant claims certification.</li> </ul>	<p>October 2014</p>		
<p><b>2013-14 Grant claims report</b></p> <p>Our review of the Council's 2013-14 grant claims will take place during the period June to December 2014.</p>	<p>June to December 2014</p>		<p>For the Council only one return, the Teacher's Pension return, remains within the Audit Commission's certification regime for 2013/14.</p>

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# The 2012/13 Audit

We issued an unqualified audit report in respect of the Council's accounts for the year ended 31 March 2013 in September 2013. We also issued an unqualified conclusion in respect of the Council's arrangements for securing value for money.

However, in doing so, we recognised that weaknesses in the overall framework had recently been identified by the Council in relation to procurement and some aspects of good governance. The Council is investigating these issues further .

Pending the conclusion of this work we are unable to issue our certificate for 2012/13 confirming completion of our audit in accordance with the Code of Practice. We continue to monitor the Council's response and progress in following up the issues. We are receiving full cooperation from officers as we do so.

# Emerging issues and developments

## Local government guidance

### Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Challenge questions:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements?
- Has your County Treasurer reviewed the council's charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

# Emerging issues and developments

## Local government guidance

### Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The [Integration Transformation Fund statement](#), signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two ear plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Challenge question:

- How is your Council planning to work with its partners to formulate joint plans and obtain funding?



# Emerging issues and developments

## Grant Thornton

### Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Council estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your Council have a properly functioning procurement process, where duties are clearly segregated?
- Does your Council maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

# Emerging issues and developments

## Grant Thornton

### Local Government Pensions Governance Review

This report presents the findings of our first review of [Local Government pension schemes' governance](#). Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFAs knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

Challenge questions:

As the administering authority for the Lancashire County Local Government Pension Scheme:

- have you reviewed the report and used the questions posed in the report to help assess the strength of your current governance arrangements?
- what action do you plan to take to improve governance arrangements?

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

# Emerging issues and developments

## Accounting and audit issues

### Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

#### Challenge questions:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of your Council?
- Has your County Treasurer carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

# Emerging issues and developments

## Accounting and audit issues

### Consultation on local authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the local authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Challenge question:

- Has your County Treasurer reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?

# Emerging issues and developments

## Accounting and audit issues

### Property plant and equipment revaluations

The 2013/14 Code of Practice on local authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

### Challenge questions

- Are both your County Treasurer and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your County Treasurer reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your Council complies with other aspects of the Code requirements?
- Where your Council is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

# Emerging issues and developments

## Accounting and audit issues

### Public briefing on the Local Audit and Accountability Bill

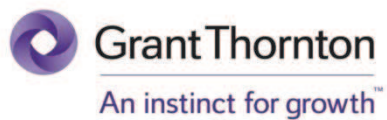
In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?



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