

Lancashire County Council

Audit Committee

Minutes of the Meeting held on Monday, 23rd January, 2012 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Present:

County Councillor Sam Chapman (Chair)

County Councillors

K Brown

M Welsh

H Henshaw

D Westley

J Lawrenson

M Younis

1. Apologies for absence

None were received.

2. Disclosure of Personal and Prejudicial Interests

County Councillor Michael Welsh declared a personal interest in item 4 as Chairman of Lancashire County Developments Limited.

County Councillors Howard Henshaw and Jim Lawrenson declared a personal interest in item 4, as Directors of Lancashire County Developments Limited.

3. Minutes of the meeting held on the 26 September 2011

Resolved: That the minutes of the meeting held on 26 September 2011 be confirmed and signed by the chair.

4. Accounts of Lancashire County Developments Limited 2010/11

A report was presented by Beryl Rhodes, head of commercial and central finance on the 2010/11 audited Statement of Accounts for Lancashire County Developments Limited (LCDL).

The committee was informed that the LCDL group had made a loss before taxation of £1,774,564 for the period. The two major factors that caused the loss were mainly a reduction in the asset cost value of an office development in east Lancashire by £1,513,666 and a provision for £420,000 arising from the restructure and redundancy process within LCDL.

Resolved: That the 2010/11 Statement of Accounts for Lancashire County Developments Limited as set out at appendix A to the report, be noted.

5. Update on treasury management activity

A presentation was made to the committee by George Graham, deputy county treasurer on a review of the county council's treasury management activities during the third quarter of the 2011/12 financial year and included:

- A review of the economic conditions and the impact on the county council's borrowing and lending activities.
- Summaries of borrowing and investment transactions.
- Monitoring of Prudential Indicators
- An update on the investment in Landsbanki hf.

Details of the treasury management activities were presented at appendix A.

The committee was advised of an error to the 'borrowing' figure on page 39 of appendix A to the report relating to the 'authorised limit for external debt' and 'operational boundary for external debt'. It was noted that both 'borrowing' figures in the right hand column should read £878 million as opposed to £792 million and that the totals for both should be amended accordingly.

In response to questions raised by the committee, it was reported that approximately £5m per annum would be saved if the council chose to utilise the exceptional gains achieved through the management of the bond portfolio of £47.593m to reduce capital borrowing. However, the Cabinet's judgement in making its budget proposals was that in the current climate and with exceptionally low interest rates, it would be better to invest in key priorities rather than reduce long term debt which was an increasingly expensive exercise. It was pointed out that at least £7m of these additional funds would be used to create a volatility reserve to help protect services from any adverse impact of the continuing volatility of the financial markets.

Resolved: That, subject to amendments to page 39 of appendix A to the report as now outlined, the update on treasury management activities as shown at appendix A to the report now presented, be noted.

6. A revised approach to risk management within Lancashire County Council

Ruth Lowry, head of internal audit, presented a report on a revised approach to risk management, which had been agreed by the council's Management Team.

The report set out the key issues highlighted during the period 1 July to 30 September 2011, which were regarded as the council's current, changing, risks.

The report also set out a preliminary schedule of the council's underlying risks associated with its on-going business and a schedule of the underlying risks associated with the council's on-going business as identified in the risk register as at 27 June 2011. This included the scores assigned at that time for information and to illustrate the outcomes of the council's former approach.

It was also noted that it was proposed to provide the committee with a statement of the council's key risks at its meeting in March each year and that Management Team had agreed that managers across the council would be provided with a more formal and regular plan of training on risk management.

The committee welcomed the revised approach to risk management and discussed its implications for managers and for the reports that would be received by the committee.

The committee briefly discussed the risks that had been raised by other items on this agenda including:

- fire damage to council property and its consequences given the recent large scale fire at the council's business park at Leyland; and
- the council's economic development structure given that the council has buildings which it is unable to lease.

Discussion took place on the frequency of the statement of the council's key risks.

Resolved: That:

- i) The revised approach to risk management be welcomed.
- ii) The recommendations of the Management Team as set out at Appendix A to the report now presented be endorsed.

7. Internal Audit Service progress report

Ruth Lowry, head of internal audit, presented a report on the work undertaken during the nine months of the year to 31 December 2011 by the council's Internal Audit Service under the internal audit plan for 2011/12, and the work carried forward from the previous audit plan completed during the year.

The internal audit service was not proposing any significant changes to its audit plan but some adjustments had been made where work was no longer appropriate, and where the resource inputs and timing of some assignments had altered. Appendix B to the report provided information where audit work in the plan for the year had been deferred, and conversely where additional reviews had been added to the plan.

The committee raised concern at the number of corporate and service areas that had been awarded 'limited assurance' by the Internal Audit Service. It was suggested that any corporate or service area where the Internal Audit Service had provided less than 'substantial assurance' should be drawn to the attention of the relevant Cabinet Member.

The committee was particularly concerned at the controls in place to manage the referral of children's social care cases. Although the committee was pleased to note that managers were addressing the issues raised they requested that prior to their next meeting, they receive assurance that the controls have been put in place.

The Chair congratulated the officers of the Internal Audit Service for their work in exploring the areas of concern highlighted in the report.

Resolved: i) That the internal audit progress report for the nine months to 31 December 2011 as now presented, be noted.

ii) That any corporate or service area where the Internal Audit Service have awarded less than substantial assurance should be drawn to the attention of the appropriate cabinet member.

iii) That prior to their next meeting, the committee receive assurance that controls have been put in place to manage the referral of children's social care cases.

8. Audit Commission - Annual Audit Letter 2010/11

The Chair welcomed Karen Murray, the new district auditor to the committee.

Fiona Blatcher, senior audit manager, Audit Commission, presented a report setting out the Audit Commission's Annual Audit Letter 2010/11 in respect of the county council.

The report audit was made up of two elements: the audit of the council's financial statements and the Audit Commission's assessment of the council's arrangements to achieve value for money in the use of its resources. The commission provided unqualified conclusions on both elements and reference was made to this achievement in what had been a particularly challenging year for the council. In terms of value for money in the use of resources, reference was made to how well the county council had responded to the requirement to make savings of £179m over the three year period 2011/12 – 2013/14.

Resolved: - That the Audit Commission's Annual Audit Letter for 2010/11 and recommendations for future action as set out at Appendix 'A' to the report now presented, be noted.

9. Audit Commission - Lancashire County Council and Pension Fund Audit Plans 2011/12

Karen Murray, district auditor, and Fiona Blatcher, senior audit manager, Audit Commission, presented a report setting out the audit work the Audit Commission proposed to undertake in relation to the audit of the financial statements 2010/11 and the provision of a value for money conclusion for the Lancashire County Council presented at appendix A to the report and the audit of the Pension Fund financial statements at appendix B to the report.

The report included a summary of the key risks for the financial statements and VFM conclusion identified through this process together with the auditor's planned response.

It was reported that the impact of the updated assessment on the audit fees was:-
Lancashire County Council – no change to the initially proposed main audit fee which remains at £251,100, (£27,900, lower than the 2010-11 fee, (10%)).
Lancashire County Pension Fund – following an assessment of the impact of the changes in the operation of the pension fund and their impact on audit requirements an increase in the audit fee was proposed. The fee had been set at £67,000, £5,205 higher than the 2010-11 fee and £11,911 higher than the initial fee set out in the letter which went to the June Audit Committee.

Resolved: - That the Audit Commission's reports as now presented, be noted.

10. Audit Commission - Review of Treasury Management

Fiona Blatcher, senior audit manager, Audit Commission, presented a report setting out a review of the council's treasury management function by the Audit Commission.

As part of its work for 2010-11, the Audit Commission had completed a review of the council's treasury management function. This followed the implementation of the council's new treasury management strategy. The Audit Commission commented on the significant benefits achieved by the council through its adoption of its new strategy. They also made recommendations on how to improve the governance of the more complex environment which now existed. Key elements for improvement were strengthening the monitoring and reporting of key decisions made during the year; financial risks and how they are being managed; and compliance with the regulatory framework.

The commission also emphasised the need to continue to develop the work of the treasury management function in three key areas:

- Governance and decision making;
- Skills and experience; and
- Information systems

The report included management's initial response to the recommendations.

Discussion took place regarding the recommendation on 'skills and experience' as referred to above. It was acknowledged that the treasury management function was regarded as a complex and specialist area. The committee therefore questioned whether there was a contingency plan in place to reduce the risk to the council in the event of the long term absence of key personnel from within the Treasury Management and Pension Fund Team. The deputy county treasurer assured the committee that staff training was being undertaken which would ensure a strong knowledge base and support structure within the team and that further contingency arrangements were in place with the Council's external advisers as part of business continuity planning.

The committee was also assured that the enhancement of officer skills would be supported by continuing the programme of training for elected members in treasury management issues.

The committee noted that one of the commission's priority recommendations was that further improvement was required to provide clear and concise reports to members and had advised that the authority should therefore restructure the form and content of the reports to members.

The committee requested sight of the action plan that had been drawn up to address the areas of concern outlined by the commission. They also asked for a briefing for committee members from the county treasurer to discuss the commission's recommendations and the council's action plan prior to the next meeting in March.

The Chair thanked the Audit Commission for their very detailed and comprehensive report.

Resolved: - That:

- i) the Audit Commission's report and management response to it be noted;
- ii) the committee receive further more detailed training on treasury management issues; and
- iii) the committee receive a briefing session on the issues raised by the commission and action planned prior to their next meeting in March.

11. Urgent Business

There were no items of urgent business.

12. Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Monday 26 March 2012 at 2.00 p.m. at the County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston