Lancashire County Council

Audit Committee

Monday, 23rd January, 2012 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

Lancashire County Council

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 Chairman 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.

12. Date of Next Meeting

The next meeting of the Audit Committee will be held on Monday 26 March 2012 at 2.00 p.m. in Cabinet Room B, County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council
Audit Committee

Monday 26 September 2011

Minutes

Present:

County Councillors

S Chapman (Chair)

K Brown	J Lawrenson
C Grunshaw	M Welsh
H Henshaw	D Westley

M Younis

Officers in attendance

Mike Jensen – chief investment officer
Andy Ormerod – senior accountant
Ruth Lowry – head of internal audit
Ian Rushworth – principal auditor
George Graham – deputy county treasurer
Joan Grant – senior accountant
Fiona Blatcher – senior audit manager, Audit Commission
Clive Portman - district auditor, Audit Commission
Roy Jones - assistant county secretary

1. Apologies

None were received.

2. Disclosure of Personal and Prejudicial Interests

County Councillor S Chapman declared a personal interest in Item 6 as a home educator.

County Councillors S Chapman, D Westley and H Henshaw declared a personal interest in items 7 & 8 as members of the Lancashire County Pension Fund.

3. Minutes of the Meeting held on 27 June 2011

With regard to page 3 of the Minutes (Update on treasury management activity), it was reported that the committee would be invited to a separate briefing session on treasury management activities towards the end of the year.

Resolved: That the minutes of the meeting held on 27 June 2011 be confirmed and signed by the chair.

4. Update on Treasury Management Activity

A presentation was made to the committee by Mike Jensen, chief investment officer on a review of the county council's treasury management activities during the financial year to date.

This review outlined the treasury management activities of the county council during 2011/12 to date and included:

- A review of the economic conditions during 2011/12 and the impact on the county council's borrowing and lending activities;
- Borrowing to finance capital expenditure;
- Investment of cash balances; and
- An update on the investment frozen in Landsbanki.

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

Resolved: That the update on treasury management activities as shown at appendix A to the report now presented, be noted.

5. Risk Management

Ruth Lowry, head of internal audit, informed the members that following a change in officers' responsibilities, the way in which the council managed risk was currently under consideration.

It was noted that as proposals were developed, they would be brought to the committee and its views would be sought.

Resolved: That the report be noted.

6. Internal Audit Service progress report

Ruth Lowry, head of internal audit, presented an internal audit progress report for the five months to 31 August 2011.

The report included a summary of the work performed and a comparison with work planned; key issues emerging from internal audit work; progress made in relation to cross cutting and corporate risks; cross service controls; common controls; and service specific controls. It also set out the resourcing issues affecting the delivery of internal audit objectives.

It was reported that given the degree of change across the council's services, much of this year's audit work had been weighted towards the end of the year to minimise the additional disturbance to services. The focus in the first five months of the year had therefore been on completing the few remaining audits from the previous year, on school audit visits, counter fraud testing, and on compliance testing fundamental system controls rather than beginning many more substantial control systems audits.

It was also reported that the internal audit service had nearly completed their follow up review of the recommendations raised in its Elective Home Education report. The committee noted that whilst some of the recommendations had been implemented, others were awaiting further legal advice prior to implementation and the introduction of new procedures. The committee also noted that as the legal advice was clarified it was possible that some of the original recommendations would be amended.

Reference was made to an email circulated that morning to the members of the committee on behalf of the Lancashire Home Education Forum Group (HEFG). The email related to the county council's protocol and procedures on elective home education. The email raised issues relating to the process being followed by the Elective Home Education Service for the introduction of new procedures including not complying with recommendations arising from a complaint made against the service; misunderstanding of the legal duties of the Authority; lack of consultation with home educators; and delays in issuing revised policy.

The committee expressed concern at the issues raised including the resources involved and time spent in dealing with the issues and sought confirmation that these matters had been brought to the attention of the appropriate Cabinet Member and Executive Director. It was confirmed that these issues had been discussed with both the Cabinet Member for Children and Young People and the Executive Director for Children and Young People.

The Chair informed the committee that he had been given the opportunity to view the internal audit report on elective home education and found it to be extremely informative. He recommended that members of the committee should also avail themselves of the opportunity to view internal audit reports should they be interested in a specific issue.

Resolved: That the internal audit progress report for the five months to 31 August 2011 as now presented, be noted.

7. Approval of the Lancashire County Pension Fund's Statement of Accounts 2010/11

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2010/11, as presented by George Graham, deputy county treasurer.

Regulations governing the process and delegated authority from the county council required that the chair of the committee sign off the accounts once they were approved by the committee.

The Statement of Accounts included the fund account and the statement of net assets and had been prepared in accordance with International Financial Reporting Standards and initial consultation with the Audit Commission.

The Statement had been signed by the treasurer to the Lancashire County Pension Fund to certify that it presented fairly the position of the Fund at 31 March 2011 and its income and expenditure for 2010/11.

The deputy county treasurer commented that it had been a relatively good year for the Pension Fund although the Fund continued to be subject to the vagaries of the financial markers. He also commented on the fund's assets and liabilities.

It was noted that the accounts of the Lancashire County Pension Fund, had been placed on deposit and had been available for public inspection between 4 July and 29 July 2011.

Resolved: That the Lancashire County Pension Fund's Statement of Accounts for 2010/11 be approved and signed by the chair of the committee.

8. Approval of the County Council's Statement of Accounts 2010/11

The committee was asked to approve the county council's Statement of Accounts for 2010/11, as presented by George Graham, deputy county treasurer.

Regulations governing the process and delegated authority from the county council required the chair of the committee to sign off the accounts once they were approved by the committee.

The committee was informed that the Statement of Accounts had been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and were the first to be prepared on an International Financial Reporting Standards (IFRS) basis.

The statement had been compiled according to an agreed detailed programme of work to close the council's accounts accurately and approve them within the deadline of 30 September. The statement had been signed by the county treasurer to certify that it presented fairly the income and expenditure for 2010/11 and the financial position of the county council as at 31 March 2011.

The committee was taken through the main components and key issues of the statement, including the details of the status of the Statement of Accounts i.e. details of the council's spending and income in 2010/11 and how they compare with the budget; the main changes to the accounts for 2010/11 under IFRS, the financial statements including the movement in reserves statement, the comprehensive Income and expenditure statement, the balance sheet and cash flow statement and finally the auditor's report.

The Pension Fund accounts were also included with the accounts as well as a separate item on the agenda.

It was noted that the accounts of the county council had been placed on deposit and had been available for public inspection between 4 July and 29 July 2011.

Resolved: That the county council's Statement of Accounts for 2010/11 be approved and signed by the chair of the committee.

9. Audit Commission Annual Governance Report 2010/11

The committee considered the Audit Commission's Annual Governance Report for the year ending 31 March 2011. The report included the letter of representation which gave the Audit Commission specific management assurances regarding the accounts of the Lancashire County Council and Lancashire County Pension Fund.

In commenting on the county council's accounts, Clive Portman, district auditor, informed the committee that he had not identified any material errors within the financial statements and those errors which had been identified had not affected the underlying financial position of the council. He also commented that this was a significant achievement on the part of the council's finance staff as it had been a particularly challenging year with the introduction of a number of changes.

The report also included the Audit Commission's value for money conclusion which assessed whether the council had put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. The committee noted that overall the county council had responded well to the demands placed on it and the challenge now was for the council to monitor and manage the effective delivery of their financial and operational plans.

In commenting on the Lancashire County Pension Fund account, Fiona Blatcher, senior audit manager, informed the committee that the audit work had not identified any errors in the principal financial statements. The committee noted that no significant weaknesses in internal control had been identified, although a number of areas of improvement within the ICT control environment were highlighted.

The committee was informed that the county treasurer had signed the letter of representation to the district auditor and members were asked to agree to the Chair of the committee signing the letter.

Resolved: That:

i) The Audit Commission Annual Governance Report covering the audit of the County Council and Lancashire County Pension Fund for year ended 31 March 2011 be noted.

ii) The adjustments to the financial statements as set out in the report now presented be noted.

iii) The Chair of the committee be authorised to sign the letter of representation tabled at the meeting.

iv) The findings in relation to the value for money conclusion as set out in the report now presented be noted.

10. Urgent Business

There were no items of urgent business.

11. Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Monday 23 January 2012 at 2.00 p.m. at the County Hall, Preston.

Retirement of Clive Portman, District Auditor

The Chair reported that this would be Mr Portman's last meeting before retiring from the Audit Commission.

The committee joined with the Chair in thanking Mr Portman for his excellent service and support and wished him a long and happy retirement.

I M Fisher
County secretary and solicitor

County Hall
Preston

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected:
All

Accounts of Lancashire County Developments Limited 2010/11
(Appendix 'A' refers)

Contact for further information:
Beryl Rhodes, 01772 533603, Lancashire County Developments Limited
beryl.rhodes@lancashire.gov.uk

Executive Summary

This report sets out the Financial Statements of Lancashire County Developments Limited for 2010/11.

Recommendation

The committee is requested to note the 2010/11 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 2010/11 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 Finance and HR, will attend the meeting to respond to any questions.

The following summarises the key points from the 2010-2011 financial year (ending on 31st March 2011)

LCDL Group Loss before taxation of £1,774,564 for the period. The two major factors that caused the loss were:

a. Following a valuation of the Rising Bridge Development by LCC Property Group the asset cost value of the development was written down from £4.56million to £3million so impacting the financial loss for the year by £1,513,666. The reduction in value is explained by LCC Property Group as partly a reflection of current market rates in the area and but mainly as a result of the void situation of the development.

b. Following the restructure and redundancy process within LCDL a provision for £420,000 needed to be included in the accounts to cover redundancy payouts, payment in lieu of notice and pension strain charges.

The accounts were audited by Grant Thornton who are the company's external auditors. The full report and accounts was then submitted to the LCDL Audit Committee, who recommended the accounts to the Board for signature and filing at Companies House. 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	2010/11	Beryl Rhodes, LCDL Tel : 01772 533603

Reason for inclusion in Part II, if appropriate

N/A

APPENDIX A

Grant Thornton

Financial Statements Lancashire County Developments Limited

For the year ended 31 March 2011

THURSDAY

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COMPANIES HOUSE

Company No 1624144

Company information

Company registration number :	1624144
Registered office :	P O Box 78 County Hall Preston Lancashire PR1 8XJ
Directors :	Ms N D Penney M J Welsh H Henshaw J R C Lawrenson G Driver M P France T M Ashton P Halsall M Green
Secretary :	I M Fisher
Bankers :	The Royal Bank of Scotland Plc 97 Fishergate Preston PR1 2DP
Auditor :	Grant Thornton UK LLP Registered Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

Index to financial statements

Chair's statement

The financial year covered by this report and accounts witnessed a major re-structuring of the Company following the earlier adoption of the County Council's new Economic Development Strategy and LCDL's revised business plan The effect has been to shift the emphasis of the Company's activities away from regeneration and social enterprise to a project based approach designed to facilitate the delivery significant economic developments and support the evolution of centres of excellence in those sectors where we believe Lancashire has a significant competitive advantage – low carbon environmental management, waste recovery, creative and digital enterprise, advanced manufacturing and financial services. We also believe that significant opportunities will arise in the nuclear industry and renewable energy.

The formation of Lancashire's Local Economic Partnership (LEP) has highlighted the importance of our relationship with major private sector investors and local entrepreneurs as well as our outstanding universities, in the coming year the Company will have the job of supporting private and public sector partners operationally as they set about delivering the development goals mapped out by the LEP. With this in mind the Company has been re-structured into two project groups – Business Development to provide direct support particularly to firms operating in our priority sectors and Economic Development to promote the development of modern infrastructure that is essential if we are to attract investment in advanced technology and other growth oriented business Our role is to remove obstacles and smooth the path for growth that only the private sector can deliver.

These fundamental changes do not come without cost, the Company's headcount has been substantially reduced with numbers of staff, many of them long serving, opting for voluntary redundancy or being re-deployed within the County Council Stephen Dean, the Managing Director for the last 15 years left the Company in April and the Board pays tribute to his qualities of leadership, integrity and entrepreneurial skill. The way in which this difficult exercise has been conducted with great good will on all sides and a universal desire to see the Company succeed is eloquent testimony to the traditions that Steve established, I place on record my personal thanks to him and all those staff who have left us for their loyal service and wish them well for the future

The recession and the slow pace of the recovery have had a negative effect on all business and LCDL is no exception Our revenue from property lettings is somewhat reduced and the level of activity generally has slowed with an inevitable effect on revenues In particular it is not a good time to be letting state of the art office developments and we have had to take a substantial write down of the book value of our Rising Bridge development, this together with an exceptional provision for redundancy costs has resulted in a loss for the year of £1.7 million In normal times we would expect to recoup these costs by increasing the revenue from our regular trading activities but this has not been possible in the current business climate On the credit side the Rosebud Fund has continued to invest in smaller companies and has made some larger investments notably in TPM at the Barrow Brook site outside Clitheroe. Our property managers have managed to contain the voids at Lancashire Business Park and White Cross and have outperformed the market in this respect. Our new Economic Development Team have identified a list of potential projects with good prospects for delivery over the next year or two and the Waste Recovery Park at Leyland is an important asset in developing a centre of excellence in a field with exciting possibilities for growth

In summary your Board believes that having achieved the re-direction and re-structuring we set ourselves, LCDL is now well placed to take advantage of the opportunities for growth and development that are so critical to the future prosperity of Lancashire and the people who work there. We have the tools – it is up to us all to get on with the job

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 2011.

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 loss before taxation amounted to £1,774,564 (2010 profit - £201,260) The group loss after taxation amounted to £1,801,385 (2010: profit - £79,318), 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 2011 is shown below All served on the Board throughout the year and thereafter, unless otherwise indicated.

Ms N D Penney
M J Welsh
H Henshaw
J R C Lawrenson
G Driver
M P France
G Fitzgerald (resigned 28 January 2011)
T M Ashton
P Halsall (appointed 31 January 2011)
M Green (appointed 30 July 2010)

At 31 March 2011, the group had no paid employees (2010· 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.

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

Grant Thornton

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

We have audited the financial statements of Lancashire Country Developments Limited for the year ended 31 March 2011 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.

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 2011 and of the group's loss 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.

Grant Thornton

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

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

~~October 2011~~
12 December 2011

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.

Goodwill
Goodwill arising on consolidation which represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised over its estimated useful economic life, typically 20 years.

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.

Assets under the course of construction
Assets under the course of construction are capitalised at cost based upon external valuations provided by industry specialists.

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

Continuing activities	Note	2011 £	2010 £
Operating income	2	8,219,792	6,981,132
Expenditure		(8,487,231)	(7,348,712)
Operating loss		(267,439)	(367,580)
Profit on sale of tangible fixed assets		191,000	860,076
Unrealised loss on revaluation of investment properties		(1,513,666)	-
Provisions against investments – credit/(charge)		7,138	(441,551)
(Loss)/profit on ordinary activities before interest and taxation		(1,582,967)	50,945
Interest receivable	3	90,678	189,632
Interest payable and similar charges	3	(282,275)	(39,317)
(Loss)/profit on ordinary activities before taxation	2	(1,774,564)	201,260
Taxation on (loss)/profit on ordinary activities	5	(26,821)	(121,942)
(Loss)/profit retained and transferred to reserves	13	(1,801,385)	79,318

Statement of total recognised gains and losses

	2011 £	2010 £
(Loss)/profit for the financial year	(1,801,385)	79,318
Loss on revaluation of corporate investments	(712,276)	-
Total recognised gains and losses relating to the year	(2,513,661)	79,318

Reconciliation of movement in members' funds/(deficit)

Group	2011 £	2010 £
(Loss)/profit for the year	(1,801,385)	79,318
Impairment of investment in the year	(712,276)	-
Net (reduction in)/addition to members' funds	(2,513,661)	79,318
Members' funds at beginning of the year	41,806,612	41,727,294
Members' funds at end of the year	39,292,951	41,806,612

Company		
Loss for the year	(1,897,283)	(1,207,859)
Members' deficit at beginning of the year	(10,602,664)	(9,394,805)
Members' deficit at end of the year	(12,499,947)	(10,602,664)

The accompanying notes form part of these financial statements.

Consolidated balance sheet

	Note	2011 £	2010 £
Fixed assets			
Investment properties	7	40,582,361	40,319,345
Corporate investments	8	2,604,431	2,647,223
		43,186,792	42,966,568
Current assets			
Debtors	9	2,633,481	2,493,996
Cash at bank and in hand		6,508,886	9,012,409
		9,142,367	11,506,405
Creditors :amounts falling due within one year	10	(5,630,290)	(6,660,335)
Net current assets		3,512,077	4,846,070
Total assets less current liabilities		46,698,869	47,812,638
Financed by:			
Capital funding reserve	13	8,730,878	8,730,878
Investment property revaluation reserve	13	19,331,317	19,331,317
Investment revaluation reserve	13	-	712,276
Profit and loss account	13	11,230,756	13,032,141
Members' funds		39,292,951	41,806,612
Creditors :amounts falling due after more than one year	11	7,273,918	5,942,026
Provisions for liabilities	12	132,000	64,000
		46,698,869	47,812,638

These financial statements were approved by the Board on 1 December 2011 ~~18 July 2011~~ and signed on their behalf by:

Mr M Welsh Chair

Company no: 1624144

The accompanying notes form part of these financial statements

Company balance sheet

	Note	2011 £	2010 £
Fixed assets			
Corporate investments	8	9,268,725	9,268,725
		9,268,725	9,268,725
Current assets			
Debtors	9	1,613,160	3,920,758
Cash at bank and in hand		39,162	-
		1,652,322	3,920,758
Creditors :amounts falling due within one year	10	(16,147,076)	(17,850,121)
Net current liabilities		(14,494,754)	(13,929,363)
Total assets less current liabilities		(5,226,029)	(4,660,638)
Financed by:			
Capital funding reserve	13	7,660,241	7,660,241
Profit and loss account	13	(20,160,188)	(18,262,905)
Members' deficit		(12,499,947)	(10,602,664)
Creditors :amounts falling due after more than one year	11	7,273,918	5,942,026
		(5,226,029)	(4,660,638)

1 December 2011

These financial statements were approved by the Board on ~~18 July 2011~~ and signed on their behalf by:

Mr M Welsh [signature] Chair

Company no: 1624144

The accompanying notes form part of these financial statements.

Consolidated cash flow statement

	Note	2011 £	2010 £
Net cash outflow from operating activities	14	(273,620)	(20,400)
Returns on investments and servicing of finance			
Interest received		90,678	189,632
Interest paid		(282,275)	(39,317)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(191,597)	150,315
Taxation paid		(48,821)	(326,274)
Capital expenditure and financial investment			
Purchase of investment properties		(1,776,682)	(2,824,873)
Disposal of investment properties		191,000	860,076
Purchase of corporate investments		(1,348,512)	(1,014,429)
Disposal and repayment of corporate investments		692,155	695,687
Net cash outflow from capital expenditure and financial investment activities		(2,242,039)	(2,283,539)
Net cash outflow before financing		(2,756,077)	(2,479,898)
Financing			
Repayment of bank loans		(678,108)	(360,254)
Net cash outflow from financing	15	(678,108)	(360,254)
Decrease in cash in the year	16	(3,434,185)	(2,840,152)

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 2011 there were 3 members (2010: 3), each of whom on a winding-up had undertaken to contribute an amount not exceeding £1

2 Operating income and (loss)/profit on ordinary activities before taxation

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

	2011	2010
	£	£
Auditors' remuneration		
- audit services	**28,416**	32,012
- non-audit services	**31,617**	6,285
Management fee paid to Lancashire County Council	**344,724**	345,048
Operating lease rentals		
- land and buildings	**104,114**	97,011

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

3 Net interest

	2011	2010
	£	£
Interest payable and similar charges		
Bank loans	**282,275**	39,317
Interest receivable		
Bank interest receivable	**90,768**	189,632

4 Directors and employees

The chairman received £Nil (2010: £Nil) during the year. The total received from the group by the other directors was £Nil (2010: £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 2011 was Nil (2010 : Nil). Employee costs of £2,335,505 for the year (2010 £2,474,686) were recharged from Lancashire County Council to Lancashire County Developments Limited and are included within administrative expenses

5 Taxation

	2011	2010
	£	£
Corporation tax on (loss)/profit on ordinary activities at 28% (2010 : 28%)		
- current year	-	90,000
- adjustment in respect of prior years	(41,179)	29,942
	(41,179)	119,942
Deferred taxation		
- current year (other)	52,447	(11,000)
- adjustment in respect of prior years	15,553	13,000
	68,000	2,000
Tax on (loss)/profit on ordinary activities	26,821	121,942

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 28% (2010 28%). The differences are explained as follows :

	2011	2010
	£	£
(Loss)/Profit on ordinary activities before taxation	(1,774,564)	201,260
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 28% (2010 : 28%)	(496,878)	56,353
Effect of:		
Expenses not deductible for tax purposes	412,522	25,574
Differences between capital allowances and depreciation	(28,269)	7,934
Group relief	-	139
Unrelieved tax losses	112,625	-
Adjustment in respect of prior years	(41,179)	29,942
	(41,179)	119,942

6 Profit and loss account

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 £1,897,283 (2010 £1,207,859)

7 Investment properties

Group	Freehold	Assets under the course of construction	Total
	£	£	£
Cost or valuation and net book value			
At 1 April 2010	37,245,000	3,074,345	40,319,345
Additions	288,064	1,488,618	1,776,682
Revaluation	(1,513,666)	-	(1,513,666)
Transfer	4,562,963	(4,562,963)	-
At 31 March 2011	40,582,361	-	40,582,361
Cumulative grants			
At 31 March 2011			3,143,188
At 31 March 2010			3,143,188

The properties were externally revalued on an open market basis as at 31 March 2007 by King Sturge LLP The properties were internally revalued by the group's parent undertaking (Lancashire County Council) on an open market basis at 31 March 2009 and this valuation has subsequently been updated by the directors to 31 March 2011 in respect of completed developments The historical cost of the premises are as follows :

	£
At 31 March 2010	33,193,505
Additions	1,776,682
At 31 March 2011	34,970,187

Company

At the year end the cost and net book value of the assets was £nil (2010 £nil).

Capital commitments

At 31 March 2011, the group and the company had capital commitments of £Nil (2010 £1,798,570).

8 Corporate investments

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
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	739,318	1,466,594	48,996	48,996
Other participating interests	22,698	16,709	-	-
Other loans	1,679,279	1,000,784	-	-
	2,604,431	2,647,223	9,268,725	9,268,725

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	-

Other participating interests

Other participating interests at 31 March 2011 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 (2010 : 11 9% and 15 7% respectively)

Corporate investments (continued)

Group

	Shares in associated undertakings	Other participating interests	Other investment in shares	Loans	Total
	£	£	£	£	£
Cost					
At 1 April 2010	163,136	16,709	2,107,441	2,546,162	4,833,448
Additions	-	-	-	1,348,512	1,348,512
Amounts written off	-	-	-	(223,662)	(223,662)
Repayments	-	-	-	(688,747)	(688,747)
Net share of profits of other participating interests	-	5,989	-	-	5,989
At 31 March 2011	163,136	22,698	2,107,441	2,982,265	5,275,540
Provisions					
At 1 April 2010	-	-	640,847	1,545,378	2,186,225
Charge for the year	-	-	727,276	7,551	734,827
Amounts written off	-	-	-	(249,943)	(249,943)
At 31 March 2011	-	-	1,368,123	1,302,986	2,671,109
Net book value					
At 31 March 2011	163,136	22,698	739,318	1,679,279	2,604,431
At 31 March 2010	163,136	16,709	1,466,594	1,000,784	2,647,223

Other investments	Principal activity	% of ordinary shares held at 31 March 2011	% of preference shares held at 31 March 2011
C Probe Technologies Limited	Remedial cathodic protection for structural concrete	19	54
Manhattan Showers Limited	Manufacture of shower screens	20	-
M B Aseptic Technology Limited	Development of aseptic food filling machinery	35	100
North West Regional Fund Limited	Investment company	25	-
Plant Impact Plc	Development of crop nutrients and natural pesticides	3.72	-
Porpoise Viscometers Limited	Manufacture of measuring equipment	36	85
Select Hearing Systems Limited	Manufacture of electronic hearing aid accessories	12	33
SOL Publications Limited	Publishing and Media company	15	-
Noetic Associates Ltd trading as Malagasy	Producer/distributor of fine food, drink and health products	35	-
Outerlin Limited (formerly EXML Systems)	Development of Expense World Expenses System	2	-
Notren Limited	Development and sale of dietary and health recording products	2	-

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

9 Debtors: amounts falling due within one year

	Group		Company	
	2011	2010	2011	2010
	£	£	£	£
Trade debtors	1,579,824	1,826,428	551,305	649,318
Accrued income and prepayments	228,330	471,584	18,296	36,560
Amounts owed by parent undertaking	748,086	31,364	748,086	24,490
Amounts owed by other group undertakings	–	–	208,008	2,990,755
Amounts owed by related undertakings	2,938	58,813	2,938	58,813
Other debtors	7,776	–	–	–
Social security and other taxes	66,527	105,807	66,527	105,822
Deferred taxation (note 12)	–	–	18,000	55,000
	2,633,481	2,493,996	1,613,160	3,920,758

10 Creditors: amounts falling due within one year

	Group		Company	
	2011	2010	2011	2010
	£	£	£	£
Bank overdraft	930,662	–	930,662	939,707
Bank loans (note 11)	–	300,000	–	300,000
Loans to parent undertaking - Lancashire County Council	–	1,710,000	–	1,710,000
Trade creditors	329,775	409,104	329,775	409,104
Amounts owed to parent undertaking	1,010,991	425,423	1,010,991	425,423
Amounts owed to other group undertakings	–	–	12,629,480	12,959,702
Amounts owed to related undertakings	85,036	–	85,036	–
Corporation tax	–	90,000	–	–
Accruals and deferred income	3,273,826	3,725,808	1,161,132	1,106,185
	5,630,290	6,660,335	16,147,076	17,850,121

11 Creditors: amounts falling due after more than one year

	Group and Company 2011 £	2010 £
Amount owed to parent undertaking - Lancashire County Council	7,230,000	5,520,000
Bank loans	43,918	422,026
	7,273,918	5,942,026

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

The Royal Bank of Scotland plc bank loans are repayable as follows :

	Group and company 2011 £	2010 £
Within one year	-	300,000
After one and within two years	43,918	300,000
After two and within five years	-	122,026
	43,918	722,026

The bank loan is secured by fixed and floating charges over all assets of the group and is repayable by equal quarterly instalments Interest is based upon bank LIBOR rate

12 Provisions for liabilities

Deferred taxation

	Group £	Company £
Provision/(asset) at 1 April 2010	64,000	(55,000)
Charge for the year	68,000	37,000
Provision/(asset) at 31 March 2011	132,000	(18,000)

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

	Group Amount provided 2011 £	2010 £	Company Amount provided 2011 £	2010 £
Accelerated capital allowances	179,000	111,000	(18,000)	(22,000)
Other timing differences	(47,000)	(47,000)	-	(33,000)
	132,000	64,000	(18,000)	(55,000)

13 Reserves

Group

	Capital funding reserve £	Investment property revaluation reserve £	Investment revaluation reserve £	Profit and loss account £
At 1 April 2010	8,730,878	19,331,317	712,276	13,032,141
Loss for the year	-	-	-	(1,801,385)
Impairment of investment	-	-	(712,276)	-
At 31 March 2011	8,730,878	19,331,317	-	11,230,756

Company

	Capital funding reserve £	Profit and loss account £
At 1 April 2010	7,660,241	(18,262,905)
Loss for the year	-	(1,897,283)
At 31 March 2011	7,660,241	(20,160,188)

14 Net cash outflow from operating activities

	2011 £	2010 £
Operating loss	(267,439)	(367,580)
Increase in debtors	(205,781)	(10,549)
Increase in creditors	205,589	357,230
Share of (profit)/loss in participating interests (note 8)	(5,989)	499
Net cash outflow from operating activities	(273,620)	(20,400)

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

	2011 £	2010 £
Decrease in cash in the year	(3,434,185)	(2,840,152)
Cash outflow from movement of debt	678,108	360,254
Movement in net funds	(2,756,077)	(2,479,898)
Opening net funds	1,060,383	3,540,281
Closing net (deficit)/funds	(1,695,694)	1,060,383

16 Analysis of changes in net funds

	At 31 March 2010	Cashflows	At 31 March 2011
	£	£	£
Bank overdraft	-	(930,662)	(930,662)
Cash at bank and in hand	9,012,409	(2,503,523)	6,508,886
Cash at bank	9,012,409	(3,434,185)	5,578,224
Bank loans			
The Royal Bank of Scotland plc	(722,026)	678,108	(43,918)
Other loans			
Lancashire County Council	(7,230,000)	-	(7,230,000)
	1,060,383	(2,479,898)	(1,695,694)

17 Operating lease commitments

Operating lease payments due within one year are as follows :

	2011 Land and Buildings	2010 Land and Buildings
	£	£
Expiring after five years	92,860	92,860

18 Related parties

The company has made purchases on behalf of Lancashire and Blackpool Tourist Board Limited of £Nil (2010 £76,041). The amount owed by this related party at 31 March 2011 is £Nil (2010 . £8,813)

At 31 March 2011, an amount of £85,036 was due to Regenerate Pennine Lancashire Limited

Sales from Lancashire County Council during the year amount to £2,491,809 (2010 £2,340,990). Purchases with Lancashire County Council amount to £4,306,982 (2010· £3,760,862). The amount owed by this related party at 31 March 2011 is £854,960 (2010: £31,364). The amount owed to this related party at 31 March 2011 is £1,010,991 (2010: £425,423).

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected:
None

Update on treasury management activity
Appendix 'A' refers

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

Executive Summary

The report set out in Appendix A is a review of the County Council's treasury management activities during the third quarter of the 2011/12 financial year. 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 to ensure the effective governance and oversight of treasury management activities.

This review outlines the treasury management activities of the county council between September and December 2011 and includes:

- 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.

Recommendation

The committee is asked to note the report on recent treasury management activities in Appendix 'A'.

Background and Advice

At the meeting of the Cabinet on 9 July 2009 it was agreed that in order to strengthen members' oversight of the county council's treasury management activities, the Audit Committee should monitor and scrutinise regular updates on treasury management issues. 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. The aim of the report is to inform members of the general economic environment surrounding treasury management activities and to set out the position on the borrowing and lending activities of the county council.

Lancashire County Council

The quarterly report attached at Appendix 'A' is the review of treasury management activity for the third quarter of the 2011/12 financial year.

Consultations

Sterling Consultancy Services Limited provides advice on treasury management.

Implications:

N/A

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 Strategy Statement 2011/12	County Council 24 Feb 2011	Andy Ormerod County Treasurer's Dept X34740
Investment Strategy and Approach.	Cabinet 5 Jan 2012	Andy Ormerod County Treasurer's Dept X34740

Appendix A

Update on Treasury Management activity

Background

At the meeting of Cabinet on 9 July 2009, it was agreed that in order to strengthen members' oversight of the County Council's treasury management activities, the Audit Committee should receive regular updates on treasury management issues and that members of the Audit Committee should receive more detailed training in order to enable effective oversight of the County Council's treasury management 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 covers the 3rd quarter of the 2011/12 financial year.

Economic Overview and Interest Rate Forecasts

The perilous economic situation has been well documented in previous TM reports to the Audit Committee. Unfortunately there is little sign of improvement over the third quarter of the financial year.

The economic background to the County Council's treasury activity is characterised by:

1. Sovereign debt risks in the Euro area.
2. Concern over the potential spread of these risks from the periphery to the central European governments
3. A continuing increase in bank credit risk and the possibility of a renewed liquidity crisis.
4. The Bank of England's monetary policy committee suggesting that interest rates will stay at the current low levels for some time to come.

The significant risks which remain in the financial markets reinforce the need for the County Council to actively manage both its investments and borrowings in the interest of the long term security of capital.

There is no change to the interest rate forecast, as shown below, since the last report. The positioning of the investment and debt portfolios to anticipate low interest rates for an extended period remains the most appropriate strategy at the current time.

Year	End Period	Bank Rate	Money Rates (BBA LIBOR)		PWLB Rates		
			3 mth	12 mth	5yr	20 yr	50 yr
2011	Mar	0.50	0.8	1.7	4.2	5.4	5.3
	Jun	0.50	0.8	1.6	3.3	5.2	5.2
	Aug-26	*0.50*	*0.8*	*1.6*	*2.6*	*4.6*	*4.7*
	Sep	0.50	0.8	1.6	2.5	4.6	4.7
	Dec	0.50	0.8	1.6	2.5	4.7	4.8
2012	Mar	0.50	0.8	1.6	2.6	4.8	4.9
	Jun	0.50	0.8	1.7	2.9	5.0	5.2
	Sep	0.50	0.8	1.7	3.1	5.2	5.4
	Dec	0.50	0.8	1.8	3.3	5.4	5.5
2013	Mar	0.75	0.9	2.0	3.5	5.5	5.5

Investments

The assessment of the economic background outlined above and the risks inherent therein determine the overall strategy for investment management. In response LCC will:

1. Continue to take the most defensive position possible.
2. Continue to avoid bank credit risk including not replacing the £60m fixed deposits that mature over the next month.
3. Concentrate investment activity on UK Treasury government guaranteed bonds (gilts) with continued active portfolio management to control risks.

Below is a summary of the investment activity which took place since the last report:

	Call	Fixed	Structured	LA Bond	Gilts	Supras	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Balance 30th Sept	**63.55**	**211.00**	**125.36**	**35.60**	**162.90**	**53.44**	**651.85**
Maturities and Sales	(711.73)	(160.40)	-	-	(1,351.24)	(25.74)	**(2,249.12)**
New Investment	665.53	150.00	-	-	1,401.81	12.78	**2,230.12**
Change in Fair Value	-	-	(1.52)	(0.06)	(0.11)	(1.41)	**(3.10)**
Balance 31st Dec	**17.35**	**200.60**	**123.84**	**35.54**	**213.36**	**39.07**	**629.75**

During the quarter Prime Rate Sterling Liquidity Fund was placed on a negative rating watch and in consequence the funds held at the time were called back. New investment of £30m in Ignis money market fund and £30m in a Svenska Handelsbanken call account were made. A fixed deposit with Cater Allen

(Santander) matured and was not replaced.

The change in fair value to structured deposits and the local authority bonds are not buying or selling transactions but accounting valuation adjustments. The value of these instruments changes when an interest payment is made because there are now fewer remaining interest payments to accrue, and this adjustment is designed to reflect the change even though the instruments have not been sold

Most activity in the period centred on the Gilt portfolio where the purchases and sales made were as part of the active portfolio management strategy.
In the supranational portfolio we made an additional investment in Nordic Investment Bank bonds, but sold European Investment Bank to reduce exposure to the European sovereign debt crisis.

A separate report on the management of the bond portfolio was considered by the cabinet on 5th January 2012 and can be accessed at the following link:

http://mgintranet/ieListDocuments.aspx?CId=122&MId=514&Ver=4

Significant transactions which will take place over the coming month depend upon market conditions, but there are 2 fixed deposit maturities of £30m each which will not be replaced.

Borrowing

Current market conditions continue to enable the County Council to take advantage of short term market borrowing following the repayment of £293m of long term fixed debt in 2010.

The table below shows the borrowing activity which has taken place over the last two months.

	PWLB FXD	**PWLB VAR**	**LOBO**	**LA**	**DCs**	**POL**	**FIRE**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Balance 30 Sept	**213.10**	**195.75**	**50.77**	**364.95**	**7.80**	**35.43**	**29.94**	**897.74**
Maturities	-	**(10.00)**		**(260.15)**	**(22.95)**	**(65.53)**	**(11.71)**	**(421.11)**
New Borrowings	-	-	**0.31**	**241.70**	**44.65**	**53.98**	**9.86**	**401.26**
Balance 31 Dec	**213.10**	**185.75**	**51.08**	**346.50**	**29.50**	**23.88**	**28.09**	**877.89**

The overall borrowing level has fallen slightly over the period. It is the County Council's strategy to restrict borrowing to the level of the capital financing requirement which requires a reduction in the level of borrowing over the coming months. This will be achieved by using the £60m of fixed deposits maturing during the month to reduce short term local authority borrowing.

Accordingly the two £30m investment maturities will be used to further reduce the amount of local authority borrowing taken in January.

Revenue Budget Monitoring

The financing charges budget has been set at £37.125m for 2011/12. The current forecast year end position is -£10.868m, a surplus of £47.593m against the budget. The breakdown of the budget monitoring position is shown in the table below. A separate report on this was provided to cabinet on 5th January.

	Revenue Budget 2011/12 £m	Forecast for the year as at November 2011 £m	Variance £m	Variance %
Minimum Revenue Provision	28.567	26.532	(2.035)	
Interest Paid	16.292	17.100	0.808	
Interest Earned	(7.734)	(54.100)	(46.366)	
Grants Received	(0.400)	(0.400)	-	
Total	36.725	(10.868)	(47.593)	(129.59)

Prudential Indicators Monitoring

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 31 December 2011 compared to the prudential indicators set in the treasury management strategy for 2011/12 is set out below.

Treasury Management Prudential Indicators	**2011/12 Strategy £M**	**31 Dec 2011 Actual £M**
1. Adoption of the CIPFA Code of Practice for Treasury Management	This has been fully 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	1,000	792
Other long-term liabilities(eg PFI schemes)	400	191
TOTAL	1,400	983

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	950	792
Other long-term liabilities	390	191
TOTAL	1,340	983

4. **Upper limit for fixed interest rate debt**	90%	24%
5. **Upper limit for variable rate debt**	90%	76%
6. **Upper limit for total principal sums invested for over 364 days** (per original period to Limit)	75%	24%

7. **Maturity structure of debt**

	Lower Limit % 2011/12	Upper Limit % 2011/12	Actual % 31 Dec 2011
Under 12 months	-	75	48.75
12 months and within 2 years	-	75	2.28
2 years and within 5 years	-	75	-
5 years and within 10 years	-	75	22.13
10 years and above	25	100	26.84

Although as at the 31st December all amounts are within the prudential indicator limits, between 1st and 24th of November the County Council did exceed the operational borrowing limit. This was mainly due to an unexpected surge in the popularity of the Lancashire shared investment scheme following the significant increase in investment credit risk during the autumn. Action was taken at the earliest opportunity to allow existing short term borrowing to mature without replacement and by the end of November borrowing was back within the agreed limits. At no point was the authorised limit breached.

Landsbanki

The Icelandic Supreme Court has finally found in favour of local authorities as priority creditors and there are now no further appeals allowed regarding this decision. The judgement means that local authorities can expect to recover up to 98 per cent of the deposit and contractual interest that they are owed. Currently arrangements are being made to receive the first distribution early in the new year. This will be in a basket of currencies, sterling, euros, US dollars and Icelandic krona. The amounts will be paid in their respective currencies into foreign currency bank accounts rather than have them converted at spot rate by the bank and paid into the sterling account. This will enable treasury management to achieve a better foreign exchange conversion rate. However, due to foreign currency restrictions in Iceland itself, the amount denominated in Icelandic krona (ISK) is being held in an escrow (trust) account whilst the appropriate licences to remove the ISK from the country are arranged. It has not yet been decided whether the ISK will be converted into GBP (sterling).

The committee will be kept informed of developments.

Recommendation

The Committee is asked to note the above report on treasury activity.

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected:
none

A revised approach to risk management within Lancashire County Council
(Appendices A, B, C and D refer)

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Executive Summary

In the context of fulfilling its responsibility to advise the council on the adequacy of the council's strategic processes for risk, control and governance, the committee is asked to consider proposals for a revised approach to risk management, which have been agreed by the council's Management Team and are set out as Appendix A.

Appendix B sets out the key issues discussed by the council's management teams during the period 1 July to 30 September 2011, which may be regarded as the council's current, changing, risks.

Appendix C sets out a preliminary schedule of the council's underlying risks associated with its on-going business.

Appendix D sets out the underlying risks associated with the council's on-going business as identified in the risk register as at 27 June 2011, including the risk scores assigned and the resulting risk ranking at that time.

Recommendation

The Audit Committee is asked to consider the proposals for the council's revised approach to risk management.

Background and Advice

As above.

Consultations

Not applicable.

Implications:

None.

Risk management

Lancashire County Council

This report is provided for information and consideration as part of the Audit Committee's role, which includes advising the Council on the adequacy of the council's strategic risk management processes.

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

Paper	Date	Contact/Directorate/Tel

Reason for inclusion in Part II, if appropriate

N/A

A revised approach to risk management within Lancashire County Council

1. The county council has recognised the need to reconsider the way in which it manages risk and demonstrates its risk management processes.
2. A revised approach to risk management is set out below and the Management Team has:
   - Considered and endorsed the principles underpinning the council's approach to risk management set out below.
   - Agreed to ensure that all service managers continue to consider risk and mitigating controls throughout their service's design and operation.
   - Considered the schedule of the council's key issues arising over the period 1 July to 30 September 2011 identified from the matters discussed by management teams across the council over that period and assessed this against their own understanding of the council's risks, to test the adequacy of this revised approach in capturing the council's key risks. (This schedule is attached as appendix B).
   - Considered the schedule of the council's underlying risks developed from the risk register as at 27 June 2011 and from individual directors' discussions with the Internal Audit Service in developing the last two annual audit plans. It has determined that this could, over time, capture the areas of greatest underlying risk to the council. (This schedule is attached as appendix C).
   - Considered and endorsed the proposal to generate a risk register annually, as a combination of current risks and underlying on-going risks, for consideration by the Audit Committee under its terms of reference ('to advise the Council on the adequacy of the Authority's strategic processes for risk, control and governance').
3. Having accepted this approach, Management Team has also agreed to:
   - Continue periodically to lead discussions of risk within directorate management teams, and consider too whether there are additional issues that should be addressed to manage the directorates' and the council's risks.
   - Periodically endorse the risk management guidance available to managers across the council, which will be reviewed and updated (by the head of internal audit), to ensure that good risk management practice continues across the county council.
   - Include a more formal and regular plan of training on risk management within a programme of practical training for managers across the council.
   - Re-consider whether all the risks that apply across the whole of the council (for example those relating to employment law and practice) are adequately owned and managed.
4. A schedule of the council's underlying risks derived directly from the corporate risk register considered by the Audit Committee on 27 June

2011 is also attached as appendix D. This schedule includes the scores assigned at that time for information and to illustrate the outcomes of the council's former approach.

The council's proposed approach to risk management

5. The council already manages its risks well in practice. It has not in the past always documented risks in the ways demanded by the external regulator, but action being taken by management teams across the council amounts to an effective ongoing process of risk identification, assessment and management.
6. Managers should therefore continue to be encouraged and supported to consider the potential threats and opportunities involved in any new service developments and improvements, and on-going performance monitoring. Documentation of risks, related controls and mitigating action plans should be considered where this is helpful and appropriate and, where this is the case risk registers should be prepared. This is likely to be appropriate for specific service development projects, when project risk registers should be monitored closely by the lead project manager and sponsor. Individual directorates should also consider risk specifically as business plans are prepared and monitored.
7. Management Team will obtain assurance annually that risks are being adequately identified, assessed and managed by an annual snapshot of the issues being addressed by management across the council, from which an annual risk register will be prepared by the Internal Audit Service. Using this, Management Team will be able to assess whether in its view the council's key risks are being adequately addressed, and it will be able to take action where necessary.
8. The Audit Committee has also expressed a concern periodically to review a statement of the council's key risks, and it is proposed that in future this be provided to the Committee at its meeting in March each year in a form similar to the schedule attached.
9. Assurance over specific risk areas will continue to be provided by the Internal Audit Service through the annual internal audit plan, which will be prepared following discussions with management teams and senior managers across the council, including executive directors and Management Team. The annual internal audit plan is also approved, but not directed, by the Audit Committee.
10. Internal audit work is designed to provide assurance over the management not only of changing risks, but also of those which may be significant but relatively constant whilst services remain stable. Such risks may not therefore be identified through a snapshot of management discussions but will be highlighted through directors' discussions with the Internal Audit Service's and the resulting annual audit plan.

Principles underpinning the proposed approach

11. Management Team has considered and endorsed the practical principles and understanding that underpin the council's proposed risk management arrangements.

- The county council generally manages risk effectively within the course of its normal operations through its management structure and governance arrangements.
- Managers have a good understanding of their services and service developments, and are able adequately to identify the risks involved.
- Managers understand the limits that the organisation places on the action that can be taken by any individual officer. There is a general awareness of what management action is appropriate and where further consultation and approval is required with colleagues and more senior managers. The organisation therefore recognises its risk appetite in relation to the decisions it takes.
- There is a good level of understanding of what risks it is acceptable to take during the normal course of work and the organisation recognises its risk appetite in relation to its ongoing activities.
- Managers' workloads should not be increased through unnecessary bureaucracy, in particular by preparing documentation solely to demonstrate (rather than support or enhance) effective management.
- The cost (in terms of the time involved) relative to the benefit gained by defining every possible risk in detail and assigning impact and likelihood scores to each risk associated with every planned or current activity is deemed too great to be generally worthwhile. However where there are known concentrations of risk, such as in new service developments, managers understand that they should document, monitor and manage these risks using the council's scoring framework.
- The county council aims to operate good governance arrangements and holds itself accountable through its annual governance statement, which refers to governance, risk management and internal control.
- The Audit Committee holds the county council to account for the adequacy of its risk management arrangements. It seeks assurance over these arrangements from the council's head of internal audit and requires a periodic statement of the most significant risks facing the county council.
- The Internal Audit Service works with individual directors and executive directors to consider the council's assurance needs, and makes its own assessment of the internal audit work required to provide this assurance. Priority is given to providing assurance over the controls which reduce the greatest inherent risks to the greatest degree.

12. It is therefore considered unnecessary and an inappropriate use of resources to attempt to document and individually score each risk arising across the whole of the council's business. Instead, an assessment of the risk management arrangements made in practice is set out below.

Practical risk management within the county council

13. The table below sets out each of the main categories of risk within the county council, the management control applied, and the evidence demonstrating this control in operation.

Management control	Evidence of management
Emerging issues affecting the council and its services	
Management Team, with cascade down to directorate and service teams as appropriate and as the issues develop.	• Corporate strategy or equivalent • Management Team agendas and papers • Directorate management team agendas and papers
New projects and service developments	
Directorate management teams, with cascade down to service teams as the issues develop, and up to Management Team for information.	• Corporate strategy or equivalent • Directorate strategy/ business plans • Directorate management team agendas and papers • Project risk registers • Management Team agendas and papers
Current issues or developments within the council's existing services	
Service management teams, with cascade up to directorate management teams and intervention by Management Team as appropriate.	• Directorate management team agendas and papers • Project board agendas and papers as appropriate • Management Team agendas and papers
Monitoring of performance measures	
Performance Working Group Executive, with coordination across to directorate management teams and up to Management Team and Cabinet Committee on Performance Improvement as appropriate.	• Performance Working Group Executive agendas and papers • Directorate management team agendas and papers
On-going provision of the council's services: underlying risks	
Service teams, with cascade up to directorate management teams as appropriate.	• Directorate management team agendas and papers • Corporate documentation of specific risk areas • Internal Audit Service risk and control evaluations with supporting audit work

The results of an initial test of this approach

14. A review of documentation supporting first, second and third tier management team meetings, as well as cross-service management meetings and the work of the Performance Working Group Executive, for the period 1 July to 30 September 2011 provides an indication of the nature of the issues being managed under each of these categories of risk.

15. The many detailed specific risks associated with each of these issues have not been separately assessed and scored, but the issues are reasonably clear. Management Team has considered these and confirmed that they represent the greatest risks for the council at this time.

16. The risks arising from the continuing provision of stable services are unlikely to be identified by an assessment of the issues discussed by management teams since, by their nature, these risks are understood to have been adequately addressed by adequately designed and effectively operated controls. They are unlikely to prompt further discussion within management teams. It is only as these controls are reassessed and revised that these will normally come to management teams' attention, but the more significant of these risks and controls will form part of the Internal Audit Service's annual work programme.

17. The number and range of the issues raised by this document review begin to indicate the scale of the task if the risks relating to each emerging issue, new project or service development, existing service and performance measure are to be individually analysed, scored and documented as such. The approach outlined above, based on the principles set out in paragraph 11 above, appears to be a pragmatic solution to the council's need to understand and manage its risks most effectively.

Emerging issues affecting the council and its services in the future	New projects and current service developments within the council	Current issues or developments within the council's existing services	On-going provision of the council's services	Monitoring of performance measures
Corporate strategy				
• Transformation of the National Health Service. • Introduction of a directly elected Police and Crime Commissioner. • Reforms to the Criminal Justice System.	• Budget reductions whilst cost pressures and demand both increase: delivering value for money. • Partnership working: with the private sector, voluntary sector and other public bodies. • Adopting a 'whole system' approach to tackling complex issues. • Introduction of academies. • Establishment of Health and Wellbeing Board. • 'Total Family' strategic work programme.	• Implementing the Prevention and Early Intervention Strategy.		• Performance measures set out for each area of the Corporate Strategy.
Tier 1: Lancashire County Council Management Team meetings				
• Transfer of public health responsibilities, staff and finance from the NHS to the county council, including establishment of public health boards. • NHS Clinical Commissioning Consortia. • Local Government Resource Review: business rate retention proposal.	• Judicial review of revised adult social care policies. • Lancashire Enterprise Partnership and submission of the bid for enterprise zone status. • Partnership working with the districts and unitary authorities. • Community budgets and community safety, Total Family and Total Place. • Pilot group on complex families. • Superfast broadband. • Three tier forums.	• Reablement – additional capacity. • Rationalisation/ closure of household waste recycling centres. • 'In-flight' projects within OCL.	• Management of information requests under the Freedom of Information Act. • Corporate accommodation and supporting requirements. • Staff training programme. • Analysis of the staff survey results.	• HR reports monitoring key concerns. • The council's financial position. • Key stage 2 exam results.
Tier 1: Information provided to the chief executive and leader				
				• Quarterly safeguarding scorecard and related accountability reporting relating to children.

Schedule of the council's key issues arising over the period 1 July to 30 September 2011

Emerging issues affecting the council and its services in the future	New projects and current service developments within the council	Current issues or developments within the council's existing services	On-going provision of the council's services	Monitoring of performance measures
Tier 2: Adult and Community Services Directorate Senior Management Team meetings				
• Failure of Southern Cross' care homes business, and care issues at Castle Beck's homes (nationally).	• Older People's Day Time Support Strategic Vision. • Integration of primary, community and acute services in a transitional care pathway – vision and development. • Future of the Employment Support Service, budget reductions, and the implications of 'fair access to care' • Production of 'local accounts' for adult social care. • Use of ISSIS and implications of the integration of FACE onto ISSIS. • Three tier forums.	• Governance arrangements for oversight of multiple programmes and projects relating to personal social care and commissioning, and engagement teams (including prioritisation and resource allocation). • Improvement of coordination of jointly funded mental health care packages. • Dementia services and implementation of the national Dementia Strategy. • Specialist rehabilitation services commissioning. • Care Connect extended hours. • Delivery of personalisation. • Mental health complex cases. • Management of the complaints process.	• Workforce planning.	• Complaints and customer feedback. • Financial monitoring.
Tier 2: Children and Young People's Directorate Leadership Team meetings				
• The Munro review of child protection.	• Young carers' early support initiative. • Development of short and long term foster care for children with disabilities. • Support to three tier forums. • Development of directorate business plan.	• Development of children and parenting support services and children's centres: co-location of services, integration of management structures, more integrated support and rationalisation of buildings. • Proposals to close children's residential homes: evaluation criteria. • Safeguarding improvement plan: embedding the common assessment framework within all agencies; meeting National Standards for young people remanded or sentenced. • Establishment of a directorate emergency planning and response group. • Delegation of funding to school budgets relating to statements of special educational needs. • Procedures and responsibilities relating to elective home education. • Changes to the SEN and Disability Transport Policy to improve policy, planning and procurement processes. • Improvements to social care data capture, storage and distribution.	• Peer review of the directorate. • Review of the fostering service (mock inspection). • Delivering the implementation model for work with families with complex needs and vulnerable adolescents. • Monitoring the directorate business plan. • Health and safety checks in all residential children's homes. • School provision in rural areas. • Accommodation strategy for children's social care. • Locality working. • Sickness absence management.	• Budget monitoring, including cost savings from efficiencies/ service reductions, and forward forecasts. • Key stage 2 results data. • School staff and pupil RIDDOR accident statistics. • Statistics and action re children missing education. • Independent Review Officer's annual reports and action plans on safeguarding and on children looked after.

Schedule of the council's key issues arising over the period 1 July to 30 September 2011

Emerging issues affecting the council and its services in the future	New projects and current service developments within the council	Current issues or developments within the council's existing services	On-going provision of the council's services	Monitoring of performance measures
Tier 2: Joint meeting of Children and Young People's Directorate Leadership Team and Adult and Community Services Directorate Senior Management Team				
	• Improvements to the transition of care from childhood to adulthood.			
Tier 2: Environment Directorate Management Team meetings				
• Objections to proposals for the disposal of low level radioactive waste at Clifton Marsh Landfill site. • Response to the DCLG's consultation on the 'planning guarantee' and information. • Response to the DfT's consultation on high speed rail. • DfT consultation on UK aviation. • Government white paper on the environment. • Car parking in Clitheroe. • Pavement parking. • Open Golf Tournament, Lytham.	• Pennine Reach rapid transit scheme (£2.5m contribution). • Heysham M6 link. • Local Transport Plan and Implementation Plan. • Broughton bypass/ roundabout. • Permit scheme for street and highways works. • Water management partnership for the Fylde. • Renewable energy. • Policy re unauthorised encampments.	• Street lighting column replacement and energy use. • Lighting on the M65. • Waste acceptance testing. • Closure of household waste recycling centres. • Guild Wheel progress. • Design Group relocation. • Options for provision of County Analysts services. • Road safety: strategic framework and Road Safety Strategy; Road Safety Partnership. • 20 mph zones. • Traffic implications of the Lostock Hall Gas Works site. • Winter roads service. • Amendments to the Area North Highway Team. • Park and Ride scheme.	• Phasing of the capital programme. • Use of The Regulation of Investigatory Powers Act (RIPA) by inspectors. • Directorate lone working procedures. • Acceptance of grants for school cycling links. • Agreement with service supplier for the pursuit of illegal money lenders within Lancashire. • Service-specific internal audit reviews. • Analysis of the staff survey results, including focus groups. • Staff learning and development programme and plans. • Staff recognition and communication. • The directorate's new integrated management system; health and safety. • Sickness management and procedures. • Information requirements re greenhouse gas emissions from the council's estate. • Residual Equal Pay Review issues.	• Implementation of the capital programme. • Pothole repairs.
Tier 2: Lancashire County Commercial Group Senior Management Team meetings				
		• Creation of the procurement centre of excellence: transfer of staff. • Restructure of care services and related savings. • Restructure of the Integrated Transport Unit. • Development of the 'one team' approach with Environment Directorate. • Service improvement meetings.	• Investment in care home maintenance (£3 million). • On-going commercial position with schools, residential and non-residential care, procurement of food stocks. • Payroll coding and financial reporting against budgets. • Sickness management and procedures. • Analysis of the staff survey results.	

Schedule of the council's key issues arising over the period 1 July to 30 September 2011

Emerging issues affecting the council and its services in the future	New projects and current service developments within the council	Current issues or developments within the council's existing services	On-going provision of the council's services	Monitoring of performance measures
Tier 2: Cross-tier, cross-directorate working group: Performance Working Group Executive (this information is also shared closely with the leader).				
				• Recovery plans for: • Reductions in children killed or seriously injured on the county's roads. • Reduction in youth offending and reoffending rates. • Increased library visitor numbers. • Percentage of potholes filled within 30 days. • 21 indicators that failed their targets at the end of 2010/11.
Tier 3: Management teams within the Environment Directorate – Performance Management (quarterly)				
	• Performance framework 2011/12. • Single data list.	• Review of the performance management framework. • County councillor perception survey: responses to councillors. • Public perception survey.		• Pothole repairs. • Road safety. • Waste recovery and disposal. • Street lighting. • Trading standards. • Public transport. • Capital projects. • Complaints. • Sickness absence. • Financial monitoring against budget.
Tier 3: Management teams within the Environment Directorate – Environment and public protection services Management Team (every two weeks, approximately)				
• Preston Guild stewardship. • Pavement parking. • Open Golf Tournament, Lytham.	• Development of the Local Transport Plan and Implementation Plan, and consultation. • Guild Wheel. • One Team approach with LCCG in relation to Highways. • Reduction in the Carbon Reduction programme.	• Rationalisation/ closure of household waste recycling centres. • Relocation of the Design Group. • Restructuring of procurement and accounts payable staff into OCL. • Changes to Trading Standards structure. • Improvement in VIP responses and amendments to the system.	• Street lighting energy costs. • Legal issue elsewhere with potential impact on CRB checks and references. • Review by OCL of highway asset systems. • Budget monitoring. • Ending of Equal Pay Review pay protection. • Voluntary redundancy and succession planning. • Absence management procedure. • Staff training and development. • Staff survey results and focus groups. • Recruitment, placement and induction of graduate trainees. • Health and safety: firewardens.	• Pothole repairs. • Reported instances of flooding. • Street lighting repairs.

Schedule of the council's key issues arising over the period 1 July to 30 September 2011

Emerging issues affecting the council and its services in the future	New projects and current service developments within the council	Current issues or developments within the council's existing services	On-going provision of the council's services	Monitoring of performance measures
Tier 3: Management teams within the Environment Directorate – Strategy & Policy management team (every two weeks, approximately)				
	• Development of the 'Farington scheme' relating to transport planning.	• Continuous improvement projects: workforce planning and the directorate's response to persistent environmental, health and deprivation issues. • Restructuring and staff gradings.	• Capital apportionment for the next two years. • Health and safety of staff: office moves; agile working; development of directorate integrated management system. • Recruitment, placement and induction of graduate trainees. • Staff survey results and focus groups. • Absence management procedure. • Staff training and development. • Succession planning.	
Tier 3: Management teams within the Environment Directorate – Transportation and strategic highways management team (every two weeks, approximately)				
• National Road Safety Strategy. • Pavement parking (and the need for a risk assessment). • Bribery Act.	• Broughton bypass. • Heysham M6 link. • Parking Services' move to the Customer Service Centre.	• 20 mph zones. • Equality impact in public transport. • LCC responses to planning applications on highway issues.	• Office moves: accommodation and agile working. • VIP response rates. • Staff survey results and focus groups. • Staff training and development. • Succession planning. • Team restructures. • Absence management procedure. • Use of blackberries and mobiles, and cancellation of unused contracts.	• Budget monitoring.
Tier 3: Property Group (every week, approximately)				
		• Assurance statements in relation to premises management (with specific queries arising in relation to asbestos and legionella, and vacant properties). • Finance and project management system: current system and proposals for its replacement. • Purchase of energy supplies.	• Budget monitoring, debt collection, income projections. • Team restructuring. • Team skills and training. • Sickness absence monitoring and amended procedures. • Timely input of staff timesheets. • Staff survey results and focus groups. • Health and safety actions, including those relating to a specific contractor. • Achievement of accreditation to international quality management standard (BS EN ISO 9001:2008). • Changes to the legal status of agency workers.	• Review of performance measures monitored. • Action plans arising from business plans. • Project monitoring, and exception/ variance reporting.

Preliminary schedule of the council's underlying risks

Appendix C

Risk	Audit work undertaken
Corporate risks	
Corporate governance	
• Members make inappropriate expense and allowance claims that bring the council into disrepute.	• Members' expenses and allowances: audit plan 2010/11
• Officers and members have personal interests in the council's business resulting in poor decision-making and/ or bringing the council into disrepute.	• Declarations of interest, gifts and hospitality: audit plan 2010/11
Information governance	
♦ Information quality is poor, and information is lost or mishandled, resulting in financial loss/ fines, service delivery failure, harm to individuals and reputational damage.	• Information governance: audit plan 2010/11 • Database security: audit plan 2011/12 • Incident and problem management: audit plan 2011/12 • Vulnerability management: audit plan 2011/12
• Data sharing with the council's partners results in the loss or misuse of information.	• Data sharing: audit plan 2011/12
Performance management	
♦ Failure to deliver the corporate strategy due to lack of ownership or of performance management.	
Business continuity	
♦ An unplanned event occurs and adversely impacts the council's service delivery.	
Legislative compliance	
• The council fails to comply with relevant legislation.	• Audit plan 2011/12
Allegations of fraud or other misconduct	
• The council's response to allegations of fraud or other misconduct is inadequate either to address actual instances or to deter others.	• Audit plan 2011/12 • Internal Audit's role in proactive counter fraud work
Cross-service risks	
Safeguarding service users	
• The council employs staff with inappropriate police records to work alone with children or vulnerable adults.	• Corporate CRB clearance process: audit plan 2011/12
• Provision of transport to service users is operated inefficiently with poor information to enable effective commissioning and decommissioning of services.	• Review of SEN and accessible transport: audit plan 2011/12

Preliminary schedule of the council's underlying risks

Risk	Audit work undertaken
Health and safety of staff	
• The council's employees are injured through avoidable accidents, and corporate health and safety procedures are not compliant with the law.	• Corporate health and safety arrangements: audit plan 2010/11
• Members of staff working alone are subject to physical abuse or accidents.	• CYP: audit plan 2010/11 • Environment: audit plan 2010/11 • LCCG: audit plan 2010/11
Working in partnership	
♦ Failure to deliver benefits to the council of working in partnership with BT plc, due to inadequate governance or management unfamiliarity with private sector partnership working.	• Funds flows between the council and BT plc: audit plan 2011/12
• The council's resources are committed to other organisations' objectives and the council is exposed to unnecessary financial risk.	• The council's role as accountable body: audit plan 2010/11
♦ Strategic and operational failures resulting from the failure of partnership working with the National Health Service.	• Information sharing agreements (ACS): audit plan 2011/12 • Children's mental health provision (CYP): audit plan 2011/12 • Budget transfers: audit plan 2011/12
Joint service provision	
• Provision of reablement services are uncoordinated and users are unable adequately to live at home.	• Management and delivery of the reablement service: audit plan 2010/11
Service specific risks	
• The council fails to comply with relevant legislation applicable to individual services.	• Compliance testing of applicable legislation: audit plan 2011/12
Adult and Community Services	
♦ Unexpected death or serious injury of an adult service user.	• Case management arrangements: audit plan 2010/11 • Safeguarding vulnerable adults: audit plan 2010/11
♦ Death or serious injury of a staff member working with adult service users.	
♦ Reduced choice in the market for service providers to older people leading to higher costs and poorer solutions for some service users.	
• Vulnerable adults' finances are misappropriated or misused.	• Safeguarding vulnerable adults' finances: audit plan 2010/11
• Fair access to care criteria are inconsistently applied across user groups	• Fair access to care: audit plan 2011/12

Preliminary schedule of the council's underlying risks

Risk	Audit work undertaken
♦ Ineffective engagement with the voluntary, community and faith sector (VCFS), leading to poor value for money from the funding provided and potential challenge where funding distorts competition in service provision.	
• Users' needs for community equipment are not met effectively, and at excessive cost.	• Community equipment: audit plan 2010/11
• Non residential preferred providers are no longer fit for purpose in light of CQC inspection criteria and changes resulting from self directed models of support.	• Preferred provider payments: audit plan 2011/12 • Commissioning and procurement schemes 2010/11
• Payments through the payment and monitoring system (PAMS) and the non residential care system (NRCS) are made inappropriately.	• PAMS and NRCS compliance testing: audit plan 2011/12
Children and Young People	
♦ Inability to deliver effective children's social care services arising from system or process failure.	• Children's social care case management: audit plan 2011/12 • Lancashire's children looked after outside the county: audit plan 2011/12 • Agency placements: audit plan 2010/11
♦ Death or serious injury of a child known to the council.	• Safeguarding children's transport: audit plan 2010/11
♦ Failure in schools' and other educational setttings' performance.	• Financial and thematic school audits are undertaken as part of every audit plan. • ICT support to schools: audit plan 2011/12
♦ Failure to achieve the council's objectives related to children, young adults and families, arising from inspection failure.	• File inspection audit: addition to audit plan 2011/12
• Emergency payments for families in crisis are made unnecessarily or for inappropriate amounts.	• Emergency payments: audit plan 2011/12
• Grants are made to third party service providers unnecessarily or for inappropriate amounts, or the service is not provided as intended.	• Grant monitoring: audit 2011/12 • Sure Start Children's Centres: audit plan 2011/12 • Fostering payments and adoption allowances: audit plan 2010/11
Environment	
♦ Corporate manslaughter on the highway.	• Corporate manslaughter on the highway: audit plan 2010/11
• Injury to members of the public if closed petrol stations are allowed to deteriorate and contaminate the local area or present a risk of explosions.	• Petroleum safety: audit plan 2010/11

Preliminary schedule of the council's underlying risks

Risk	Audit work undertaken
• Members of the public may be exposed to contamination if closed landfill sites deteriorate.	• Closed landfill sites: audit plan 2010/11
♦ Surface water flooding.	
♦ Loss of highway infrastructure due to flooding.	
♦ Financial costs and reputational damage arising from the failure of the waste PFI contract.	• PFI billing model, data management and budget forecasting: audit plan 2010/11
♦ Failure of public transport contracts.	
• Incorrect payments are made to bus service operators or to travel concession authorities for concessionary travel.	• Concessionary travel: audit plan 2011/12
• The costs of highways damages caused by members of the public are not adequately recovered.	• Highways damages: audit plan 2010/11
• Failures in project management cause projects to be delivered late or over budget.	• Project management: audit plan 2010/11
• Developers' contributions to highways projects (under s278 of the Highways Act) are not fully utilised, or are inadequate to cover the costs of works required.	• Development control s278: audit plan 2009/10
• The council is unaware of funding available to support development (under s106 of the Town and Country Planning Act) or fails fully to utilise this funding.	• Development control s106: audit plan 2009/10
• Contractors receive full payment whilst work is still outstanding or inadequate.	• Audit work on contactors' final accounts is undertaken annually.
Lancashire County Commercial Group	
♦ Serious health and safety failure including food hygiene, involving an employee, service user or member of the public, resulting in costs/ fines, business disruption and loss of reputation.	
• Members of staff working with potentially dangerous machinery are injured during the course of their duties.	• LCCG' engineering and catering services' health and safety arrangements: audit plan 2010/11
♦ Unexpected death or serious injury of an adult service user. (Risk repeated from ACS section).	• Medication and care planning in older people's residential homes: Audit plan 2010/11.
• The council employs staff with inappropriate police records to work alone with children benefiting from the council's transport arrangements.	• CRB clearance process within LCCG relating to transport: audit plan 2011/12
• Management of the schools catering services is impaired by inadequate information resulting from the failure of the supporting ICT system.	• Saffron catering management system: audit plan 2010/11

Preliminary schedule of the council's underlying risks

Risk	Audit work undertaken
Economic Development	
♦ Lancashire fails to influence national distribution of resources through the Lancashire Local Enterprise Partnership (LEP) because its 'voice' is uncoordinated or it fails to engage business leaders in shaping and delivering the county's priorities.	
Customer Service Centre	
• The customer access data system is insecure and operational support is inadequate to ensure service.	• Acorn system: audit plan 2010/11
• Blue badges (issued to disabled drivers) are misappropriated.	• Audit plan 2011/12 and investigation 2010/11
Risks addressed in common	
Financial controls	
♦ Failure to deliver budget savings, due to inadequate project management procedures, legal challenge or unforeseen demographic change.	
• Risks associated with grant income, service income, payments for goods and services, payroll, cash and treasury management, recording and reporting the council's financial position.	• Audit work on these areas is undertaken annually.
• Commissioning, procurement and purchasing are non compliant with law and the council's policies, and may be challenged by unsuccessful suppliers.	• Purchasing: audit plan 2010/11 • Tendering: audit plan 2010/11
ICT controls	
• The councils network and user management system allow unauthorised system use, data access and amendment.	• Network management and Active Directory: audit plan 2010/11
• Changes to the council's ICT systems result in service disruptions and system failures.	• Change management: audit plan 2010/11
• Failure of the council's data centre as a result of inadequate physical and environmental protection.	• Data centre: audit plan 2011/12
Estate management	
• The council's properties are inadequately maintained and become unfit for purpose or present a health hazard to users.	• Premises management: audit plan 2010/11 and 2011/12 • Property maintenance: audit plan 2010/11
• Contractors receive full payment whilst work is still outstanding.	• Audit work on contactors' final accounts is undertaken annually.

Preliminary schedule of the council's underlying risks

Risk	Audit work undertaken
Human resources	
♦ Shortages of key workforce skills, workers, and leaders resulting from inadequate workforce recruitment and retention relating to children and young people's services. (This risk was raised in relation to the CYP workforce, but could equally be applied to the whole of the council's workforce.)	
• Risks associated with appointments, redeployments, promotions, re-grading, restructuring, leavers, redundancies and retirements.	• Redeployments: audit plan 2011/12 • Redundancies: audit plan 2011/12
• Staff are absent to an unacceptable degree with related costs and disruption to services.	• Absence management: audit plan 2010/11
Asset management	
• The council's assets are under-utilised, inadequately managed or poorly maintained, and are not appropriately accounted for.	• Vehicle assets: audit plan 2011/12 • Property assets: audit plan 2011/12 • Capital accounting: audit plan 2011/12 • ICT assets: audit plan 2010/11

♦ – risk identified from the council's risk register as at 27 June 2011

• – risk identified by directors in discussion with the Internal Audit Service

Schedule of the council's underlying risks as at 27 June 2011

Appendix D

Risk: taken from the council's risk register as at 27 June 2011	Score without controls			Outline of controls	Score with controls			Rank before control	Rank after control
	Impact	Likelihood	Total		Impact	Likelihood	Total		
• Serious health and safety failure including food hygiene, involving an employee, service user or member of the public, resulting in costs/ fines, business disruption and loss of reputation.	5	4	20	• Health and safety management system, certified to OHSAS 18001. • Regular Integrated Management System (IMS) audits. • Hazard Analysis Critical Control Points documentation, and training for staff.	5	3	15	=1	1
• Inability to deliver effective children's social care services arising from system or process failure.	5	4	20	• Data Capture, Storage and Distribution project board will ensure all files are scanned and indexed.	4	3	12	=1	2
• Unexpected death or serious injury of an adult service user.	5	3	15	• Lancashire Safeguarding Adults Board, supported by governance arrangements. • Comprehensive risk assessments and health and safety procedures in place for in-house service provision. • Staff training programme. • Serious case review procedures.	5	2	10	=3	=3
• Death or serious injury of a staff member working with adult service users.	5	3	15	• Lone Worker Policy, risk assessments and health and safety procedures. • On-call arrangements, use of mobile phones, safety alarms, virtual whiteboard to track staff whereabouts, handover arrangements. • Risk assessment flag in ISSIS.	5	2	10	=3	=3

Schedule of the council's underlying risks as at 27 June 2011

Risk: taken from the council's risk register as at 27 June 2011	**Score without controls**			**Outline of controls**	**Score with controls**			**Rank before control**	**Rank after control**
	Impact	**Likelihood**	**Total**		**Impact**	**Likelihood**	**Total**		
• Information quality is poor, and information is lost or mishandled, resulting in financial loss/ fines, service delivery failure, harm to individuals and reputational damage.	4	4	16	• Corporate Information Governance Group. • Directorate Information Champions. • Guidance, policies and procedures available. • Security controls and encryption. • Statements of conformity, spot checks and security breach procedures. • Publication Scheme.	3	3	9	=2	=4
• Death or serious injury of a child known to the council.	5	3	15	• Multi-agency Safeguarding Board, with supporting safeguarding procedures. • Case review mechanisms in place. • Monitoring of children subject to child protection plans. • Training and support for staff. • Panels assess lessons learned and disseminate learning to practitioners.	3	3	9	=3	=4
• An unplanned event occurs and adversely impacts the council's service delivery.	5	3	15	• Corporate Contingencies Group, which oversees business continuity planning. • Directorate Emergency Liaison Team. • Reporting system established through directorate structures.	3	3	9	=3	=4
• Failure in schools' and other educational setttings' performance.	4	5	20	• Early warning system, monitoring by School Improvement Challenge Board. • Early years only: consultants use Quality Audit Tool.	2	4	8	=1	5

Schedule of the council's underlying risks as at 27 June 2011

Risk: taken from the council's risk register as at 27 June 2011	**Score without controls**			**Outline of controls**	**Score with controls**			**Rank before control**	**Rank after control**
	Impact	**Likelihood**	**Total**		**Impact**	**Likelihood**	**Total**		
• Strategic and operational failures resulting from the failure of partnership working with the National Health Service.	4	4	16	• Joint funded posts and integrated delivery teams. • Work to maintain relationships.	2	3	6	=2	=6
• Reduced choice in the market for service providers to older people leading to higher costs and poorer solutions for some service users.	4	4	16	• Robust commissioning and procurement system. • Liaison with service providers to understand their business models. • Use of a range of providers.	2	3	6	=2	=6
• Failure to deliver budget savings, due to: • Inadequate project management procedures • Legal challenge • Demographic change.	4	3	12	• Financial and performance monitoring by Management Team. • Financial and performance monitoring by Directorate management teams. • Directorate delivery plans.	3	2	6	=4	=6
• Surface water flooding.	3	4	12	• Surface Water Management Plan, with prioritised action to reduce risk.	2	3	6	=4	=6
• Failure to achieve the council's objectives related to children, young adults and families, arising from inspection failure.	3	3	9	• Action plans monitored by Directorate Leadership Team and Safeguarding Steering Group. • Service plan and performance management framework. • Directorate compliance audit team undertakes a programme of compliance inspections. • Inspection preparation group in place; mock inspections. • Periodic peer reviews.	3	2	6	=5	=6

Schedule of the council's underlying risks as at 27 June 2011

Risk: taken from the council's risk register as at 27 June 2011	**Score without controls**			**Outline of controls**	**Score with controls**			**Rank before control**	**Rank after control**
	Impact	**Likelihood**	**Total**		**Impact**	**Likelihood**	**Total**		
• Failure to deliver the corporate strategy due to: • Lack of ownership • Lack of performance management.	3	3	9	• Monitoring by the Performance Working Group Executive. • Performance management framework identifies under-performance and ensures recovery plans are prepared and implemented.	2	2	4	=5	=7
• Lancashire fails to influence national distribution of resources through the Lancashire Local Enterprise Partnership (LEP) because: • Its 'voice' is uncoordinated • It fails to engage key business leaders in shaping and delivering the county's priorities.	3	3	9	• LEP governance arrangements. • Shadow business leadership group. • Economic Development Framework.	2	2	4	=5	=7
• Failure to deliver benefits to the council of working in partnership with BT plc, due to: • Inadequate governance • Management unfamiliarity with private sector partnership working.	3	3	9	• Cabinet Committee on the strategic partnership.	2	1	3	=5	=8
• Loss of highway infrastructure due to flooding.	4	2	8	• Annual general inspections of high risk structures. • Principal Inspections of high risk structures every six years. • Scour inspections of high risk bridges every 2-3 years, with superficial inspections of high risk bridges immediately following high rainfall events.	3	1	3	=6	=8

Schedule of the council's underlying risks as at 27 June 2011

Risk: taken from the council's risk register as at 27 June 2011	**Score without controls**			**Outline of controls**	**Score with controls**			**Rank before control**	**Rank after control**
	Impact	**Likelihood**	**Total**		**Impact**	**Likelihood**	**Total**		
• Shortages of key workforce skills, workers, and leaders resulting from inadequate workforce recruitment and retention relating to children and young people's services.	3	3	9	• Children's Workforce Strategy. • Leadership development programme. • Career pathways and Talent Pool programme. • Work-based recruitment initiatives. • Training and support opportunities provided. • Flexible working and staff well-being programmes.	2	1	2	=5	=9
• Financial costs and reputational damage arising from the failure of the waste PFI contract.	4	2	8	• Close monitoring of performance against operational and financial targets. • Use of service risk register for more detailed risk mitigation.	2	1	2	=6	=9
• Ineffective engagement with the voluntary, community and faith sector (VCFS), leading to poor value for money from the funding provided and potential challenge where funding distorts competition in service provision.	3	2	6	• Assessments panel assesses grant funding. • VCFS commissioning framework.	2	1	2	=7	=9
• Failure of public transport contracts.	3	2	6	• Close monitoring of public transport operators.	2	1	2	=7	=9
• Corporate manslaughter on the highway.	3	2	6	• Highway safety inspections at set intervals. • Annual skid resistance surveys. • Bi-annual bridge inspections. • Annual review of highest risk routes. • Monitoring of highway slopes and embankments.	2	1	2	=7	=9

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected: none

Internal Audit Service progress report
Appendices A, B and C refer.

Contact for further information:
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ruth.lowry@lancashire.gov.uk

Executive Summary

In the context of fulfilling its responsibility to monitor the adequacy and effectiveness of the Internal Audit Service, the committee is asked to consider the Internal Audit Service's progress report for the year to date (Appendix A), the detailed analysis of assurance assignments for the year to date (Appendix B), and the supporting information regarding resource inputs (Appendix C).

Recommendation

The Audit Committee is asked to consider the internal audit progress report for the nine months to 31 December 2011.

Background and Advice

The Audit Committee's terms of reference state that the head of internal audit will provide a progress report summarising the following, and this has been achieved as follows:

Matters to be included in the progress report	How these matters have been addressed
i) work performed (and a comparison with work planned);	See Appendices A, B and C to this report.
ii) key issues emerging from internal audit work;	The issues arising from our work are reported in Appendix A.
iii) management response to audit recommendations;	We have begun to follow up the matters raised in our audit work in previous years to confirm that agreed recommendations have been implemented.

Consultations

Not applicable.

Lancashire County Council

Matters to be included in the progress report	How these matters have been addressed
iv) changes to the audit plan for the period; and	We are not proposing any significant changes to our audit plan but some adjustments have been made where work is no longer appropriate, and where the resource inputs and timing of some assignments have altered. Appendix B to this report provides information where audit work in the plan for the year has been deferred, and conversely where additional reviews have been added to the plan.
v) any resourcing issues affecting the delivery of internal audit objectives.	Fluctuations in internal audit resources are being managed and will not affect the audit plan for the County Council.

Implications:

None.

Risk management

This report is provided for information and consideration as part of the Audit Committee's role, which includes advising the Council on the adequacy of the council's strategic risk management processes. There are no risk management or other implications.

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

Paper	Date	Contact/Directorate/Tel

Reason for inclusion in Part II, if appropriate

Appendix A

1 Introduction

1.1 This report summarises 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 findings included in this report have been agreed with executive directors and shared with the Management Team.

Audit assurance

1.2 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.

1.3 The report below refers to the council's services as follows:

Adult and Community Services Directorate:	ACS
Children and Young People's Directorate:	CYP
Environment Directorate:	Environment
Lancashire County Commercial Group:	LCCG

1.4 A full table of all the audit work planned for 2011/12 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have either been deferred into 2012/13, or removed from the plan, and where additional work has been included in the programme for the year.

1.5 Where work is complete a brief summary of our findings is provided in section 2 below.

1.6 The Internal Audit Service continually reviews our own audit methodology and working practices and, during September, we reconsidered how we follow up our findings and the action plans we agree with management. A short summary of our current approach is set out in Section 3.

2 Matters to report from internal audit work completed during the period

2.1 This section of the report should be read in conjunction with the table provided in Appendix B to this report, which outlines the progress of each audit assignment in the audit plan for the year.

Risk management

2.2 A separate report has been presented for the Audit committee setting out the proposals considered by Management Team relating to the way in which risk management will be addressed by the council.

2.3 This report states that the council already manages its risks well in practice. It has not in the past always documented risks in the ways demanded by the external regulator, but action being taken by management teams across the council amounts to an effective ongoing process of risk identification, assessment and management.

Lancashire Children's Safeguarding Board

2.4 During July 2011 CYP was subject to a peer review of its safeguarding arrangements and its arrangements for children looked after by the council. The peer review team was brought together by the Local Government Improvement arm of the Local Government Group and their review was based on a framework focussing on five core good practice themes: outcomes; vision, strategy and leadership; working together; service delivery and effective practice; managing resources; and participation.

2.5 The final letter from the Local Government Group set out summaries of the council's strengths and areas for consideration and concluded that:

> 'Lancashire is an authority which shows great ambition. The morale of staff we met was good and there was a strong awareness of the direction of travel for the service area. Leadership at all levels is both strong and committed with a compelling long-term vision for Children's Services. However, there are many plans in place which are at the inception stage and the authority must ensure it can deliver on these commitments within the three year financial strategy.'

2.6 The full letter is available at: http://lccintranet/corporate/enewsviewer/index.asp?id=2011/10/03/66597&news=422&page=pr&_

2.7 The Internal Audit Service's work on the Lancashire Safeguarding Children's Board (LSCB) therefore focussed on controls over the Board's budget, and we provided limited assurance over these.

2.8 Adequate and effective systems and procedures are in place in relation to the annual budget-setting and approval process, approval of the training programme and related expenditure, budget monitoring and expenditure commitment, and the collection of partner funding contributions. However, although it is assumed that the LSCB will receive the same funding contributions from partners every year, there is no formal methodology or agreement in place that defines how the LSCB is funded and what contributions can be expected from partners in future financial years.

2.9 Regular annual contributions make up the main part of the budget (approximately £530,000), and additional funds are also received that are specifically intended for serious case reviews and the child death overview panel. The regular contributions are based on previous financial years, and the original formula for calculating the contributions agreed at the LSCB's inception in 2004 is not now known.

Lone workers: Environment

2.10 We have provided limited assurance in relation to lone workers within Environment (having also given limited assurance over the arrangements within LCCG).

2.11 The council has detailed guidance to support its lone working policies and procedures, and generic risk assessments are available to all service teams on the Corporate Health and Safety Team intranet site.

2.12 Most, but not all, service teams have established local policies and procedures for lone workers. However, lone working, home visiting, driving and building risk assessments are not routinely completed by service teams. Where these assessments are completed, they are not always regularly reviewed. Where lone working processes exist not all staff are aware of them or are following them.

2.13 Like LCCG, Environment does not maintain a central record of lone workers or home workers and this information is held at operational/ service level, often only by individual team managers. Little personal information (for example car details) is held to facilitate assistance to staff in the event of an incident or accident. Home workers are also classified as lone workers but there is no regular review to ensure that their working conditions are, and remain, adequate.

2.14 A number of different automated systems are used across the council to manage lone workers – for example the virtual whiteboard used by Trading Standards – but no single system has been developed and implemented.

Partnership working and the council's role as accountable body

2.15 The council is involved in a range of partnerships to assist in the delivery of services to the people of Lancashire. In some cases the council has taken on the role of accountable body for the partnership. The responsibilities of this role vary but generally relate to the exercise of proper financial control and ensuring compliance with specific financial management requirements, but may also extend to performance management and responsibility for ensuring the achievement of specific delivery outcomes.

2.16 The council has established a process to commit the council to becoming an accountable body, including the county treasurer's approval that the role is acceptable. Without adequate and effective control of these processes the council may be exposed to unacceptable levels of financial, legal, or reputational risk. However like the more general requirements committing the council to any partnership, these requirements are not enforced and the county council has entered into partnerships without the required approvals.

2.17 Once a partnership has been established, assessments both of the risks of being in partnership and of the partnership's own risks are not generally being undertaken. Information sharing agreements are not generally in place and, when they are, do not use the corporate format.

Control of ICT costs as employees leave the council

2.18 During the course of our work on lone workers, which includes home workers, it became apparent that the council is continuing to pay for home broadband facilities (and other ICT services such as mobile phones) for employees who have now left the organisation or who no longer work from home. We have undertaken a considerable amount of data analysis to identify these employees and are now supporting managers across the council's directorates to ensure that ICT services are cancelled for employees and former employees who no longer require them. We have also provided details of our findings to the project manager who is currently reviewing the facilities still provided for staff who have left the organisation.

Human resources controls: redeployment

2.19 We have provided substantial assurance over the redeployment process. An effective system operates in relation to the availability of policy and procedures; allocation of the correct priority to employees at risk of redundancy; allocation of jobs to employees on the basis of priority; and control over advertising vacancies externally.

2.20 The redeployment team has been very successful in keeping compulsory redundancies to a minimum. There is a good system in place to enable employees at risk of redundancy to apply for vacancies before the vacancies are advertised externally. The redeployment team proactively matches employees at risk of redundancy to vacancies, and regularly reports the position to the Management Team.

Controls over the council's estate: strategic partnering

2.21 During 2009/10 we gave substantial assurance in respect of the design and application of the systems in place for strategic partnering, including those to select partners and allocate work. However we were only able to give limited assurance in respect of the Property Group's ability to demonstrate the efficiencies gained from strategic partnering.

2.22 Since then the Property Group has been subject to restructure and a number of staff have been redeployed, and there have also been delays in the modification of the Property Asset Management Information System and an ongoing review of the council's key systems by One Connect Ltd. Therefore, although key performance indicators are in place to enable review of partnering project performance, they have yet to be further developed to incorporate a comparison with tendered projects.

Emergency payments to families ('section 17' payments)

2.23 We have provided limited assurance over emergency payments to families. The controls over the administration of payments are not operating effectively and have been applied inconsistently, and inappropriate expenditure has been charged to the budget. During 2010/11 a budget of £371,000 was set, but £745,000 was actually spent. Local judgement of appropriate expenditure is inconsistent across the county and the districts in the north and east of the council accounted for approximately 25% each of the total expenditure, whilst 50% was incurred in the south.

2.24 The directorate has now established arrangements to ensure that each of the district managers routinely reviews and authorises the expenditure incurred and we will re-review this area and the action plan agreed with management during 2012/13. Expenditure on emergency payments will become increasingly prominent as more social care funding is to be transferred by central government to the county council, and it will be important to ensure that this funding is consistently applied to local needs.

Management of children's social care referrals

2.25 We have provided limited assurance over the controls in place to manage the referral of children's social care cases. Controls should be strengthened and managers are now addressing the issues raised.

2.26 At the time of our work, 15 former employees remained as ceased users on ISSIS (users who have been deleted from the system) but 47 cases were allocated to them. It has been confirmed to us that each of these cases was being addressed by at least one other, current, social worker (or, in one case, was awaiting closure) and appropriate cover was therefore provided. Three of these 47 cases had also been allocated to managers who had also left and ceased on ISSIS.

2.27 Whilst none of the service users have been placed at risk of harm the significant risk remains that children may not be appropriately reallocated to social workers as those caring for them leave the council.

2.28 We were unable to reconcile the total number of cases received into the Care Connect team from the Customer Service Centre and other referral sources (for example the Children and Family Court Advisory and Support Service and local administrative teams). For the period April to June 2011, 7,406 cases were received and assessed by the Care Connect team.

2.29 For the same period we were also unable to reconcile the number of cases between Care Connect and ISSIS. Of the discrepancies, 46 were allocated to the incorrect service teams, nine were assessed as requiring an initial assessment, which has not been carried out or completed, and two cases assessed by Care Connect do not appear on ISSIS management reports. Conversely, two cases were logged on ISSIS that appear to have by-passed Care Connect.

2.30 A detailed examination of a sample of 45 case referrals received during April to June 2011 confirmed that the majority of cases are assessed within prescribed timescales, and the details are documented on ISSIS. However there were four exceptions in our sample. Three initial assessments missed the 10-day deadline (two by just one day, but one was completed 15 days after the deadline), and one initial assessment was still incomplete but was already 10 days overdue at the time of the testing. In addition, three cases were assessed and the outcomes authorised by the same person.

2.31 We have discussed our detailed findings with management and have been invited to the next quarterly service meeting to discuss and evaluate progress against the action plan.

2.32 We have in recent years undertaken a lot of work on the ISSIS system itself, and have reported that substantial technical amendments are required to the way in which user access to the system is managed. At this point the council is working with One Connect Ltd to assess the need for, and specification of, a new social care information management system.

Schools

2.33 We have completed 36 school audits as part of the 2011/12 audit plan. A summary of the assurance we have provided in relation to each school is set out in the table below.

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	5	0	4	1	0
Primary school	31	2	27	1	1
Total	**36**	**2**	**31**	**2**	**1**

2.34 The level of assurance we are providing continues to compare favourably with that we gave during 2010/11 since, this year, the schools we have visited have been selected on an assessment of their risks, but few specific concerns have been raised with us.

2.35 We have given only limited assurance to one school, and we have met with the headteacher and the chair of governors to discuss this. We are working closely with the headteacher to ensure the action plan is implemented and have also provided a copy of our report to the CYP Directorate Special Support Group who will provide additional support to the school.

2.36 Where a school received either limited or no assurance during 2010/11 we will undertake a follow-up audit to ensure that appropriate action has been taken by the school and offer further support. We have now followed up the action taken in seven of the 12 schools who received limited or no assurance last year and have reported the findings to the headteachers and chairs of governors. Satisfactory progress has been made by these schools in implementing the actions they agreed.

2.37 We issued an audit newsletter to all the county's schools in early July, summarising the key issues we identified during our 2010/11 audits and including links to guidance and best practice. We have almost completed a thematic audit of data protection in schools which has raised a number of areas where schools are non compliant. Our report will be issued via the schools portal in January 2012 and will include links to best practice documentation. We will also begin thematic audits of procurement and unofficial school funds in January 2012.

Waste PFI budget: budget forecasting

2.38 We have provided limited assurance in respect of the system in place to enable realistic strategic forecasting and monitoring of the PFI waste project budget. Whilst an adequately designed framework of controls is now in place, there were weaknesses in budget forecasting and checks over the contractor's invoices raised in 2010/11, as well as in the development of the 2011/12 waste PFI budget.

2.39 During 2010/11 several key staff previously involved in the development of the project either left the council or moved to other posts. The officers involved since mid 2010/11 have reviewed the processes in place and a number of the issues we have identified relate to control weaknesses that have since been resolved.

2.40 In general, there are adequate and effective systems and procedures in place to support budget forecasting and reporting and to review and adjust budget forecasts throughout the year. However we identified several issues that should be considered in respect of 2011/12 and future year's budgets. In particular, the 2011/12 approved budget for waste recycling payments to district councils was underfunded by over £190,000 and may also be significantly underfunded in the budgets prepared for 2012/13 and 2013/14 because an incorrect inflation factor was applied during budget preparation.

2.41 The 2011/12 budget allocations for waste flows and ramp-up costs were inadequately supported by working papers or other documentation and allocations may therefore be inaccurate, based on inappropriate assumptions, and lead to unreliable forecasting. The directorate is developing a budget forecasting tool which will determine whether the waste flow and ramp-up budget allocations are sufficient or require adjustment.

2.42 There were significant changes to budget projections from month to month during 2010/11, which impeded effective planning. The development of the budget forecasting tool will also help to minimise such unexpected changes in budget forecasts.

3 Investigations and counter fraud work

Special investigations

3.1 We are working closely with the Human Resources team to ensure that our approach to investigations is consistent and supports the council's disciplinary procedures as effectively as possible.

3.2 We have undertaken a considerable amount of work recently to support management in investigating their controls over the disposal of scrap metal by the council. This has arisen in part due to concerns brought to our attention by whistle-blowers and this work is continuing.

3.3 After more than four years our investigation into the actions of a headteacher in east Lancashire has drawn to a close. Our investigation and subsequent witness statements focussed on the school’s public funding, unofficial school funds and the school’s after-school club and nursery. A disciplinary panel dismissed the head teacher for gross misconduct in November 2008 and decisions were made, after appeals by the headteacher, by an employment tribunal and the General Teaching Council in September 2011.

3.4 The employment tribunal found that the claimant was fairly dismissed. The General Teaching Council sanctioned the Headteacher with a conditional registration order limiting his permission to undertake financial responsibilities within any school in which he is employed.

Counter fraud activity

3.5 We have re-drafted the council's whistle-blowing policy and have been working with the council's Communications team to ensure that this is released and publicised to all staff. Similarly, we have aligned the schools' whistle-blowing policy with the council's and the schools' policy will also be re-issued early in 2012.

3.6 We regularly use data analysis to identify schools that have not banked dinner income regularly, and investigate these. We have made six unannounced visits to schools and at one school have found that income (of approximately £3,800) is indeed missing. The school secretary has been suspended and an investigation is ongoing.

3.7 We are also continuing to investigate the data matches generated by the Audit Commission's National Fraud Initiative and this will be completed early in 2012. As noted in September, there has been a significant increase in the number of matches produced from this exercise and this is set out below.

Area of risk	**Number of matches**		**Examples of risks addressed by data matches**
	2008/09	**2010/11**	
Creditors	4,259	18,520	Possible duplicate payments; overpayment of VAT; employees with a business interest.
Blue badges (parking permits)	2,618	2,212	Use of the badge by someone other than the registered holder after their death.
Payroll	1,091	4,169	Employees with additional employment; housing benefit claimants; employees' right to work within the UK.
Pension	1,849	1,972	Claimants with additional employment affecting their pension, or deceased.
Insurance	298	164	Duplicate insurance claims.
Residential care homes	565	521	Payments made to care homes for now-deceased residents.
Total	**10,680**	**27,558**	

4 Follow-up work

4.1 It is a professional requirement of both the Institute of Internal Auditors and the Chartered Institute of Public Finance and Accountancy that we follow-up the work we have done, and do so on a timely basis.

4.2 Set out below is an outline of the Internal Audit Service's methodology in relation to follow-up work, which was introduced at the end of September 2011 (although it is largely in accordance with practice prior to this date).

4.3 As a result, although a number of follow-up reviews were included in our audit plan for the year, only those relating to areas that have been assigned 'full' or 'substantial' assurance will be followed-up. From the end of September 2011 onwards we will re-review in full any control systems that have been assigned 'limited' or 'no' assurance.

What we follow up

4.4 We follow up all recommendations arising from audit assignments where we have provided substantial or full assurance. We do not generally follow up work where we have provided limited or nil assurance, but instead re-perform this work either later in the same year, or in the next audit plan. Where an investigation results in the agreement of action to rectify control issues, then these will also be subject to follow-up work.

When we follow up our work

4.5 We undertake our follow-up work to the timescale agreed as we finalise the original work, ideally after all the actions are scheduled to have been implemented but, if there is an action with an implementation date significantly after most of the others then we follow up the others and obtain evidence that implementation of the longer-term action is being actively pursued.

The outputs of our follow-up work

4.6 We do not reissue or revise our audit opinion but simply assess whether actions have been taken to address low or medium residual risks on areas we have given full or substantial assurance. Our opinion could arguably be revised to provide full assurance if all agreed actions have been implemented, but this is reliant on the assumption that nothing else has changed and we are unwilling to make that assumption.

4.7 If it is clear that the control system has changed and that the agreed actions are no longer appropriate then we will not undertaken further follow-up of these agreed actions.

4.8 If there are indications that controls may have deteriorated then we should consider undertaking another full review, but this should be assessed in light of other risk areas across the council. However if we have concerns about a deterioration in controls we will discuss these concerns with management.

Detailed analysis of internal audit assurance assignments 2011/12 as at December 2011

Appendix B

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Cross-cutting issues										
Corporate governance										
The council's capacity to respond to allegations of fraud or other misconduct	Work is in progress, and will be reported to the Audit Committee in March 2012.									
Declarations of interest and hospitality: officers – follow-up	We are continuing to work with the county secretary and solicitor's team as they develop revised procedures and guidance. A revised Code of Conduct for Employees and a Statement of Ethics have now been issued for staff, and publicised by the chief executive.					-	-	-	-	-
Declarations of interest and hospitality: members – follow-up						-	-	-	-	-
Members' expenses and allowances – follow-up										
Information governance										
Data sharing arrangements	This work is almost complete and a draft report is being prepared.									
Overall corporate arrangements – follow-up	This work will be done during the fourth quarter of the year and may result in a position statement rather than a follow-up of previous recommendations since the council is working hard to further develop its information governance arrangements.									
Legislative compliance										
Compliance with the European Working Time Regulations – follow-up	This work will be done during the fourth quarter of the year and will focus on arrangements within LCCG.									
The council's response to new legislation, and compliance with legislation	A report is being drafted by the deputy county secretary and solicitor for the March 2012 meeting of the Audit Committee.									
Sample testing of service's compliance with legislation	We intend to undertake detailed testing during January and February 2012, following agreement with the county secretary and solicitor and his deputy.									
Risk management										
The council's risk management arrangements	Following changes to the Internal Audit Service's responsibilities in relation to risk management, a report on the council's risk management arrangements has been considered by the Management Team and is being considered by the Audit Committee. The report is not framed in assurance terms but it is reasonable to assign 'substantial' assurance to the council's risk management arrangements. See paragraphs 2.2-2.3 of Appendix A.		✓			-	-	-	-	-
Safeguarding										
CRB checks: corporate arrangements (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.		✓			0	0	6	4	10
CRB checks: corporate arrangements – follow-up	This work will take place before the end of the year.									
Safeguarding children's transport (CRB checks): Environment (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.			✓		0	1	5	1	7
Safeguarding children's transport (CRB checks): LCCG (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.			✓		0	1	6	4	11
Children's Safeguarding Board (carried forward from 2010/11)	A report has been finalised and is reported in more detail in Appendix A, paragraphs 2.4-2.9.			✓		0	0	4	2	6
Children's Safeguarding Board – follow-up	This follow-up work will now be conducted as a full review and the agreed actions will be followed-up during 2012/13.									
Safeguarding children's transport – follow-up	A full review and the agreed actions will be followed-up during 2012/13.									
The work of the CYP compliance auditors (carried forward from 2010/11)	This work has been superseded by the peer review of safeguarding and children looked after that took place in July 2011 and provided positive assurance to the council over safeguarding performance and quality.									
Safeguarding vulnerable adults – follow-up	This work will be undertaken during February 2012.									
Public health and safety										
Corporate manslaughter on the highways – follow-up	This will be the subject of a full review in 2012/13.									
Petroleum safety – follow-up	This work will be completed before the end of the year.									
Health and safety of staff										
Corporate arrangements – follow-up	This work is complete and the majority of agreed actions have been implemented satisfactorily.									
Lone workers: CYP (carried forward from 2010/11)	This work is on-going but will be completed early in 2012.									

Detailed analysis of internal audit assurance assignments 2011/12 as at December 2011 — Appendix B

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Lone workers: Environment (carried forward from 2010/11)	This work was finalised in September 2011 and is reported in paragraphs 2.10-2.14 of Appendix A.			✓		0	3	5	0	8
Lone workers: Environment – follow-up	This will be the subject of a full review in 2012/13.									
Lone workers: LCCG – follow-up	This will be the subject of a full review in 2012/13.									
LCCG' engineering and catering services' health and safety arrangements: follow-up	This work will be undertaken during January.									
Asset management										
Inventory control and usage: ICT assets, including work carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.		✓			0	0	0	5	5
Inventory control and usage: property assets	This work is under way and fieldwork should be complete by the end of December.									
Inventory control and usage: vehicle assets	A draft report has been prepared but the scope of work has recently been extended and further work is now being undertaken.									
Capital accounting for assets	This work will take account of the related work being undertaken by the Audit Commission and will therefore take place at the end of the year.									
Customer Service Centre										
Client advice, management and reporting										
Acorn system – follow-up	Since this system is under review and may be replaced by One Connect Ltd, follow-up work will not be undertaken and has been removed from the audit plan for this year.									
Care Connect service	Both the Customer Service Centre and the front-end of the council's social care services are undergoing substantial change at present and this work will be undertaken towards the end of the audit year. Additional resource has been assigned to the review from the planned work on intake teams in ACS.									
Partnership working										
The council's role as accountable body – completion of work carried forward from 2010/11, and follow-up	This work was discussed by Management Team in November 2011 and is reported in paragraphs 2.15-2.17 of Appendix A in more detail.			✓		-	-	-	-	-
Partnership working to support children	This work will cover the cost and delivery of services provided by the NHS for children with mental health needs and will be undertaken towards the end of the year.									
Cross-organisational working with the NHS	This work has been superseded by other work within ACS and will not now take place.									
Transfer of services to the council's strategic partner										
Funds flow between the council and BT plc	Some preparatory work has been undertaken but more will be done as the charging process develops towards the year end.									
Transfer of services to the strategic partner: Customer Service Centre	These areas are subject to very close senior management scrutiny and control, and it has not been necessary or appropriate to undertake detailed work during the year. By agreement with the Management Team this work has been removed from the audit plan.									
Transfer of services to the strategic partner: financial controls										
Transfer of services to the strategic partner: ICT										
Cross-service issues										
Reablement: ACS – follow-up	This area is still subject to further operational change and follow-up work will therefore be undertaken during 2012/13.									
Reablement: LCCG – follow-up										
Integrated service delivery: Environment and LCCG	This work is currently under way: progress and project planning for the integration of the Environment and LCCG teams are being discussed with members of the management teams involved.									
Transport for children with special educational needs – follow-up	This area is still under development by management and specifically the Accessible Transport Board. Although we are maintaining a close interest in progress, follow-up is not yet appropriate.									

Detailed analysis of internal audit assurance assignments 2011/12 as at December 2011

Appendix B

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Common corporate controls										
Commissioning and procurement										
Procurement for Fleetwood schools under the Primary Schools Capital Programme	This work was reported in September 2011.				✓					
Purchasing within the LCCG Highways team	This work began in October 2011 and is on-going.									
Purchasing – follow-up	Whilst the Procurement Centre of Excellence is being established follow-up work may not be appropriate during this year.									
Tendering – follow-up	Our compliance testing across the directorates has addressed tendering arrangements, and this work will be reported before the year end.									
Financial controls										
Implementation of Oracle Release 12	This work is on-going throughout the year; the Internal Audit Service is closely involved and will be undertaking considerable testing of the implementation between December 2011 and February 2012.									
Accounts payable	The first tranche of testing, covering the first half of the year is complete and will be reported shortly.									
Accounts receivable										
Budgetary monitoring and control	This work has been removed from the audit plan, since the system will be fundamentally altered with the new release of the Oracle financial system.									
Cash and banking	The work will be undertaken in the fourth quarter of the year to ensure maximum coverage of the year's transactions.									
Expenses										
General ledger										
Treasury management										
Payroll	This work has now begun and testing is complete on transactions during the first half of the year, but work will extend into the fourth quarter to ensure maximum coverage of the year's transactions.									
VAT	This work is complete. The points arising from our work are relatively minor and have not been reported in any further detail.		✓			0	0	2	4	6
ICT controls										
Asset management and disposal (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.		✓			0	0	5	0	5
Data centre	This work has been completed but is subject to discussions with managers in both ICT Services and Property Group.									
Database security	This work has begun and will continue into the final quarter of the year.									
Email usage										
Incident and problem management										
Controls over staff leaving the council	Time planned to support the rest of the Audit Service with information retrieval and computer assisted audit techniques has been largely spent obtaining data relating to user access and ICT facilities when staff have left the council's employment. Further information is provided at paragraph 2.18 of Appendix A.									
Oracle/ HR payroll system	We provided substantial assurance on the pay elements of the testing programme supporting the implementation of the Oracle/ HR system and reported this work to the Audit Committee in September 2011.		✓			-	-	-	-	-
Vulnerability management	This work is nearing completion and we are discussing our findings with management. Work on vulnerability management will also be relevant to the council's information governance.									
Web usage	We are discussing our draft report with management.									
Asset management and disposal – follow-up	This work will be completed before the end of the year.									
Change management – follow-up										
Government Connect – follow-up										
Network management – follow-up										
User access management – follow-up										

Detailed analysis of internal audit assurance assignments 2011/12 as at December 2011

Appendix B

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Controls over management of the council's estate										
Premises management	Work on the council's premises is nearing completion and work on the schools will follow in the next quarter of the year.									
Final accounts	This work is complete and there are no significant issues to report.		✓			-	-	-	-	-
Carbon reduction commitment annual return process	This work was reported to the Audit Committee in September 2011.		✓			-	-	-	-	-
Strategic partnering – follow-up	This work is complete and is reported in paragraphs 2.19-2.20 of Appendix A in more detail.					0	0	3	0	3
HR controls										
Client advice, management and reporting										
Redeployment process	This work is complete and is reported in paragraphs 2.21-2.22 of Appendix A in more detail.		✓			0	0	0	0	0
Redundancy process	This work will be undertaken at the same time as our work on the administration of the pension fund, in the final quarter of the year.									
Absence management – follow-up	This work will take place in January 2012.									
Service-specific controls										
Adult and Community Services										
Adult Learning – follow-up	This work is complete. Despite the ongoing restructure of Lancashire Adult Learning, reasonable progress has been made in implementing the actions agreed in June 2011, covering both financial management and information systems security.					0	0	7	3	10
Budget transfers between the NHS and county council	The fieldwork on this is nearing completion.									
Case management – follow-up	This work has been delayed as the current ISSIS system is subject to review and neither the system nor its related procedures will be amended in the short-term. The key issues related to ISSIS's security and access to confidential data, and until the system is changed these issues will remain.									
Commissioning – follow-up	Work is ongoing.									
Fair access to care criteria	This work began in December 2011 and is continuing.									
Intake teams and referrals to support	This work has now been subsumed within work on the Care Connect service within the Customer Service Centre and has been removed from this part of the audit plan for the year.									
Payments to preferred providers: non-residential care	It is likely that this work will be deferred to 2012/13.									
Payment and monitoring system (PAMS) and Non-Residential Care system (NRCS) – compliance testing	This work is complete. Controls to ensure service providers are paid correctly and income collected promptly are operating effectively.		✓			0	0	1	0	1
Resource allocations to individual budgets 'FACE')	This work will not now be undertaken as implementation of the FACE system has been delayed whilst the future of the ISSIS system is resolved.									
Prepayment card pilot	Fieldwork on this review is complete and will be reported shortly.									
Safeguarding vulnerable adults' finances – follow-up	This work is complete. Good progress has been made by the Safeguarding Adults Finance Team in implementing the actions agreed in June 2011.									
Vulnerable adults: domicilary services and day centres	This work was reported in September 2011.		✓			0	0	8	7	15
Children and Young People										
Adoption payments – follow-up	This work has been put back into 2012/13.									
Agency placements – follow-up	This work is planned for the fourth quarter of the year.									
Children looked after within and outside the county	This work will complement the work recently completed by the council's Overview and Scrutiny Committee on children from outside the county placed within Lancashire, and will be scoped in more detail in January 2012.									
Children educated other than at school – follow-up	This work was reported to the Audit Committee in September 2011.									
Compliance testing: procurement controls	This work is nearing completion.									
Controls within children's residential homes	Work on this area has begun.									
Early intervention	Work on the arrangements in place within the districts is being scoped and will begin early in 2012.									
Emergency payments to families	This work is complete and is reported in paragraphs 2.23-2.24 of Appendix B in more detail.			✓		0	0	11	2	13
Financial and performance monitoring of schools	Work is under way on this review.									
Fostering payments – follow-up	This work is planned for the fourth quarter of the year.									
Graduate Leadership Fund – follow-up	This work is complete. The majority of agreed actions have been implemented or have been superseded following changes in the funding conditions.									

Detailed analysis of internal audit assurance assignments 2011/12 as at December 2011

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Grant monitoring arrangements	Work on this area has begun and will continue in January 2012.									
ICT support provided to schools	This work has been re-classified as a thematic schools review.									
Management of children's social care referrals	This work is complete and is reported in paragraphs 2.25-2.32 of Appendix A in more detail. This work was not originally included in the audit plan for the year but has been included following completion of the equivalent review of case management in ACS during 2010/11.			✓		0	2	6	1	9
Personnel file inspection	The directorate has identified the risk that it fails an external inspection because it cannot demonstrate the qualifications and clearance of its staff to work with children in professional social care. This work has therefore been included in our plan for the year and is currently ongoing.									
Play Capital Grant	An audit certificate for this grant was signed in November 2011.		✓			-	-	-	-	-
Provision for children with disabilities	This work is planned for the fourth quarter of the year.									
SEN transport – follow-up	The Audit Service continues to be involved in this project but will not undertake formal follow-up work this year.									
Sure Start Children's Centres: performance monitoring	This work is substantially complete and will be reported early in 2012.									
Young Person's Learning Agency grant certification	Early work on this has been completed and an audit certificate will be provided as required during April 2012.		✓			-	-	-	-	-
Schools and sixth form colleges										
School reviews and follow-up	5 high school audits and 31 primary school audits have been completed: please see the table and further information provided in paragraphs 2.33-2.37 of Appendix A for a more detailed explanation of the assurance provided. Work is continuing on two school visits and we will complete our follow-up work for the year, but the audit programme for schools is otherwise complete.									
Thematic school review: data protection	The field-work on this assignment is complete and a report is being drafted.									
Thematic school review: procurement	This work will take place during January 2012.									
Thematic school review: unofficial schools funds										
Thematic school review: communicating common controls issues for schools	This work is complete, and communication with schools regarding controls will now continue through the Schools' Forum and Portal.									
Environment										
Certification of Envireo grant claim	An audit certificate for this grant was signed in October 2011.		✓			-	-	-	-	-
Certification of Growth Point grant claim	An audit certificate for this grant was signed in June 2011.		✓			-	-	-	-	-
Certification of INTERREG grant claim	An audit certificate for this grant was signed in October 2011.		✓			-	-	-	-	-
Closed landfill sites – follow-up	This work will be done before the year end.									
Compliance testing – procurement, driving licenses	This work is nearing completion.									
Concessionary travel	Work began in November 2011 and is progressing.									
Development control: s106 – follow-up	Follow-up of this work will be deferred to 2012/12.									
Development control: s278 – follow-up	This work will be done before the year end.									
Final accounts for contractors	This work is complete and there are no significant issues to report.		✓							
Project management (carried forward from 2010/11)	The directorate has recently reinstated a number of projects and our work will therefore now be put back into the plan. A report should be ready for the March meeting of the Audit Committee.									
Project management – follow-up	Since this work has only recently been reinstated, follow-up work will take place during 2012/13.									
Waste PFI: emissions	Subject to negotiation regarding internal audit access to the contractor's records this work will take place early in 2012.									
Waste PFI: budget forecasting (carried forward from 2010/11)	This work is complete and is reported in paragraphs 2.38-2.42 of Appendix A in more detail.			✓		0	0	1	1	2
Winter Highways Information Management System – follow-up	The winter maintenance system has changed substantially since our last review and follow-up is no longer appropriate. A full review will be undertaken in 2012/12.									

Detailed analysis of internal audit assurance assignments 2011/12 as at December 2011

Appendix B

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Lancashire County Commercial Group										
Certification of Bus Service Operators' grant	An audit certificate for this grant was signed in November 2011.		✓			-	-	-	-	-
Compliance testing: area office controls	This work will be done before the year end.									
Compliance testing: procurement	This work is nearing completion.									
Residential homes: medication and care planning – follow-up	Work will begin in January 2012.									
Schools catering income procedures	Work is complete and a draft report is being discussed with management.									
Use of sub-contractors	This work will be done before the year end.									
Economic development, LCDL and Regenerate										
Certification of grant usage	The final annual certificate for Regenerate's funding from the Homes and Community Agency was signed during May 2011.									
Income protection – follow-up	This work has been prepared and will be undertaken early in 2012.									
Key independent financial systems	Since the systems remain unchanged, but the LCDL team has moved closer to the rest of the county council, it has been agreed that this work is unnecessary.									
LCC's accountable body role in relation to Regenerate	We have continued our involvement with Regenerate but the county council no longer fulfils an accountable body role since the Housing Market Renewal Pathfinder project ended.									
Operational review	It is unlikely that this work will be required during 2011/12.									
Rosebud – follow-up	This work has been completed and all three low and medium actions agreed have been implemented.									
		0	**17**	**8**	**1**	**0**	**7**	**70**	**34**	**111**
		0%	**65%**	**31%**	**4%**	**0%**	**6%**	**63%**	**31%**	**100%**

Internal Audit Service: progress report
Audit Committee meeting 23 January 2012

Appendix C

Audit area	Planned audit days		Audit work undertaken *			
	Annual plan	9 months pro-rated	Relating to 2010/11	Relating to 2011/12	Total days	Variance to date
Cross-cutting issues						
Corporate governance and risk management	45	34	12	6	18	(15)
Information governance	42	32		38	38	7
Legislative compliance	57	43		9	9	(34)
Working in strategic partnership with BT plc	60	45		4	4	(41)
Working in partnership with other organisations	45	34		5	5	(28)
Safeguarding	26	20	32	11	43	24
Health and safety of the public	15	11	10	18	28	17
Health and safety of staff	26	20	17	18	34	15
Asset management	80	60		52	52	(8)
The accountable body role	3	2	9	0	9	7
Sub-total	**399**	**299**	**80**	**161**	**242**	**(58)**
Cross-service issues						
The Customer Service Centre	25	19		2	2	(17)
The Environment and LCCG one-team approach	35	26		14	14	(12)
The Reablement Service	16	12		1	1	(11)
Transportation issues	5	4	8	0	8	4
Sub-total	**81**	**61**	**8**	**17**	**25**	**(36)**
Corporate or common controls						
Financial controls	287	215	20	211	231	16
Human resources controls	32	24		19	19	(5)
ICT controls	200	150	35	202	237	87
Property management controls	66	50	1	66	68	18
Procurement controls	50	38	4	20	24	(14)
Sub-total	**635**	**476**	**61**	**518**	**578**	**102**

Internal Audit Service: progress report
Audit Committee meeting 23 January 2012

Audit area	Planned audit days		Audit work undertaken *			
	Annual plan	9 months pro-rated	Relating to 2010/11	Relating to 2011/12	Total days	Variance to date
Service-specific controls						
Adult and Community Services Directorate	260	195	12	156	168	(27)
Directorate for Children and Young People	272	204	47	238	285	81
Schools	350	263	34	306	340	78
Environment Directorate	165	124	55	131	186	63
Lancashire County Commercial Group	120	90	21	57	78	(12)
Economic development	33	25	8	13	22	(3)
Sub-total	**1,200**	**900**	**177**	**902**	**1,079**	**179**
Response to the risk of fraud						
Management and proactive work	145	109		84	84	(25)
Responsive work/ whistle-blowing	270	203		313	313	111
Sub-total	**415**	**311**		**397**	**397**	**86**
Management of the Internal Audit Service						
Audit and Standards Committees reporting and attendance	4	3		8	8	5
Audit planning processes	11	8		1	1	(7)
Audit reporting	12	9	24	11	36	26
Audit Commission liaison	3	2		2	2	0
Support to management, including risk management	20	15		21	21	6
Sub-total	**50**	**38**	**24**	**44**	**67**	**30**
Total audit days	**2,780**	**2,085**	**351**	**2,039**	**2,390**	**305**

* Note that minor rounding differences can occur as figures are summed from the underlying data.

Agenda Item 8

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected: All

Audit Commission- Annual Audit Letter 2010/11
Appendix A refers.

Contact for further information:
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f-blatcher@audit-commission.gov.uk

Executive Summary

The report sets out the Audit Commission's Annual Audit Letter for 2010/11.

Recommendation

The committee are asked to consider the Audit Commission's Annual Audit Letter for 2010/11, as set out at Appendix 'A', and the recommendations for future action.

Background and Advice

The Audit Commission's Annual Audit Letter 2010/11 summarises for the county council the findings of the annual audit for 2010/11. The audit is made up of two elements as follows:

- the audit of financial statements;
- the assessment of arrangements to achieve value for money in the use of resources

Once published, the Annual Audit Letter will also be available to view via the county council's website. The letter has also been considered by Cabinet at its meeting on 6 January 2012.

The Audit Commission's District Auditor will attend the meeting to present the Annual Audit Letter and respond to questions.

Consultations

The report was agreed with the council's chief executive and county treasurer. In accordance with the regulations the letter will be made available for public inspection on the council's website.

Implications:

Lancashire County Council

This item has the following implications, as indicated:

Risk management

No significant risks have been identified in relation to the proposals contained within this report.

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

Paper	Date	Contact/Directorate/Tel
Annual governance report	September 2011	Fiona Blatcher, 0844 798 7056, Audit Commission, f-blatcher@audit-commission.gov.uk

Reason for inclusion in Part II, if appropriate

N/A

APPENDIX A

Annual Audit Letter

Lancashire County Council

Audit 2010/11

audit commission

Contents

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

My audit of the Council's financial statements, including those of the pension fund, is complete and I provided an unqualified audit report on 26 September 2011.

I did not identify any material errors within the financial statements and those errors which were identified did not affect the underlying financial position of the Council. All errors were corrected and mainly related to disclosure issues.

This has been a particularly challenging year with the introduction of a number of changes, particularly International Financial Reporting Standards (IFRS), for which finance staff needed to prepare.

The preparation of materially correct statements which met the new requirements within this context is a significant achievement.

Value for money

I provided an unqualified VFM conclusion on 26 September 2011.

The Council has responded well to the demands placed on it. A strategic and realistic approach has been taken to the identification and delivery of required savings of £179 million over the next three years.

A more radical approach has been taken to a range of services which has helped the Council to respond to this challenge. This includes:

- the implementation of a new Treasury Management Strategy which in 2010/11 has saved the council £15 million and is planned to deliver a further £10 million over the next three years, and
- the Council's new strategic partnership for the delivery of core back office services which is expected to deliver significant savings, (£14 million over the next three years), as well as improved services.

The challenge for the Council now is monitoring and managing the effective delivery of their financial and operational plans.

Current and future challenges

Economic downturn and pressure on the public sector	The Council is facing unprecedented financial challenges over the next few years. A challenging savings target of £179 million over three years has been set. There remain a number of unknowns which will affect the level of savings needed including future government grant settlements, changes in local taxation rules, new requirements for local authorities relating to public health and proposed changes around landfill waste tax rules. In the meantime the demand for local government services is forecast to rise due to the impact of the economic downturn on individuals. The Council has a strong financial base and a clear strategic approach to dealing with these challenges. Effective monitoring and managing delivery of financial targets and service standards will be key during this difficult period.
Joint arrangements / shared services	As part of the Council's approach to delivering financial savings whilst improving services it entered into a strategic partnership arrangement with British Telecom (BT) to deliver a range of services. This includes procurement, human resources and payroll services, information technology, and payments. The guaranteed cumulative financial benefits to the County Council over the lifetime of the contract (ten years) are over £100 million. The successful delivery of the partnership's aims are crucial to the Council and require a significant change in the way such services are delivered. Again effective and close monitoring of delivery of agreed performance standards and financial targets will be crucial.
Treasury management	The Council has moved away from a relatively simple and traditional approach to Treasury Management to reduce net financing costs whilst also reducing financial risk to the Council. The new strategy is more complex and requires an ability to monitor and react more quickly to market developments than in previous years. We have made recommendations to officers to improve the governance of this more complex environment which involves significant levels of annual transactions. Key elements are 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.

Management of the Pension Fund and development of a significant in-house portfolio	The Council, as trustee for the Pension Fund, continues to look for ways to improve its management of the pension fund. Over the next few years these include: ■ conducting procurement exercises for a number of services provided to the fund to improve value for money; ■ changes in the underlying portolios to attempt to achieve better rates of return whilst minimising risk; and ■ development of a significant portfolio which it is now managing itself. Continued close monitoring of investment performance and underlying risks and how they are being managed will be important to ensure the ongoing sustainability of the fund.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements. This was the first year of full implementation of international financial reporting standards which required significant changes to the Council's accounts. In this context the identification of a relatively small number of non-material errors within the accounts was a significant achievement. The overall quality of the accounts reflects the importance which officers place on ensuring that the accounts meet the requirements set out in the Code of Practice on Local Authority Accounting.

Two misclassification errors were identified which impacted on the face of the principal financial statements. A number of other amendments have been made in response to issues raised by ourselves. These have impacted on the explanatory foreword and disclosure notes and were made to improve the internal consistency of the financial statements and improve the clarity and accuracy of disclosures.

All errors identified during the course of the audit have been amended for. None of the amendments have affected the reported surplus or general county fund balance.

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council has a history of strong financial management. The Council's short and medium term financial planning show it has risen to the challenge of meeting required savings at an unprecedented level. Following close monitoring and management of the budget during 2010/11 the Council achieved a budget underspend of £24.4 million. Amongst other things the underspend has been used to set aside monies for meeting the costs of future severance costs and to establish a fund for savings plans which require up-front investment. A 3 year budget plan was approved by Council on 17 February 2011 covering financial years 2011/12; 2012/13 and 2013/14. The budget savings to be achieved in those three years, after taking account of the necessary levels of reserves and balances and areas of service growth, such as highway maintenance and waste management, amounted to £179 million.

Criterion	Key messages
	A strategic approach has been taken to identifying potential savings with an emphasis on taking as much out of 'below the line' costs as possible before front line services are affected. (Below the line' costs are incurred in supporting and managing both service delivery and maintaining the infrastructure of the County Council). 45 per cent of savings are planned to be achieved from changes to 'below the line' services. Consideration has also been given to the likely impact of the savings on services; the staffing implications; whether the savings result in a full or partial cessation of a service along with an assessment of the impact of the savings on service users and the risks associated with delivering the proposed savings. Effective consultation both within and outside the Council has taken place to help ensure the deliverability of the savings plans. Progress on the achievement of savings will be reported to the Council's Cabinet with areas where savings are not being delivered in line with expectations clearly highlighted. Latest budget monitoring reports indicate that the Council is ahead on its delivery of targeted savings in 2011/12. The Council's County Fund balance stands at £41.9 million at 31 March 2011 and is considered to be at an appropriate level by the County Treasurer in view of the delivery risk involved in such a challenging financial climate. The Council plans to re-visit this as the assessed delivery risk changes over the life of the three year plan. The arrangements put in place to identify the planned savings over the next three years are impressive. But in many ways the identification of planned savings is just the start of the process. The real challenge for the Council over the next three years will be to ensure delivery of the planned savings at the same time as ensuring services remain efficient and effective as well as economic. The Council should ensure that the range of initiatives to measure and monitor savings and wider value for money going forward are properly co-ordinated in terms of assessments being made and reported to Members. The Council's new Treasury Management Strategy has delivered significant savings during 2010/11 (£15 million), and is a key element of planned savings for 2011/12 and future years. The achievement of such savings has required a significant departure from the previous traditional approach to treasury management. A move to a more complex portfolio of borrowing and investments brings with it greater flexibility and requires close and careful management to ensure

Criterion	Key messages
	the Council does not suffer unnecessarily from changes in the markets. The Council is aware of this and is taking action to ensure it can manage such risks effectively. The Council needs to ensure that it continues to closely manage this area and that reports to Members are clear about the impact of significant decisions made about the portfolio on its risk exposure and how those risks are being managed.
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Council has a good record of understanding its relative costs and exploring new ways of delivering services to achieve better value for money. Value for money is to be monitored through a variety of means, including: ■ service reviews; ■ unit cost comparisons; ■ a new corporate scorecard and a Cabinet Committee on Performance; and ■ regular cost and performance benchmarking. During 2011 the Council entered into a strategic partnership arrangement with British Telecom (BT) to deliver a range of services. This includes procurement, human resources and payroll services, information technology, and payments. This arrangement is expected to achieve significant improvements in value for money for the Council. The agreement with BT and the creation of One Connect Ltd are designed to: ■ reduce the cost of current services transferred to the partnership by 10 per cent of the current price; ■ deliver procurement savings of a minimum of 2 per cent of the addressable spend; and ■ establish a procurement centre of excellence. The Council's financial plan to 2013/14 includes £14 million of savings from this agreement. The guaranteed cumulative financial benefits to the County Council over the lifetime of the contract (ten years) are over £100 million. The intention of the strategic partnership is to: ■ maximise the benefit of investment in ICT; ■ improve the Council's customer service centre; ■ respond to the financial and improvement challenge;

Criterion	Key messages
	■ integrate the HR and payroll system; and ■ act as a catalyst for innovation and improvement. The key objective of the partnership is to improve outcomes and at the same time to reduce costs. The partnership demonstrates a strong commitment to reduced costs, better value for money and innovation and improvement in service delivery. The key to success will be in the ability to measure and assess the difference the partnership is making in each of the above areas. Monitoring the delivery of planned improvements and effective reporting to Members on the performance of the partnership will be important going forward. The Council has a significant long term contract for waste management with contractual obligations over its lifetime estimated to be £2.1 billion. This 25 year contract was entered into in 2007 with the aim of reducing waste going to landfill thus achieving environmental improvements whilst also achieving savings in future landfill tax costs and landfill allowance penalties. As with any contract of this type, long term and wide ranging assumptions needed to be made to develop the original business case including financial projections of future costs. The contract clearly allocated where the Council and the contractor were bearing specific risks around such assumptions. During 2010/11 the two waste treatment sites built under this contract have become operational and entered their test phase. The Council is now able to assess the potential impact on the Council's finances of the actual operation of the facilities. Key factors influencing the costs to the Council which are being reviewed currently include the overall level of household waste being produced, the extent to which waste is being diverted from landfill, energy prices, and transport costs. Government policy changes could also impact on the cost of taking waste to landfill. Officers are taking appropriate action to understand and model the impact of the changes in the key factors affecting Council finances as well as exploring a variety of options to improve the value for money of its waste management arrangements.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the County Treasurer. I will present this letter at the Cabinet on 5 January 2012 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
IT risk assessment	August 2011
Annual Governance Report – Lancashire County Council	Sept 2011
Annual Governance Report – Lancashire County Pension Fund	Sept 2011
Treasury Management (Draft)	October 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Clive Portman
District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Main County Council audit	£246,669	£279,000	£32,331*
Lancashire County Pension Fund audit	£61,795	£61,795	£0
Non-audit work	0	0	0
Total	**£308,464**	**£340,795**	**£32,331**

* The variance between the planned an actual audit fee reflects the rebates issued to the Council from the Audit Commission to subsidise the one-off element of the cost of transition to international financial reporting standards and the reduction in VFM conclusion work.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

www.audit-commission.gov.uk

November 2011

Agenda Item 9

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected: All

Audit Commission – Lancashire County Council and Pension Fund Audit Plans 2011/12
Appendices A and B refer

Contact for further information:
Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

This report sets out the audit work the Audit Commission propose to undertake in relation to the audit of the financial statements 2011/12 and the provision of a VFM conclusion for Lancashire Council and the audit of the pension fund financial statements.

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

Recommendation

The Committee is asked to note the Audit Commission's reports.

Background and Advice

In June 2011 the Audit Committee received proposed fee letters for the audit of the County Council and Pension Fund for 2011/12. Since then, the 2010/11 audit has been completed and detailed audit plans have now been produced setting out in particular the key audit risks for 2011/12 and the planned audit strategy.

These plans set out the audit work the Audit Commission propose to undertake in relation to the audit of the financial statements 2011/12 and the provision of a VFM conclusion for Lancashire Council (Appendix A) and the audit of the pension fund financial statements (Appendix B).

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

The impact of the updated assessment on the audit fees is:-

Lancashire County Council

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%)). The fee for grant claim work is expected to be £12,800 lower than the 2010/11 fee due to a reduction in the claims which are subject to external audit.

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 is proposed. The fee has now 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.

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the reports and respond to questions.

Consultations

These reports have been agreed with the County Treasurer.

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies		Fiona Blatcher Audit Commission 0844 798 7056
Audit Commission Act 1998		
Code of Audit Practice		

Reason for inclusion in Part II, if appropriate

N/A

APPENDIX A

Audit plan

Lancashire County Council

Audit 2011/12

Contents

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
Waste PFI scheme commencement The Council's waste PFI scheme became operational during 2011/12 and the Council's accounts for 2011-12 will now reflect the asset and corresponding liability on the balance sheet. This requires a professional assessment of the unitary payment to the contractor between its capital and revenue elements to ensure it is correctly recognised and accounted for within the balance sheet. The nature of the contract and the related technical guidance is complex, increasing the risk of a material misstatement occurring. The Council has used external consultants specialising in PFI schemes to support it in this respect.	Review of external financial advice on PFI transactions Test of detail on the value of assets and liabilities recognised to underlying records and on unitary payment, including splitting the unitary payment into its component parts
Implementation of new payroll system The Council implemented a new payroll system during 2010-11. This covers a large proportion of the Council's expenditure. In addition to the risks of material error linked to the implementation of any new major financial system, problems have occurred resulting in the miss-classification of payroll expenditure within the Council's ledger. These are being corrected via journals on an ongoing basis whilst action is being taken to correct the system faults.	Review of management oversight of checking the transfer of standing data from the old to the new payroll system Review of management oversight of the arrangements for correcting the mis-coding of payroll costs and ensuring budget monitoring is still effective in the light of the miscoding problems Test of detail on the migration of information from the old payroll system to the new payroll system Tests of detail on payroll costs and use of predictive analytical review to gain assurance over overall payroll costs
Production of group accounts The Council has not produced group accounts since 2005/06 on the basis that whilst there are a number of organisations which would form part of its group, group accounts were judged not to be material to the Council's financial statements. Following the creation of One Connect Ltd in 2011/12, the Council has now determined that group accounts will	Review management's consideration of the group boundary and any decisions about the entities to include in the group accounts. Review of management's oversight of the consolidation process Reliance on auditors of group entities Tests of detail of the consolidation adjustments and supporting notes

Risk	Audit response
need to be prepared for 2011/12. This will require close liaison with the relevant entities within the group, adjustments to take into account different accounting policies which may exist between them, different methods of consolidation depending on the nature of the Council's relationships with the entities. Particularly in the first year, there is a risk of material misstatement arising.	
Valuation of property, plant and equipment (PPE) The Authority is required to value PPE at fair value (with some exceptions). At 31/3/2011 these were valued at £2,427m. Valuation of these assets is undertaken by qualified valuers on the instructions of the Council. The nature of such valuations involves a high degree of subjectivity bringing with it an inherent risk of mis-statements of the valuations.	Review of controls over establishing estimates, including arrangements for instructing your valuer Procedures for reliance on the work of the valuer Tests of detail on valuations ensuring they are supported by valuations which have been calculated in accordance with the council's instructions and associated depreciation calculations ensuring they reflect the latest valuer's estimate of asset value and asset life.
Pension asset and liability estimates The Council had a net pensions liability at 31 March 2011 of £765m. This liability represents the extent to which the present value of liabilities exceeds the fair value of assets. This has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercers, an independent firm of actuaries, using the latest full valuation of the scheme as at 31 March 2010 adjusted for current information about membership numbers, current pay levels etc. The resultant estimated figures involve a high degree of subjectivity and small changes in the assumptions used can have a material impact on the financial	Review of controls over ensuring that the actuary has sufficient and accurate information on which to make his estimates Procedures for reliance on the work of the actuary including, as in previous years, using the Audit Commission's appointed expert to review the work of all local government pension fund actuaries Tests of detail to ensure that the accounts correctly reflect the actuarial estimates of assets and liabilities

Risk	Audit response
statements.	

Group accounts

I am responsible for the direction, supervision and performance of the group audit. I intend to contact the auditors of the following entities as part of my audit procedures.

- Lancashire County Developments Ltd
- One Connect Ltd

Please discuss with me any concerns about me contacting these auditors.

Overall testing strategy

My audit involves:

- in line with international auditing standards, review and re-performance of work of your internal auditors to the extent to which I judge this to be necessary given my assessment of the effectiveness of internal audit
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows:

Table 2: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Pre-statements work	General ledger Payroll Accounts payable	Accounts receivable Cash receipting SIMs WOSPs			Payroll Investment – in-year transactions PPE – in year additions Waste PFI accounting model
Post statements work			One Connect Ltd – PWC and Lancashire County Developments Ltd – Grant Thornton, consolidated within the Council's group accounts	Pensions liabilities and assets – Mercers and our own consulting actuary Valuation of property, plant and equipment - County Council's property services team	All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.]

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of Value for Money risks

I have considered the risks relevant to my Value for Money (VfM) conclusion. I have identified the following areas where I need to complete further work to support my conclusion. I do not expect to issue any separate audit output for this work but will report the basis for my conclusions within my Annual Governance Report in September 2012.

Table 3: **VFM risks**

Risk	Audit response
Financial planning and delivery The Council has responded well to the current financial climate and is delivering successfully on its financial plans. However, bridging future funding gaps remains a challenge as the Council will also have to respond to the uncertainties over future funding and expenditure demands.	Continue to monitor developments through: ■ review of budget monitoring reports, 2012-13 budget reports, updates to the medium term financial strategy ■ review of performance monitoring reports ■ ongoing liaison with chief officers

Risk	Audit response
Waste Management Waste management has been identified as a financial pressure and the Council is currently looking at a range of options to address this risk. An annual savings target of £10m is required by the Council.	Monitor developments in this area including review of: ■ option appraisals and modelling ■ use of relevant expertise ■ related risk assessments and responses
BT Partnership/One Connect Contract performance As part of the Council's approach to delivering financial savings whilst improving services it entered into a strategic partnership arrangement with British Telecom (BT). The partnership involves the creation of One Connect Ltd to deliver a range of core back office services to the County Council. The guaranteed cumulative financial benefits to the County Council over the lifetime of the contract (10 years) are over £100 million. Effective and close monitoring of the delivery of agreed performance standards and financial targets is crucial.	Review of the Council's approach to monitoring the delivery of agreed performance standards and financial targets through: ■ review of relevant monitoring reports to cabinet and its sub-committee ■ discussions with relevant officers ■ review of payments to One Connect Ltd during 2011/12 ■ review of any variations to the contract or wider agreement if they arise
Treasury management To reduce net financing costs whilst also reducing financial risk, the Council has moved away from a relatively simple and traditional approach to Treasury Management. The new strategy is more complex and requires an ability to monitor and react more quickly to market developments than in previous years. We have made recommendations to officers to improve the governance of this more complex environment.	Follow up of developments within Treasury Management including actions taken to address our previous recommendations.

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	January – June 2012	Annual Governance report and progress report to audit committee
Opinion: receipt of accounts and supporting working papers	30 June 2012	
Opinion: substantive testing	July – September 2012	Annual Governance Report
Value for money	January – August 2012	Annual Governance Report
Present Annual Governance Report at the Audit Committee	26 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor’s report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Karen Murray District Auditor	k-murray@audit-commission.gov.uk 0844 798 7041	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Fiona Blatcher Senior Audit Manager	f-blatcher@audit-commission.gov.uk 0844 798 7056	Manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £251,100, as set out in my letter of 15/4/2011

The audit fee

The Audit Commission has set a scale audit fee of £251,100 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Treasurer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have not identified any actions that you could take to reduce your fee for 2011/12.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: **Fees**

	2011/12 proposed	2010/11 actual	Variance
	£	£	£
Audit	251,100	279,000	27,900
Certification of claims and returns	7,200	20,000(estimate)	12,800
Non-audit work	0	0	0
Total	**258,300**	**299,000**	**40,700**

In recent years the Audit Commission has issued rebates on the main audit fees. This was the case for 2010-11 and in 2011/12. The net affect of the rebates is that the net cost to the Council of the main audit in 2010-11 was £246,669 and is expected to be £231,012 in 2011/12.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice's Director – Standards and Technical, who serves as the Audit Practice's Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised. Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission. Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following:

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- [Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by [date];
  - other information requested within agreed timescales;
  - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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January 2012

APPENDIX B

Audit plan

Lancashire County Pension Fund

Audit 2011/12

audit commission

Contents

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve management or the Audit Committee and Pensions Fund Committee, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
Valuation of private equity investments The pension fund has over £100 million invested in private equity funds. These are not traded on an open market and therefore their valuations are estimated by the private equity fund operators. Valuations of such funds involve a significant degree of subjectivity by the fund operators.	I will complete work to understand the management controls around this area and will then complete detailed testing. The contract with the new custodian provides for some form of checking of valuations by the custodian. Previously, such checks were performed by the in-house pensions team. I plan to place reliance on the controls operated by the custodian over private equity valuations together with some substantive testing of detail. The level of substantive testing I undertake will depend upon the level of assurance I obtain from the work of the custodian.
Implementation of new pensions payroll system A new pensions payroll system was implemented during 2011, resulting in the payroll being run directly from the pensions administration system ALTAIR, rather than from a separate payroll system. The ledger file development for the new system has not yet been completed meaning that postings to the ledger for the new pensions payroll have not yet been made. The implementation of any new major financial system brings with it inherent risks of material misstatement and this is increased in this case due to the delay in being able to post entries to the ledger.	I will complete work to understand the management controls for implementation of the new system. I will complete tests to gain assurance that the final postings to the ledger are consistent with the payroll system. I will carry out testing of payroll transactions and the changeover of data from the old to the new payroll system. In addition I will complete predictive analytical review procedures. I will rely on work completed by Internal audit where possible to gain assurance when completing this work.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Testing**

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls review and testing	Substantive testing
Interim visit - February	Operation of new custodian contract Pensions payroll system			Management review of custodian information and investment journals Management of in-house portfolio including new style investments in infrastructure funds Information provided to actuary for purposes of IAS 19 estimates for admitted bodies	Transfer of data to new pensions payroll system and transactional testing of pensions payroll

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls review and testing	Substantive testing
Interim visit - May					Investments
Final visit		SAS70 reports - fund managers and custodians	Pensions liabilities – Mercers and my consulting actuary Valuation of direct property investments – Cushman and Wakefield		All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February and May 2012	Progress reports to audit committee and pension fund committee as appropriate
Opinion: receipt of accounts and supporting working papers	30 June 2012	
Opinion: substantive testing	July – August 2012	Annual Governance Report
Present Annual Governance Report at the Audit Committee	26 September 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Auditor’s report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor’s report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Karen Murray District Auditor	k-murray@audit-commission.gov.uk 0844 798 7041	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and liaison with the Treasurer.
Fiona Blatcher Senior Audit Manager	f-blatcher@audit-commission.gov.uk 0844 798 7056	Manages and coordinates the different elements of the audit work. Key point of contact for Pension Fund team.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 5: **Threats and safeguards**

Threat	Safeguard
A member of our audit team is related to a member of the pensions administration team	Our member of staff does not undertake, or is responsible for, the review of any of our work which assesses the work of the pensions administration team.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £67,000

The audit fee

The Audit Commission has set a scale fee of £55,089 which represents a 10 per cent reduction on the audit fee for 2010/11. The scale fee is calculated based on the net assets of the fund at 31/3/2010. Variations from scale fee will only occur where my assessment of audit risk and complexity are significantly different from those assumed within the scale fee. In the annual audit fee letter of 15 April 2011 we noted that various changes were being implemented in the management of the pension fund. At that stage it was too early to assess the impact of such changes on the audit and therefore the initial audit fee was set at the scale fee for 2011/12. The letter noted that we would need to assess the impact of the changes on the audit fee once the 2010/11 audit was complete.

Following my review of the impact of the changes introduced for 2011/12 I have identified a number of areas where additional audit work is required:-

- a new custodian contract commenced in August 2011. This involves a change in custodian and resultant transfer of assets between custodians. It also involves a significant change in the arrangements for review of the accuracy of information provided by the custodian and investment managers with more of the controls now taking place at the custodian rather than within the in-house pensions team. I will need to understand and obtain assurance over the controls operated by the custodian and the high level controls now operated by the pensions team prior to the submission of journals to reflect the movements on investments. I will also complete work to obtain assurance over the accurate and complete transfer of assets between the old and new custodians. Where possible I will rely on Internal Audit work to provide assurance over this from their planned review in January.

- a new pensions payroll system has been implemented during 2011/12 with the payroll now being run directly from the pensions administration system ALTAIR. As outlined in table 1, I have identified this change as creating a significant risk of material error and have planned to complete a range of procedures to address this risk. I will rely on Internal Audit work to provide assurance where possible.

- The Fund has changed the way in which it approaches the making of investments in the "alternatives" or "lower volatility" elements of the portfolio. This involves the Investment Panel making decisions within a framework agreed by the Pension Fund Committee to invest in specific fund products in areas such as infrastructure and non-UK property among others. I need to complete work to understand the governance arrangements for such investments and will complete additional work around the valuation basis for such funds.

My assessment of the impact of the above additional audit work on my audit fee is that it needs to increase from £61,795 in 2010/11 to £67,000 in 2011/12, (an increase of £5,205, 8%). This is largely because of one-off issues relating to changes in the way the pension fund is managed and should not be seen as an indication that future audit fees will remain at this level. Annual re-assessments of the audit fee will however, need to take into account the impact of the continuing changes over the management of the investment portfolio and the likely increase in investments into more complex investment instruments.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Treasurer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have not identified any actions that you could take to reduce your audit fee.

Total fees payable

In addition to the fee for the audit, the Audit Commission will make charges for the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: **Fees**

	2011/12 proposed	2010/11 actual	Variance
	£	£	£
Audit	67,000	61,795	+5,205
Non-audit work	0	0	0
Total	**67,000**	**61,795**	**+5,205**

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice's Director – Standards and Technical, who serves as the Audit Practice's Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised. Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission. Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following:

- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
  - the full text of the Pension Fund Annual Report by 30 July 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the [Pension Panel] before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

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The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

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The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Pension Fund Committee and the Audit Committee.

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0844 798 7070

Design and production by the Audit Commission Publishing Team.

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- any third party.

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January 2012

Agenda Item 10

Audit Committee
Meeting to be held on 23 January 2012

Electoral Division affected:
All

Audit Commission – Review of Treasury Management
Appendix A refers

Contact for further information:
Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

The report at Appendix A is a review of the Council's Treasury Management function by the Audit Commission.

Recommendation

The Committee is asked to note the Audit Commission's report and management's response to it.

Background and Advice

As part of its work for 2010-11, the Audit Commission 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's annual audit letter for 2010-11 referred to some of the significant benefits achieved by the council through its adoption of its new strategy. It also highlighted the recommendation made to improve the governance of the more complex environment which now exists. Key elements for improvement highlighted in the Annual Audit Letter 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 detailed report is attached at Appendix A which includes management's response to it on page 7.

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the reports and respond to questions.

Consultations

Lancashire County Council

This report has been agreed with the County Treasurer, Deputy County Treasurer and Chief Investment Officer.

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Review of treasury management

Lancashire County Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary

Introduction

1 The Treasury Management Section of Lancashire County Council is a corporate function of the council. It is part of the specialist Treasury Management and Pension Fund team of 12 members of staff (11.3 FTEs) responsible for the following areas of activity.

- Cash flow management, including the temporary investment of surplus balances or temporary borrowing to meet cash flow deficits.
- Debt management, including financing capital expenditure by borrowing and leasing arrangements and identifying, evaluating and implementing debt restructuring opportunities.
- Monitoring of the investments of the Lancashire County Pension Fund (LCPF) and the performance of its investment managers including servicing the Investment Panel and Pension Fund Committee.
- Provision of accounting and investment management services to the LCPF and a full treasury management service for the Lancashire Police Authority (LPA) and the Lancashire Combined Fire Authority (LCFA).
- On behalf of the Council, Pension Fund, LPA and LCFA, responsibility for the banking contract, banking advice and bank reconciliations.

2 During 2010/11 the Council has implemented a new Treasury Management Strategy representing a significant change to previous Treasury Management practice within the Council. This was both in response to the changes within the wider economic climate and a wish to reduce the Council's exposure to risk whilst also obtaining increased liquidity and some financial benefits by considering a wider range of financial instruments than had been considered in the past.

3 During 2010/11 total borrowing increased by £147 million (23 per cent), and total investments rose by £55 million (13 per cent). Debt restructuring and the implementation of a revised treasury strategy aimed at de-risking the authority's investment portfolio has also lead to significant changes in the composition of the authority's debt and investment portfolios during 2010/11 as shown in table 1.

Table 1: **Summary of debt and investment balances**

Significant changes have occurred in both the level of borrowing and investment and their composition during 2010/11.

	31 March 2010 £000	% of total	31 March 2011 £000	% of total
PWLB loans	537,294	71%	403,966	41%
LOBOs	-		50,442	5%
Market loans – other local authorities	108,171	14.5%	285,200	29%
Call loan scheme	-	-	8,075	1%
LPA and LCFA	108,000	14.5%	44,424	5%
Bonds	22		22	
Total Borrowing	645,487	85%	792,129	81%
PFI liabilities	110,318	15%	190591	19%
Total Debt	755,805	100%	982,720	100%
Bank Deposits	421,546	99%	326,343	68%
Local Authority Bonds			20,794	4%
UK Gov't guaranteed and supranational bonds	-		129,337	27%
Other loans	5,386	1%	5,888	1%
Total Investments	427,382	100%	482,362	100%
Net debt	328,423		500,358	

Source: Audited statement of accounts 2010/11

4 The treasury management policy and strategy adopted in 2010/11 has also led to significant increases in the activity levels of in-year borrowing and investment (table 2). This is largely due to a reduction in the use of term deposits for investments and a significant tactical switch from long term borrowing with PWLB to short term market deals. Both of these require much more active management of the portfolios.

Table 2: **Summary of treasury transactions**

Transaction activity has more than doubled during 2010/11

	2009/10 £million	Number of transactions	2010/11 £million	Number of transactions
Investment deals transacted	£18,791	530	£41,195	990
New borrowings (excluding PFI and leasing transactions)	£480	75	£1,743	354

Source: summary of treasury transactions supplied by LCC 2011.

Scope of review

5 Our review focused on the following aspects of the authority's treasury management activities.

a) Compliance with the regulatory framework[i] in relation to borrowing activities. This includes borrowing activities related to operation of the Lancashire Shared Investment Scheme.

b) Risk management procedures including the design, implementation and monitoring of arrangements for the identification, management and control of financial and operational risks associated with treasury management activity.

c) Compliance with the reporting requirements of:

- CLG Guidance on Local Government Investments – second edition issued March 2010;
- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes Fully Revised Second Edition 2009 (the Treasury Management Code); and
- the Prudential Code for Capital Finance in Local Authorities – Fully Revised Second Edition 2009;

In relation to the following aspects of its treasury management activities.

- Financial risk management.
- Treasury operational risk management.
- Performance management.

d) Plans to make greater use of capital markets in order to meet the authority's future borrowing requirements.

i The framework for treasury management within public bodies is laid out in a series of legislations and Codes of Practice the key elements of which are: The Local Government Act 2003; The Prudential Code for Capital Finance in Local Authorities - Fully Revised Second Edition 2009; CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes Fully Revised Second Edition 2009; The Local Authorities (Capital Finance and Accounting)((England) Regulations 2003 (as amended); CLG Guidance on Local Government Investments - second edition - 11 March 2010.

Summary findings

6 The Council has been very proactive in its response to the global financial crisis. In particular it has:

- restructured investment and debt portfolios to improve management of interest and liquidity and credit risk exposures;
- introduced new reporting arrangements including detailed monthly meetings with the County Treasurer, regular reviews of risk exposure and more regular reporting to the audit committee to improve members' oversight of treasury activities;
- delivered training for elected members and embarked on a programme of more formal training for staff ;
- continued its participation in benchmarking activities through membership of CIPFA's national benchmarking club and active participants in CIPFA's Treasury Management network risk study;
- acquired Bloomberg systems, improving the team's ability to track global economic and money market developments to improve its information on credit risks and its ability to respond to significant changes;
- monitored and responded to national developments and discussions on local government treasury management; and
- taken actions to ensure the Council is best placed to use alternative sources of finance outside PWLB and market loans if necessary.

7 Implementation of the new strategy has brought a number of benefits to the council. Amongst these include significant savings against budget on financing charges of £15.2 million in 2010/11 together with further planned savings in the following three years of £10 million. The active management of the bond portfolio has also secured one off extra-ordinary savings of £47m in 2011/12.

8 The level of change within the Treasury Management function of the Council has been significant. It has responded positively to its failure to avoid the Icelandic banking crisis and the continued turmoil in the global financial markets. The underlying governance arrangements, processes and procedures have however not kept pace with this level of change and there are a number of areas which need to be strengthened to support the new strategy.

9 We have identified a number of areas where the council needs to strengthen its overall governance arrangements for Treasury Management. The detailed findings of our review are set out in the following section of this report. Many of the issues are interlinked and the actions needed are therefore also interlinked. Whilst it is important that the Council tackles all of the issues raised, the following are those which we consider to be the highest priority.

Table 3: **High Priority Actions**

Action	Impact
Reports to members need to be clearer about:: ■ performance against the Council's strategy and prudential indicators throughout the year; ■ strategic decisions taken during the year in the delivery of the strategy; ■ the risk profile of the council's investments and borrowings and the management of those risks. Improvements are needed to the record keeping and underlying monitoring systems to support full implementation of this action.	This will better support members in providing effective scrutiny of treasury management activities. The improvements needed to information and monitoring systems will also improve management's ability to ensure compliance with the agreed treasury management strategy, the regulatory framework and that all risks are clearly understood and managed.
The Council needs to more clearly demonstrate that its level of borrowing complies with the regulatory framework and to ensure and demonstrate it is clear about the risks and benefits of any borrowing in advance of need. Development of existing cash flow forecasting and its links with the budget and medium term financial plans will be important to support the Council in this respect.	Improved clarity in this area will reduce the risk of the Council breaching the regulatory framework. Failure to improve clarity going forwards could lead the Council to be exposed to financial risks through unnecessary borrowing in advance of need.
The actions currently underway to widen the skill base of treasury staff and reduce reliance on the Chief Investments Officer in managing the Treasury Management Strategy need to be progressed as soon as possible.	This will reduce the inherent risk of over-reliance on one person, which leads to a high risk in being able to effectively manage both borrowings and investments in the person's absence.

10 We have provided separately to the County Treasurer, for future reference, a list of key issues we consider the Council need to consider as part of its decision making around accessing capital markets.

Management response

11 The Council's Treasurer has asked us to include within this report their response as noted below.

12 The County Council welcomes the work done by the Audit Commission to review the Council's Treasury Management operation. It is acknowledged that the practice of Treasury Management within the Council has evolved rapidly in the last 2½ years in order to minimise the risks to which the Council is exposed in managing both its investments and borrowings. During this process of evolution it is accepted that the development of some of the Council's underlying processes and procedures has not kept pace with the development of the overall strategy. The Commission's report is helpful in emphasising 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.

13 The County Council is already progressing plans in all three areas, as set out below, which will address the recommendations set out in the Commission's report.

Governance and Decision Making

14 It is accepted that improvements in the quality of reporting of strategic decisions and their rationale to both members and for internal management purposes need to be made and this is, and will remain, an ongoing process of development. This will be assisted by an overall review of the Council's Treasury Management practices by Sterling (the Council's external advisers in Treasury Management) which will be completed by the end of June 2012.

15 It is also accepted that the Treasury Management Strategy and other required policy documents need to set out more clearly the Council's policy, for example the cash backing of the balance sheet, in a way that has not previously been the case and this work will be undertaken as these documents go through their regular reviews.

Skills and Experience

16 The Council is continuing a process of structural change in order to strengthen the Treasury Management Team by bringing in further financial markets expertise in order to reduce the level of single person risk. In addition the ongoing programme of training for existing staff to FSA accredited standards will be more rigorously monitored and accelerated in order to ensure that these risks are further reduced.

17 This enhancement of officer skills will be supported by continuing the programme of training for elected members in Treasury Management issues in order to ensure effective scrutiny of this particularly complex area.

Information Systems

18 The report highlights the difficulties the Council has in monitoring its ongoing position against various key indicators using current information systems which are centred on a series of highly complex interlinked spreadsheets. The Council has begun the process to acquire and

implement a new treasury management information system which it will be possible to integrate both with the Council's core financial systems, systems used by our custodian and risk management information systems. It is anticipated that the system will go live on a parallel basis from the summer of 2012. This system will enable the Council to more effectively monitor its ongoing position, through the timely production of management information, which will enable reports to members to be enhanced and developed also.

19 In addition the implementation of Oracle Release 12 from April 2012 will improve the ability to generate a range of key information on a timelier basis than is currently the case.

Adoption of the Treasury Management (TM) Code

20 The Council has adopted CIPFA's Treasury Management Code. However, the Council's financial regulations and detailed Treasury Management Practices need to be brought up to date to reflect both internal changes and the latest version of CIPFA's code. Additionally underlying documentation do not effectively support clear implementation of the agreed policies and practices. There is also a need to strengthen the experience and skill set of the Treasury Management team to include more staff with knowledge and skills of capital markets and to widen Treasury Management skills base of the existing team.

	Issue	Why is this important?	Action	Priority
1	The clauses contained in section 5 of the Authority's financial regulations are not consistent with the four clauses listed in section 5 of the extant version of CIPFA's Treasury Management Code. Section 5 of the Authority's financial regulations (dated January 2011) refers to CIPFA's Treasury Management in Public Services: Code of Practice 2001 rather than to the second edition issued in 2009.	The CIPFA Treasury Management Code sets out four clauses to be adopted as part of standing orders, financial regulations or other formal policy document.	The authority should update its financial regulations to reflect the current version of the Treasury Management Code.	Medium
2	The Authority's treasury management practices (TMPs) cover the 12 areas listed in section 7 of the Treasury Management Code. However the form of words used in the TMPs do not match those set out in the Code.	The CIPFA Treasury Management Code recommends an organisation's treasury management practices (TMPs) cover the 12 areas listed in section 7 of the Code, to the extent relevant to its treasury management powers and the scope of its treasury	The authority should: ■ Update its TMPs to reflect the form of words recommended by the Treasury Management Code.	Medium

	Issue	Why is this important?	Action	Priority
	The Authority's TMPs combine an overview of detailed day to day operational procedures with specific details of particular systems, routines and records employed. The latter should be included in supporting schedules to the TMPs. We identified a number of instances where information contained in the TMPs in relation to specific systems, procedures and records was missing or where the level of detail was inadequate. In addition we identified several examples where documented procedures or arrangements differed from those currently applied. We found no evidence of schedules supporting the TMPs being maintained as an integral part of the TMP records.	management activities: There is an expectation that authorities will adopt the form of words specified in the Code, suitably amended to reflect an organisation's particular circumstances. CIPFAs Treasury Management Code recommends authorities include specific details of the systems, routines and records employed in supporting schedules to the TMPs. Details of suggested schedules to accompany an authority's TMPs are set out in section 2 of the Treasury Management Code. Including this detail in supporting schedules rather than as an integral part of the TMPs will facilitate regular updating of standing information without the need tor revising the TMPs.	■ Undertake a comprehensive review of existing schedules and other information relating to details of the systems, routines and records employed to ensure that these reflect existing practices and are 'fit for purpose'. ■ Ensure that supporting schedules form an integral part of the TMPs and are subject to regular review, updating and document control procedures.	
3	In response to the document request issued in May 2011 the authority supplied us with a range of documents relating to systems, records and procedures. However we found no clear evidence that these: ■ Form an integral part of the Authority's treasury management 'manual' or TMPs. ■ Are subject to regular review, updating and document control procedures. ■ Are subject to scrutiny by the audit committee or senior finance officer.	See comments above.	See comments above.	Medium

	Issue	Why is this important?	Action	Priority
4	During 2010/11 the authority increased its activity in and exposures to the capital markets as part of its strategy of 'portfolio de-risking'. The authority has also signalled its intentions to make greater use of the capital markets in the future and is actively considering issuing bonds (and other market instruments) as an alternative to borrowing from the PWLB. However at present only the Chief Investment Officer has had any significant exposure to dealing in the capital markets.	Reliance on a single member of staff for key aspects of treasury operations can generate a number of additional risks including those related to : ■ The potential compromise of internal controls through limitations on effective segregation of duties or operation of authorisation controls. ■ The effective management of financial risks should action be required at short notice.	The authority should take steps to address the risks presented by reliance on one member of the treasury team commensurate with the extent of its involvement in the capital markets. This should include widening the pool of staff with the appropriate skills and knowledge of capital markets, including an ability to assess and control risks associated with dealing in capital market instruments.	High
5	There is a clear commitment to ensuring there is an appropriate level of skills and understanding across the treasury management team and members. A number of the team are undertaking studies towards formal treasury qualifications, (association of corporate treasurers, (ACT) certificate and all staff are undertaking a programme of modules under the web based FSA tuition system. Use of the modules is not yet formalised in terms of expectations re completion of modules. Training has been provided to audit committee members and a programme of future training agreed together with the Councils treasury management consultants.	To effectively manage the inherent risks involved within the delivery of such a specialist and complex Treasury Management function, staff and members should receive appropriate training and staff should study towards and achieve relevant professional qualifications.	The authority should consider: ■ Specifying ACT or other (formal) treasury qualifications when recruiting for specific treasury roles or including the requirement to study towards qualification once in post. ■ Formalising training plans for the FSA tuition system for individual members of staff.	High

Corporate governance and member oversight (TMP 12)

21 There is need to strengthen and further develop member oversight of the Council's Treasury Management activities.

	Issue	Why is this important	Action	Priority
6	Current scrutiny arrangements do not include provision for any reporting to members on the TMPs and accompanying schedules. Under existing arrangements (see TM strategy) the TMPs are subject to annual review by the Executive Director of Resources, (now the county Treasurer). However we found no clear evidence of formal review procedures.	The CIPFA Treasury Management Code acknowledges that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision. CIPFA recognises that in some organisations this may be delegated to the responsible officer. However in all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer.	Reports to members should include reference to the outcome of the annual review of the TMPs by the Treasurer and include any significant changes made to the TMPs and or supporting schedules.	Medium
7	The council has been developing its reporting to members on Treasury Management activities. Further improvement is required to: ■ improve clarity ■ improve members understanding, in conjunction with relevant training; and ■ help members to provide effective scrutiny of treasury activities.	The submission of clear and concise reports to members is essential to ensuring the engagement of elected members and the effective scrutiny of treasury activities.	The authority should restructure the form and content of reports to members in order to address the issues identified. The authority should continue to deliver and develop training to members on Treasury Management to support effective member scrutiny.	High

	Issue	Why is this important	Action	Priority
	Specific areas for improvement of existing reporting include: ■ The amount of information provided in relation to macroeconomic conditions in the UK and beyond without explaining how this impacts on the Authority's treasury operations. ■ Limited reference to the treasury risks to which the authority is exposed (including the extent of that exposure), the arrangements in place to manage those exposures and details of how compliance with agreed policies and strategies has been achieved. ■ Limited comparison of actual activity with budgets and forecasts, performance benchmarks and treasury indicators. ■ Inadequate coverage of strategic decisions made by officers under delegated arrangements. This includes details of the issues underpinning those decisions, the options considered and the expected financial impact of those decisions.			

Borrowing: compliance with the statutory framework

22 The Council's debt breached its borrowing limits for much of 2010/11, largely due to incorrectly calculating the borrowing limit by not including its PFI debt and insufficient monitoring of debt against the borrowing limits during the year. Additionally documentation and decision making around borrowing is unclear making it difficult for the Council to demonstrate compliance with other aspects of the statutory framework. This lack of clarity is exacerbated by the complexity of treasury management activities recorded on a manual system. In particular:

- the level of borrowing in advance of need is unclear and the reasons for doing so are not clearly documented or reported;
- links between borrowing levels and the capital programme, cash flow needs and re-financing needs are unclear;
- there is limited reporting around the decisions being made to retain significant investments whilst increasing the level of borrowing; and
- affordability indicators in relation to borrowing do not fully comply with the requirements of the Prudential Code and the basis of their calculation is unclear.

	Issue	Why is this important?	Action	Priority
8	Officers are able to demonstrate that the level of investments held by the council are consistent with the level of cashable reserves/balances held by the Council. The level of borrowing can be linked to the Council's borrowing need as identified through its capital programme and debt re-financing needs although there is clear borrowing in advance of need within this. There are several features of the authority's treasury activities which might be considered as indicative of adopting a policy of borrowing for the purposes of reinvestment. These include: ■ High volumes of simultaneous trades in investment and borrowing instruments	Local authorities' treasury management activities are prescribed by statute. Their powers to borrow and invest are contained in the Local Government Act 2003. Under Section 1 of the 2003 Act, a local authority may borrow money 'for any purpose relevant to its functions under any enactment', or 'for the purpose of the prudent management of its financial affairs'. The reference to prudent management of its financial affairs covers investments made simply in the course of treasury management. This allows the temporary investment of funds borrowed for expenditure in the near future.	Further work is required by the authority to demonstrate that borrowing activities remain within the powers set out in LGA 2003. This work should focus on explaining the reasons for: ■ High volumes of simultaneous trades in investment and borrowing instruments ■ Significant levels of same day purchases of investment and borrowing instruments. ■ Large differences between gross and net borrowing positions.	High

Issue	Why is this important?	Action	Priority
■ Significant levels of same day purchases of investment and borrowing instruments. ■ Large and unexplained differences between gross and net borrowing positions. ■ Significant levels of borrowing carried out in advance of need that cannot be readily reconciled with capital budgets and cash flow forecasts, (see item 13 below). The lack of clarity about the basis for borrowing decisions referred to in items 12 and 16 make it difficult for the Council to demonstrate that borrowing activities remain within the powers set out in LGA 2003 and also mean that the additional risks involved in borrowing more than may be required are not clearly reported and evaluated.	However the speculative procedure of borrowing purely or explicitly for reinvestment remains unlawful. It may be considered reasonable for an authority to borrow in advance of the need to invest, provided that an authority can demonstrate that such borrowing was clearly linked to 'prudent management of its financial affairs'. The risk is however that the funds are borrowed and that the project for which the funds were to be deployed fails to materialise. This could raise questions as to the validity of the 'prudent management' purpose. There is also a risk that interest rates could move so that the projected benefits of borrowing forward are eliminated. **23** Where the authority undertakes borrowing in advance of need it should be able to demonstrate that this is done only in those circumstances where there is a clear business case for doing so and only for the purposes of the current capital programme or to finance future debt maturities.	It should also: ■ Link borrowing carried out in advance of need with the liquidity requirements, capital and revenue budgets and cash flow forecasts. ■ Provide evidence to support the decision to borrow in advance of need, (see also item 12 below).	

	Issue	Why is this important?	Action	Priority
9	The Affordable Borrowing Limit (Authorised Limit) for 2010/11 was set at £785m. Comprising £780m re borrowing and £5m re; 'other long term liabilities'. This limit was approved by full council on 25 February 2010. Revised indicators approved by Full Council in December 2010 increased the limit to £1,005m. Comprising £1,000m relating to borrowing and £5m in respect of 'other long term liabilities'. The operational boundary for 2010/11 was initially set at £748million. Comprising £745milion in respect of borrowing and £3million in respect of 'other long term liabilities'. This was later increased to £953million in December 2010. The 2011/12 treasury management strategy was approved by full council on 24 February 2011. It includes a revised authorised limit and operational boundary for 2010/11 of £1,150million and £1,075million. These limits do not however agree with those reported in the treasury out-turn report issued to members in June 2011. Data provided by the Authority shows that despite revising its approved 'borrowing limits' the authority breached its affordable borrowing limit and operational boundary during 2010/11 (see appendix 1). This has	Section 3 of the Local Government Act 2003 imposes a duty on local authorities to determine and keep under review how much money it can afford to borrow. In setting their affordable borrowing levels regulation 2 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) requires authorities to 'have regard to' the Prudential Code. The Prudential Code requires an Authority to impose an overall limit on its total external debt (the authorised limit for external debt). This limit is the Authority's Affordable Borrowing Limit. The Affordable Borrowing Limit is an integral part of a set of prudential indicators prescribed by the Prudential Code. An authority is free to vary its affordable borrowing limit – subject to approval by full council – provided there is good reason for doing so. However – subject to the flexibilities set out in s5 of the Local Government Act 2003 – breach of the Affordable Borrowing Limit is prohibited by section 2(1)(a) of the Act. The limit applies not just to borrowing but to other forms of credit (credit arrangements). Borrowing above the affordable borrowing limit is 'ultra	The authority should introduce regular forward monitoring of its operational boundary and affordable borrowing limit to ensure that: ■ Further investigation and action is taken in response to any sustained or regular trend above the operational boundary. ■ Where the County Treasurer forms the view that the authorised limit is likely to be breached a report is made to the Council in accordance with the Prudential Code. ■ Any required variations to limits are: – made in a timely manner; and – subject to approval by full council.	High

	Issue	Why is this important?	Action	Priority
	been largely as a result of mistakenly comparing borrowing, excluding PFI liabilities, against the approved limits, instead of including its PFI liabilities in its calculation of total debt. (The Council's PFI liabilities stood at £108million for most of the year). Even allowing for this, the affordable borrowing limit had been breached from October 2010, but this was not identified until December 2010 when action was taken to reduce borrowing and to revisit the borrowing limits.	vires'. Under the Prudential Code the chief finance officer is required to establish procedures to monitor performance against all forward-looking indicators. See also comments below.		
10	As noted above the operational boundary for 2010/11 was initially set at £748 million. Comprising £745 million in respect of borrowing and £3 million in respect of 'other long term liabilities'. Calculation of the operational boundary is based on an estimate of outstanding debt at 1 April plus an estimate of new debt in the year less expected repayments. A significant portion of the new debt in-year total relates to supported and unsupported borrowing required to meet the capital program for 2010/11. These agree with amounts included in the capital budget. However for many of the remaining figures included in the calculations the working papers provide no clear audit trail back to the	The operational boundary is a key management tool for in year monitoring. The operational boundary and affordable borrowing limits must be consistent with the authority's plans for capital expenditure and financing and with its treasury policy statement and strategy. It should also include consideration of the potential need to borrow to meet temporary revenue borrowing requirements pending the receipt of amounts due to the authority. Both the operational boundary and authorised limit for borrowing must be based upon a three-year capital programme that is refreshed each year.	The authority should ensure documentation supporting calculation of the affordable borrowing limit and operational boundary provides a clear link between: ■ The authority's plans for capital expenditure and financing. ■ Treasury management strategy. ■ The maximum levels of debt projected by cash flow forecasts (revenue and capital).	High

	Issue	Why is this important?	Action	Priority
	source of the figures used in the calculations. This includes figures for: ■ Actual levels of debt b/f £693m (this appears to be based on PWLB debt due after 1 year at 1 April 2009 plus the net increase in borrowing in 2009/10. However we found no evidence to confirm that the total debt at 1 April 2009 has been reconciled back to the accounts. ■ Replacement of maturing debt - £9 million. ■ Potential advance borrowing - £70 million. ■ 'Cash flow' - £10 million. We also found no clear link between to the authority's plans for capital expenditure, estimates of movements in the capital financing requirement or forecasts of cash flow requirements for the year for all purposes.	The operational boundary is based on the expectations of the maximum external debt of a local authority according to probable events (that is the most likely (prudent) but not worst case scenario). The operational boundary should link directly to: ■ The Authority's plans for capital expenditure; ■ Estimates of the capital financing requirement; and ■ Cash flow requirements for the year for all purposes. It should be lower than the Affordable Borrowing Limit.		
11	There is no clear audit trail between the indicators of affordability and the authority's capital expenditure plans. In particular it is noted that in estimating the ratio of financing costs to net revenue stream. ■ The figures for financing costs do not appear consistent with the budget information reported to members (see audit committee papers 27 June 2011). ■ The net revenue stream figure is based	The fundamental objective in the consideration of the affordability of the authority's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits, and in particular to consider its impact on the local authority's 'bottom line' and hence council tax. Affordability is ultimately determined by a	Improvements are required to ensure that all prudential indicators are calculated and reported in accordance with the requirements of the Prudential Code. In particular the Authority's should ensure that: ■ Working papers provide a clear link between the key indicators of affordability and three year	High

	Issue	Why is this important?	Action	Priority
	on a total for 2009/10 of £709,460 plus 2 per cent (£723,649). There are however no references in the working papers to identify where this figure comes from. The total should equate to the 'taxation and non specific grant income' reported in the CIES. This figure is not highlighted in the budget data however the 2010/11 draft accounts show totals of £876 million for 2009/10 and £906m for 2010/11. The estimates of the incremental impact of capital investment decisions on council tax do not comply with the requirements of the Prudential Code. They include only interest costs plus the application of revenue reserves to finance capital expenditure and an adjustment in respect of revenue support grant. However the calculations supporting the indicators: ■ Provide no clear audit trail back to the source data. ■ Make no reference to the on going revenue impact of capital schemes.	judgement about acceptable council tax levels. In considering the affordability of its capital plans, the authority is required to consider all of the resources currently available to it/estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe. In calculating the incremental impact on the council tax the Code refers to the 'budget requirements' for the authority. This phrase should be read as having the same meaning as that which the authority is required to follow by legislation when setting its budget requirement for the year	revenue and capital expenditure forecasts. ■ The revenue implications of capital expenditure plans are identified and reflected in the affordability indicators. ■ All indicators are supporting by detailed calculations which are cross referenced to source data.	

	Issue	Why is this important?	Action	Priority
	Nor do the calculations enable the impact of capital investment decisions on the revenue budget to be identified by distinguishing between: ■ The budget requirements based on its best estimates of the implications of making no changes to its existing capital programme. ■ The budget requirements based on its best estimates including any changes proposed to the capital programme. It is also noted that the indicators have been calculated on the basis of the SORP rather than the IFRS based Code.			
12	The authority's treasury management strategy statement states; 'The authority will not borrow more than, or in advance of, need purely in order to gain from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the County Council can ensure the security of such funds and relationships'. The authority's TMPs (TMP1) state 'the Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current	Under Section 1 of the Local Government Act 2003, a local authority may borrow money 'for any purpose relevant to its functions under any enactment'', or ''for the purpose of the prudent management of its financial affairs'. The reference to prudent management of its financial affairs covers investments made simply in the course of treasury management. This allows the temporary investment of borrowed funds borrowed for the purposes of expenditure in the reasonably near future. It may therefore be considered reasonable for an authority to	To comply with CLG guidance on investments the Authority should ensure that its annual investment strategy sets out the authority's policies on investing money borrowed in advance of spending needs. The statement should comment on the management of the risks involved, including balancing the risk of investment loss against the risk of higher interest rates if borrowing is deferred. The authority should ensure that:	High

	Issue	Why is this important?	Action	Priority
	capital programme or to finance future debt maturities'. Reports to members provide little or no commentary on compliance with the policy on borrowing in advance of need including demonstrating that: ■ There is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need. ■ The ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered. ■ It has properly evaluated the economic and market factors influencing the manner and timing of any decision to borrow. ■ Consideration has been given to the merits and demerits of alternative forms of funding. ■ It has considered the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use. The Treasury out-turn report for 2010/11 includes a reference to 'advance borrowing brought forward from previous years' of £10 million and £65.8 million 'borrowing carried forward to 2011/12'. However the	borrow in advance of the need to invest, provided that an authority can demonstrate that such borrowing was clearly linked to 'prudent management of its financial affairs'. The risk is however that the funds are borrowed and that the project for which the funds were to be deployed fails to materialise. This in turn may expose more money that is strictly necessary to investment risk. This could raise questions as to the validity of the 'prudent management' purpose. There is also a risk that interest rates could move so that the projected benefits of borrowing forward are eliminated. The speculative procedure of borrowing purely or explicitly for the purpose of re-investment remains unlawful.	■ Schedules to TMP 1 set out the authority's policy on borrowing in advance of need. ■ Reports to members provide commentary on the discharge of the agreed policy on borrowing in advance of need and provide elected members opportunity to scrutinise this aspect of the authority's investment practices.	

	Issue	Why is this important?	Action	Priority
	accompanying commentary makes no reference to the reasons for this borrowing. We identified no clear evidence to link this borrowing with cash flow forecasts or movements in the capital financing requirement in the current and subsequent financial years. The working papers which accompany the original prudential indicators refer to potential advance borrowing of £70 million. However they provide no clear indication as to the source of this data. The contextual information provided by the authority shows that during 2010/11 gross debt increased by £227 million. In comparison the capital program for 2010/11 to 2012/13 shows supported and unsupported borrowing requirements of £170 million.			
13	During 2010/11 the Authority replaced £292 million of relatively expensive long term PWLB debt with short term PWLB and market debt. However the reports issued to members provide no detail of the options considered prior to undertaking this debt restructuring.	TMP 3 of the Treasury Management Code requires authorities to maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.	The authority should ensure that: ■ All strategic decisions taken in line with delegated authority are adequately documented to permit subsequent assessment of the effectiveness of decisions including demonstrating the legality and probity of transactions	High

Issue	Why is this important?	Action	Priority
The minutes of meetings between officers at which the costs and/benefits of undertaking the debt restructuring exercise were discussed confirm agreement to extinguish two tranches of fixed rate PWLB debt (£165.70 million and £121.6 million) to be replaced with the same amount of ten-year PWLB variable rate loans. In the event only £165 million appears to have been replaced with PWLB variable debt with the rest being replaced by market loans. The report to the audit committee (27 June 2011) includes commentary which refers to 'replacing relatively expensive long-term debt with short-term market debt.' It makes no reference to replacement with short-term PWLB debt.	The issues to be addressed and processes and practices to be pursued in reaching decisions should be detailed in a schedule to the TMPs.	■ Checks and safeguards are in place to ensure that all transactions are executed in accordance with the agreed actions. ■ Reports to members include details of strategic decisions and the risk implications and financial impact of those decisions.	

Credit and counterparty risk management

24 In line with good practice the council uses a wide range of information to inform its view of credit and counterparty risk. However, its Treasury Management Practice notes and accompanying schedules do not make it clear how it will use the various sources of information to arrive at decisions about acceptable counterparties. Additionally it is not clearly evidenced what/how counter party risk information was used prior to authorisation of individual deals.

	Issue	Why is this important?	Action	Priority
14	The Council has, since the Icelandic banking crisis, significantly diversifies the range and timeliness of the information used to assess counterparty credit quality. This has led to a situation where at the time of writing only 5 banks are included on the counterparty list However the documentation of the Council's procedures for assessing credit quality both at the level of the counterparty list and the individual deals could be improved. TMP 1 sets out details of the Policy on the use of credit risk analysis techniques. This includes reference to the use of credit ratings and other 'credit criteria'. However the authority's TMPs (TMP 1) are not explicit on the mechanism through which this information is applied to determine counterparty lists and lending limits. This includes the absence of a clear explanation of how credit ratings (including individual and sovereign ratings) together with other information is used to derive the criteria	The statutory framework for treasury management within public services makes it clear that the security of sums invested should be the primary concern of a prudent investment strategy. In meeting this requirement the Code of Practice on Treasury Management in Public Services requires authority's to acknowledge the need to maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements. In order that this risk is controlled, schedules supporting TMP1 should set out clearly details of the authority's approach to assessing the standing of counterparties and the information and advice used in making that	The authority should ensure that schedules to TMP 1 sets out details of: ■ Criteria to be used for creating/managing approved counterparty lists/limits. ■ Approved methodology for changing limits and adding/removing counterparties. ■ Full individual listings of counterparties and counterparty limits. ■ Country, sector and group listings of counterparties and the overall limits applied to each, where appropriate. ■ Details of credit rating agencies' services and their application. ■ Description of the general approach to collecting and using information other than credit ratings to inform assessment of credit and counterparty risk assessment and the development	Medium

	Issue	Why is this important?	Action	Priority
	(based on Sectors colour coded ratings matrix) and which in turn form the basis of the authority's lending list. TMP1 offers no explanation of the' colour codes' used to distinguish the credit quality of term deposits.	assessment.	and maintenance of counterparty lists.	
15	The authority uses a number of lists containing credit rating data on potential counterparties to identify acceptable investment counterparties. In addition it has access to real time counter party information via the Bloomberg system. However the authority does not clearly evidence what counter party information was used and how that information was applied to individual deals.	Well documented records of the standing of counterparties play a pivotal role in the management of counterparty and credit risk. Investments should only be made with those organisations on the approved counterparty list. Maintaining full records of decisions and the processes and practices applied in reaching those decisions is essential to showing the authority took reasonable steps to ensure that all issues relevant to those decisions were considered at the time.	The authority should ensure that assessment of the credit standing of counterparties prior to dealing is adequately evidenced. See also comments above.	High

Liquidity risk management (including refinancing risk)

25 The Council's cash flow forecasting focuses on the short term. Whilst this supports the management of daily cash flows it does not support longer term strategic decisions around investments and borrowing.

	Issue	Why is it important?	Action	Priority
16	The main focus of the authority's cash flow forecasting is on the short term. This includes detailed daily and short term forecasts forecast (up to 3 months). The latter are updated daily. Cash flow forecasts covering at least three years in line with the minimum requirements of the Prudential Code and the duration of the Medium Term Financial Strategy are not prepared. Cash flow forecasts are not prepared beyond 12 month planning horizon. We also found little evidence of integration between cash flow forecasts and revenue or capital budgets (including the MTFP). Cash flow data is sourced from combination of historic data and notifications of cash receipts and repayments in respect of specified transactions although there appears to be no formal process for submitting cash flow data to the treasury team. 12 month forecasts for the current financial year are not updated after initial preparation.	Cash flow forecasting is essential to sound financing strategy. Medium term (monthly) rolling cash flow forecasts – for periods from one to three months up to one year – play a key role in: ■ forecasting the cash flow impact of changes in working capital requirements; ■ forecasting medium-term investment and/or borrowing programme requirements; ■ reviewing credit terms offered to customers and taken from suppliers; ■ monitoring compliance with financial covenants; and ■ capital expenditure budgeting. Longer-term forecasts covering periods in excess of one year play a significant role in: ■ setting and monitoring strategic objectives;	The authority develop existing cash flow forecasting by: ■ Implementing cash flow forecasting covering at least three years in line with the minimum requirements of the Prudential Code and the duration of the Medium Term Financial Strategy. ■ Introducing rolling medium term forecasts covering from one to three months up to one year where the forecast is by month. ■ Formalising arrangements for submission of cash flow data. ■ Fully integrating cash flow forecasting into the budgetary process.	High

	Issue	Why is it important?	Action	Priority
		■ forecasting long-term liquidity needs; ■ assisting with interest rate risk management; ■ planning the long-term credit rating and financial ratios; and ■ identifying any conflicts between spending ambitions and affordability.		

Treasury Reporting and Performance Management

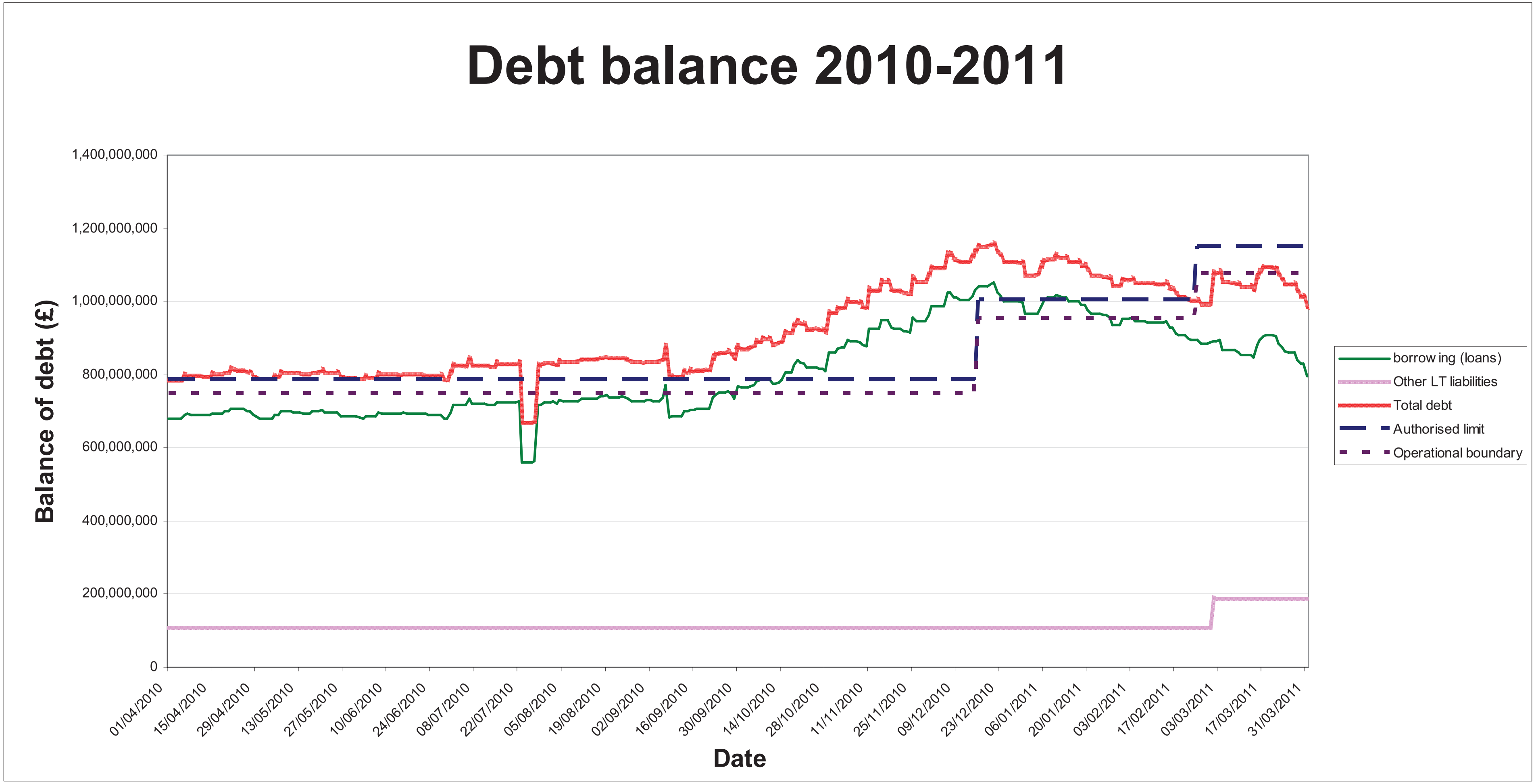
26 There are several omissions in meeting the reporting requirements of the prudential framework which reduce the effective governance of treasury activities. Performance benchmarks used and reported for investment earnings are limited and do not provide sufficient information to fully assess the performance around the council's investments. In addition there is no evidence of regular reporting around operational risks to support effective management and scrutiny of such risks.

	Issue	Why is this important?	Action	Priority
17	Several omissions from reporting requirements of: ■ CLG Guidance on Local Government Investments; ■ CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes; ■ The Prudential Code, were noted. These included no clear evidence of regular monitoring of Prudential indicators, the failure to produce a mid-year review of treasury activities as well as more specific omissions from the information included in individual reports. The authority's annual report on treasury activities is considered by the cabinet and audit committee. A report on the matters considered by Cabinet/Audit Committee is submitted to full council and a link to the reports considered by Cabinet/Audit	Regular and accurate reporting is essential to effective governance of treasury activities. The Prudential Code sets out clear governance procedures for the setting and revising of prudential indicators. This includes placing an obligation on the chief finance officer to ensure that all matters required to be taken into account are reported to the decision-making body for consideration, and for establishing procedures to monitor performance. Treasury Management Practice (TMP) 6 – Reporting requirements and management information arrangements – recommends that local authorities should, as a minimum, report annually to full council on their treasury management strategy and plan, before the start of the year; report the position mid-year; and prepare an annual report on the performance, effects	The authority should review existing reporting arrangements to ensure full compliance with the statutory framework with regard to both the content and frequency of reports.	Medium

	Issue	Why is this important?	Action	Priority
	Committee is included in the Council agenda papers.	of decisions taken and borrowings executed, and circumstances of non-compliance with their policies, after the year-end. The treasury management indicators must be considered together with the treasury management indicators in the Prudential Code as part of the budget approval process. The mid-year and annual post-year reports should also report on all treasury management indicators. CLG guidance requires authorities produce an annual investment strategy (AIS) – approved by full council (or closest equivalent level), – setting out the authority's policies for the prudent financial management of its investments.		
18	The performance of investment earnings is measured against the average rate for 7 day notice money. During 2010/11, on average, that rate was 0.431 per cent, with Lancashire's average rate being 2.453 per cent over the same period, reflecting the longer term nature of the portfolio. The contextual information provided by the Authority shows that over half of the authority's investments (56 per cent) have a maturity of over 1 year compared to	The selection of appropriate measures and benchmarks is critical to securing value from performance measurement. Use of the average rate for seven day notice money will help the authority to compare its performance against a 'benchmark portfolio' comprising 'seven day notice money'. However, this will not take into account differences in the risk profile of the authority's own investment portfolio compared to the 'benchmark portfolio'.	The authority should consider a broad range of indicators when setting performance benchmarks to monitor performance to ensure they remain appropriate to the maturity and risk profile of the investment portfolio. Where performance benchmarks are used, a broad range of indicators including security and liquidity should be monitored.	Medium

	Issue	Why is this important?	Action	Priority
	12 per cent at 31 March 2010. The Authority's TMPs (TMP 2) set out a range of benchmarks for monitoring both debt and investments. However we found little evidence that these measures are being used as part of regular monitoring reports issued to officers or members.	The security and liquidity of investments both impact on yield. Using the average rate for seven day notice money as the sole measure of performance will therefore be less useful when comparing the authority's performance with investments portfolios presenting a similar risk profile.		

Appendix 1 Analysis of daily debt balances during 2010/11



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