

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 26th September, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	A Jones
D Clifford	A Schofield
C Dereli	V Taylor
S Holgate	B Winlow

County Councillors A Jones and S Holgate replaced County Councillors Driver and Pritchard at the meeting respectively.

1. Apologies

None received.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

County Councillor B Winlow declared a non pecuniary interest in items 10 and 11 as a Director of Lancashire County Developments Limited.

3. Minutes of the Meeting held on 30 June 2016

Resolved: That the Minutes of the meeting held on 30 June 2016 be confirmed and signed by the Chair.

4. Risk and Opportunity Register

Paul Bond, Head of Legal and Democratic Services, presented on an updated quarter 2, Risk and Opportunity Register.

It was noted that the Register had been reported to Management Team, and would be presented to the next meeting of the Cabinet Committee on Performance Improvement in October.

Resolved: That the updated Quarter 2 Risk and Opportunity Register, as set out at Appendix 'A' to the report, be noted.

5. Liquid Logic System Update

Lisa Kitto, Director of Corporate Services, presented a report on the recent progress that had been made in improving the Liquid Logic System. The report also included the proposed next steps for the system and the new governance arrangements for system developments and implementations.

Officers responded to questions raised by the Members in relation to the processes in place and the timescales for implementation. Following further discussion, it was agreed that a further update would be presented to the next meeting of the committee on the 30 January 2017.

Resolved: i) That the report be noted.

ii) That a progress report on the Liquid Logic systems be presented to the next meeting of the Committee on 30 January 2017.

6. Internal Audit progress report

Ruth Lowry, Head of the Internal Audit Service presented the Internal Audit Service Progress Report for the period to 9 September 2016.

The report highlighted key issues arising from the work undertaken during the period by the Internal Audit Service under the agreed Internal Audit Plan

It was reported that all the work in respect of the internal audit plan for 2015/16 had been completed, and work was taking place across a number of the planned audits for 2016/17. It was noted that the plan may be amended as scopes of individual audits were developed.

The report also included details of a proposal to appoint the Chartered Institute of Internal Auditors to undertake an external assessment of the Internal Audit Service. This would meet the requirement for an external quality assessment to be conducted at least once every 5 years by a qualified independent assessor, validating the service's own self-assessment.

Officers responded to questions raised by the Committee in relation to the external assessment and also key issues raised in the Progress report in respect of the debt management system and the Parent Pay System operated in the county's schools.

Resolved: That the Committee note:

- i) The Internal Audit Service Progress report for the period to 9 September 2016.
- ii) The proposed appointment of the Chartered Institute of Internal Auditors to undertake an external assessment of the Council's Internal Audit Service.

7. Statement of Accounts - Waste Plant - Valuation

Neil Kissock, Director of Financial Services, presented a report on the valuation of the Waste Facilities at Farrington and Thornton Waste Technology Parks. It was reported that although an independent valuation had concluded there had been a reduction in the value, the value of the assets held in the accounts was considered materially correct. Therefore, there was no change in the value of the facilities to be reported in the council's Statement of Accounts.

Resolved: That the report be noted.

8. Annual Governance Statement 2015/16 Update

Ian Young, Director of Governance, Finance and Public Services presented an update in relation to the Annual Governance Statement. The Committee were advised that whilst some of the narrative in the report had been updated since the AGS was approved in June, for example in relation to the Ofsted inspection of Children's Services, the financial position set out in the report had not been updated to reflect the information contained in the most recent update of the Medium Term Financial Strategy reported to Cabinet. This was because the AGS was intended to be published with the Council's Statement of Accounts form 2015/16, therefore the financial information needed to be consistent.

The report provided an update on several areas of activity, reflecting developments since June 2016 including in relation to:

- Organisational transformation
- Establishment of Local Pensions Partnership
- Children's Services – delivering the Improvement Plan
- Health and Social Care Integration
- A Combined Authority for Lancashire
- Implementation of the Council's Property Strategy

The Committee were also advised that a report on the statutory services budget review being undertaken with Price Waterhouse Cooper would be presented to the Executive Scrutiny Committee and the Cabinet on the 4 and 6 October 2016 respectively.

It was noted that the Annual Governance Statement was to be signed by the Leader and the Chief Executive for the year in question, and the Committee was asked to approve it.

Resolved: That the Annual Governance Statement for 2015/16 as now presented at Appendix A to the report be approved for inclusion in the County Council's Statement of Accounts for 2015/16.

9. Approval of the County Council's and County Pension Fund's Letter of Representation 2015/16

A report was presented on the County Council's Management Representation Letter at Appendix 'A' and that for the Lancashire County Pension Fund at Appendix 'B' to the report.

The committee was informed that the Management Representation Letters should be made available to the external auditors (as part of the audit evidence) before the audit report was issued.

It was noted that the Management Representation Letters would be signed on behalf of the Lancashire County Council and the Lancashire County Pension Fund by the Council's S. 151 Officer and the Chair of the Audit and Governance Committee and the Committee was asked to approve them.

Resolved: That the management representation letters, as set out at Appendices 'A' and 'B', to the report now presented be approved.

10. External Audit Lancashire County Council - Audit Findings Report 2015/16

A report was presented by Karen Murray, external auditor, on the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Council, their proposed opinion on those accounts, and conclusion on the council's value for money arrangements. The external auditor thanked the Council's finance team and other staff for the level of support and assistance provided during the audit.

In commenting on the county council's accounts, Karen Murray, external auditor, informed the committee that the draft accounts were, overall, prepared to a good standard. However, a number of misstatements and misclassifications had been identified within the accounts and these had been discussed with the County Treasurer and members of her team and the accounts amended.

The report also included the value for money conclusion. The opinion given in the report confirmed that apart from two matters, the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The committee also noted that the external auditor was unable to formally conclude the audit and issue an audit certificate until they had completed their consideration of matters brought to their attention by the Council in 2012/13. However they were satisfied that these matters did not have a material effect on the financial statements or a significant impact on their value for money conclusion.

The report included a recommendation requiring all declarations for related party disclosures to be completed annually. In response to concerns raised by the Members, Officers were asked to investigate whether any financial sanctions could be imposed on councillors who failed to complete their declarations.

Resolved: That:

- (i) The external audit findings report covering the audit of the County Council for year ended 31 March 2016 be noted.
- (ii) The adjustments to the financial statements and other issues raised by the external auditor, as set out in the report presented, be noted.
- (iii) Officers be asked to investigate whether any financial sanctions can be imposed on Councillors who fail to complete their related party disclosure declarations.

11. Approval of the County Council's Statement of Accounts 2015/16

A report was presented on a summary of the process of preparation and the main points of the Statement of Accounts for 2015/16; the Statement itself was attached as Appendix 'A'.

Regulations governing the process and delegated authority from the County Council required the Chair of the Committee to sign off the accounts once approved by the Committee.

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). The style and format of the accounts complied with CIPFA standards however, the content had been reviewed and refreshed to make the accounts easier to understand.

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 10 of the agenda were reflected within the statement.

The Committee was taken through the main components and key issues of the statement including the movement in reserves and comprehensive income and expenditure statements, balance sheet and cash flow statement.

In response to queries raised by the Members, the officers agreed to expand the management structure in the 'Narrative' to the report and update the list of acronyms in the 'Glossary' to the accounts.

It was noted that the accounts of the County Council had been placed on deposit and made available for public inspection between 1 July and 11 August 2016.

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

Resolved: That the Lancashire County Council Statement of Accounts for 2015/16 be approved and signed by the Chair of the Committee.

**12. External Audit
Lancashire County Council Pension Fund - Audit Findings Report
2015/16**

A report was presented on the audit findings in relation to the accounts of the Lancashire County Pension Fund.

In commenting on the Lancashire County Pension Fund account, Karen Murray, external auditor, informed the committee that the audit work had not identified any material adjustments affecting the Fund's reported financial position. However, a number of minor adjustments had been made to improve the presentation of the financial statements.

It was reported that the pension fund's financial statements gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities.

The external auditor thanked Council officers for their support during the audit.

Resolved: That the external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2016 be noted.

13. Approval of the Lancashire County Pension Fund's Statement of Accounts 2015/16

The Committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2015/16, as presented by Khadija Saeed, Head of Corporate Finance.

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 standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Resolved: That the Lancashire County Pension Fund's Statement of Accounts for 2015/16 be approved and signed by the Chair of the Committee.

14. Appointment of External Auditors

Neil Kissock presented a report summarising the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Committee were presented with three options for appointing External Auditors in the future:

Option 1: Establish its own independent auditor panel. The panel to be made up of a majority or of wholly independent members and must be chaired by an independent member.

Option 2: Establish a joint independent auditor panel to carry out the function on behalf of two or more Councils

Option 3: Opt-in to an approved sector led body (SLB) to be specified by the Department for Communities and Local Government (DCLG) to act as the Appointing Person on behalf of opted-in authorities.

It was noted that Option 3 above would require Full Council approval.

The Committee was advised that the Council would have until December 2017 to make an appointment, but if Options 1 or 2 were selected then in practical terms, action would be required by the Council almost immediately. Similarly, if the sector led approach described in Option 3 was adopted confirmation would be required by late autumn 2016.

In response to concerns raised by the Members, it was agreed that prior to entering into any contract, a further report would be presented to the Audit and Governance Committee setting out details of the contract, including the period of appointment.

Following debate and further questions to the officer with regard to the above Options, it was:

Resolved: i) That the Committee recommend Full Council to opt-in to an approved sector led body, specifically Public Sector Audit Appointments Ltd, to act as the Appointing Person for the appointment of External Auditors for the County Council.

ii) That prior to entering into a contract to appoint external auditors, a further report be presented to the Audit and Governance Committee setting out details of the contract, including the period of the appointment.

15. 2016/17 Treasury Management Activity Report - April to July 2016

A presentation was made to the committee by Mike Jensen, co-chief investment officer, on a review of the county council's treasury management activities during the current financial year to the end of July 2016 and included:

- A review of the economic conditions during 2016/17,
- The implications for the Council's Treasury Strategy,
- Borrowing activity,
- Investment activity,

- Actual results measured against 2016/17 Prudential indicators and Treasury Management Indicators.

The officer responded to questions raised by the Members in relation to investment and borrowing activities and explained that regulations prevented the Council from issuing annuities.

Details of the treasury management activities were presented at Appendix 'A'.

Resolved: That the review of treasury management activities for the period 1 April to 31 July 2016 shown at appendix A to the report now presented, be noted.

16. The County Council's Treasury Management Strategy 2016/17

A report was presented on the County Council's Treasury Management Policy. It was reported that recent economic uncertainty had resulted in the credit agencies downgrading the UK sovereign rating. Therefore, in view of the recent changes and in anticipation of any future reductions, the County Council's Treasury Management Policy had been reviewed.

The Committee was informed that the economic position and low interest rates also required further consideration for the fixing of long term debt and the report covered the options including the potential use of the Municipal Bond Agency (MBA). The report allowed for further opportunity to consider the risks associated with the MBA in response to the resolution of Full Council at their meeting held on 21 July 2016.

Following lengthy debate and questions to officers with regard to the risks and benefits associated with the potential use of the MBA, it was Moved and Seconded:

'That:

- i) The changes to the Treasury Management Strategy, as set out in the report, to allow for changes in the UK sovereign credit rating following the referendum vote to leave the European Union, be approved.
- ii) That Full Council be recommended to agree that the County Council does not enter into the UK MBA framework agreement'.

On being put to the vote the Motion was Lost. The substantive Motion was then put to the vote and it was:

Resolved: That:

- i) The changes to the Treasury Management Strategy as set out in the report, to allow for changes in the UK sovereign credit rating

following the referendum vote to leave the European Union, be approved.

- ii) Full Council be recommended to agree that the County Council enters into the UK MBA framework agreement as set out in the report to the committee.

17. Urgent Business

There were no items of urgent business.

18. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Tuesday 30th January 2017 at 2:00pm at County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston