

## **Lancashire County Council**

### **Audit and Governance Committee**

**Minutes of the Meeting held on Monday 30 September 2013 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

#### **Present:**

County Councillor Clare Pritchard (Chair)

#### **County Councillors**

K Brown	A Schofield
T Brown	D Westley
D Clifford	B Winlow
C Dereli	G Driver

County Councillor G Driver replaced County Councillor V Taylor on the Committee.

#### **Standing Order 19(1)**

County Councillors D Borrow and A Ali attended the meeting under Standing Order 19(1) and addressed the committee in relation to agenda item 9.

#### **Officers in attendance**

Gill Kilpatrick – county treasurer  
George Graham – deputy county treasurer  
Abigail Leech - head of financial accounting and taxation  
Mike Jensen – chief investment officer  
Ruth Lowry – chief internal auditor  
Ian Rushworth – audit manager  
Karen Murray – director, Grant Thornton  
Fiona Blatcher – associate director, Grant Thornton  
Ian Young – deputy county secretary  
Roy Jones - assistant county secretary  
Cath Rawcliffe – committee support officer

#### **1. Apologies**

None received.

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

None declared.

#### **3. Minutes of the Meeting held on the 24 June 2013**

Reference was made to Resolution 12 iii) of the Minutes which called on the current chair of the committee to write to the chief executive in relation to information governance providing that the former Chair had not already done so.

The Committee noted that due to a set of circumstances, the former chair was unaware that he should write to the chief executive and therefore the current chair had subsequently written to the chief executive on the 5 August 2013.

**Resolved:** That the Minutes of the meeting held on 24 June 2013 be confirmed and signed by the Chair.

#### **4 Annual Governance Statement 2012/13**

Roy Jones, Assistant County Secretary, presented a revised Annual Governance Statement (AGS) for 2012/13, for inclusion in the County Council's Statement of Accounts for 2012/13, to be considered by the Committee at item 9.

The AGS had previously been approved by the committee at their meeting in June but following discussions with the External Auditor it had been decided to produce a revised statement.

The revised AGS had been carefully considered by the Management Team and included the recognition that although the Chief Internal Auditor had provided substantial assurance overall that there was generally a sound system of internal control, some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk. The AGS also reflected the revised arrangements whereby the Chief External Auditor would provide quarterly reports to the Management Team where assurance was either limited or none.

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 2012/13 as now presented at Appendix A to the report, be approved.

#### **5. Approval of the County Council and Pension Fund Letters of Representation 2012/13**

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 County Treasurer and the Chair of the Audit and Governance Committee and the Committee was asked to approve them.

**Resolved:** That the management representation letters as shown at Appendices A and B to the report now presented be approved.

## **6. External Audit Lancashire County Council 2012/13 - Audit Findings Report**

A report was presented 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.

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 material amendments had been identified within the financial statements and these had been discussed with the County Treasurer and members of her team.

The report also included the value for money conclusion. The opinion given in the report confirmed that the council had proper arrangements in place for securing financial resilience and for securing economy, efficiency and effectiveness in its use of resources. It was expected that an unqualified value for money conclusion would be issued for the year ended 31 March, 2013.

The committee noted that the external auditor was unable to issue the audit certificate to close the 2012/13 audit at this time. This was because the auditor needed to consider the outcome of the Council's own work to review its arrangements in respect of the weaknesses identified in procurement and governance. It was also noted that a further report would be presented to the committee when the certificate was issued.

The committee's attention was drawn to amendments to the narrative on page 59 of the agenda papers. The revised page was circulated at the meeting. (Copy set out at Annex A to the Minute Book)

**Resolved:** That:

- i) The external audit findings report covering the audit of the County Council for year ended 31 March 2013 be noted.
- ii) The adjustments to the financial statements and other issues raised by the auditor as set out in the report presented, be noted.

## **7. External Audit Lancashire County Pension Fund Annual Audit Findings - 2012/13**

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, Fiona Blatcher, external auditor, informed the committee that the audit work had not identified any material adjustments affecting the Fund's draft financial position. However, a number of minor amendments had been identified and these had been discussed with the Treasurer to the Pension Fund and officers, and where appropriate the accounts had been amended.

**Resolved:** That:

- i) The external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2013 be noted.
- ii) The adjustments to the financial statements and other issues raised by the auditor as set out in the report presented, be noted.

#### **8. Approval of the Lancashire County Pension Fund's Statement of Accounts 2012/13**

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2012/13, 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 had been prepared in accordance with International Financial Reporting Standards and initial consultation with the external auditors, Grant Thornton and included details of an overview of management and financial performance, the governance and administration of the Fund, investment policy and performance, the Fund accounts and the actuarial valuation.

**Resolved:** That the Lancashire County Pension Fund's Statement of Accounts for 2012/13 be approved and signed by the chair of the committee.

#### **9. Approval of the County Council's Statement of Accounts 2012/13**

The committee was asked to approve the county council's Statement of Accounts for 2012/13, as presented by Gill Kilpatrick, county treasurer and 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).

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 6 of the agenda were reflected within the statement.

The committee was taken through the main components and key issues of the statement. This included the disclosure note on senior officers remuneration which had been amended from the draft accounts published on the 28 June 2013.

Lengthy discussion was had on the overall remuneration paid to the county council's former executive director, transformation/ chief executive officer of One Connect Ltd. The county treasurer explained why it was necessary for the disclosure note to be amended in accordance with the Accounting Code of Practice and explained that the authorisation for these payments was currently under review. It was confirmed that the executive director, transformation was an employee of the County Council and that his appointment, via a secondment from the County Council to the post of chief executive officer with OCL did not create a formal employer/employee relationship with either OCL or BT. The Council's External Auditor confirmed that in her view the amendment to the disclosure note was appropriate.

It was agreed that the committee would receive a report on the outcome of the review of the authorisation and governance of the remuneration payments at a future meeting.

Councillor Schofield queried whether the headings on the 'Comparative year' table on page 192 of the agenda papers should refer to the years 2011 and 2012. It was acknowledged that this was the case and it was agreed that the appropriate amendments would be made to the final Statement of Accounts

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

**Resolved:** i) That subject to minor amendments to the narrative on the page 192 of the agenda papers as now reported, the Lancashire County Council Statement of Accounts for 2012/13 be approved and signed by the chair of the committee.

ii) That a report on the authorisation and governance of the remuneration payments to the former executive director, transformation/ chief executive of One Connect Ltd be brought back to the committee.

## **10. External Audit**

### **Lancashire County Council 2012/13 - Financial Resilience Report**

Karen Murray, external auditor presented a report on an assessment of the Council's arrangements for securing financial resilience.

The committee noted that overall, the council had performed well, that it had a strong track record on delivering its budget and a robust approach to performance management. The committee also noted the main messages from the report, particularly those areas assessed as medium risk around:

- systems of internal control;
- responsiveness of the financial plan to meeting future challenges;
- reviewing current procurement arrangements and implementing arrangements to strengthen these as appropriate;
- considering whether existing arrangements provide members with adequate assurances that key risks are being properly identified, mitigated and managed.

**Resolved:** That the financial resilience report for 2012/13 at Appendix A to the report now presented be noted.

## **11. 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 current financial year to the end of August and included:

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

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.

## **12. Internal Audit Service Progress Report**

Ruth Lowry, chief internal auditor, presented an internal audit progress report for the six months to 30 September 2013.

The report summarised the main issues emerging from the internal audit work completed to date. The report also set out the work performed against the annual audit plan for the year and the assurance assessment provided where work had been completed, including work to assess progress against management's agreed action plans.

The report highlighted the key issues impacting on the audit plan including the suspension of a senior officer and the recent resignation of the chief executive and other senior managers from One Connect Limited (OCL). It was noted that a review of the flow of funds between the council and OCL was on-going and would complement the review by the County Treasurer in the same area. However, the work on performance monitoring of OCL's work for the council was currently held in abeyance.

Reference was made to the briefing session provided to the committee earlier that day on the progress being made to improve the council's arrangements to ensure good information governance. It was noted that work was continuing to develop the council's information governance arrangements and to meet the requirements of the National Health Service in particular.

It was agreed that an update on the progress being made in this respect would be presented to a special meeting of the committee to be arranged for 25 November 2013.

**Resolved:** That:

- i) The internal audit progress report for the six months to 30 September 2013 as now presented be noted;
- ii) A further update on the progress being made in relation to information governance be presented to a special meeting of the Audit and Governance Committee on the 25 November, 2013.

### **13. Public Interest Disclosure Act 1998 (Whistleblowing Act) Summary 2012/13**

Ian Rushworth, internal audit manager presented a report on the complaints dealt with arising from the council's Whistleblowing Policy in the previous 12 months.

Since the last report in May 2012, the internal audit service had received 21 complaints which fell under the policy. Details of the complaints were shown at Appendix A to the report. The committee noted that 11 complaints related to financial issues whilst the remainder were categorised as general issues.

The 21 complaints represented a significant increase on the 7 cases logged in the previous 12 months. It was speculated that this could be as a result of the policy being re-communicated and a number of high profile investigations.

**Resolved:** The internal audit progress report for the six months to 30 September 2013 as now presented be noted.

**14. Urgent Business**

There were no items of urgent business.

**15. Date of Next Meeting**

**Resolved:** That:

- i) A special meeting of the committee be held on Monday 25 November 2013 at 2.00pm at County Hall, Preston.
- iii) The next ordinary meeting of the committee be held on Monday 27 January 2014 at 2.00pm at County Hall, Preston

I M Fisher  
County Secretary and Solicitor

County Hall  
Preston