

**Lancashire County Council  
Audit Committee**

**Monday 27 June 2011**

**Minutes**

**Present:**

**County Councillors**

S Chapman (Chair)

K Brown

C Grunshaw

\*Mrs S Fishwick

\*D O'Toole

D Westley

\*County Councillors Mrs S Fishwick and D O'Toole replaced County Councillors M Younis and M Welsh on the committee respectively.

**Officers in attendance**

Mike Jensen – head of treasury management and the pension fund

George Graham – deputy county treasurer

Andy Ormerod – senior accountant

Gill Eastwood - director, Audit Commission

Habib Patel - senior policy officer

Ruth Lowry – head of internal audit

Roy Jones - assistant county secretary

Josh Mynott – committee support team leader

**Item 1 Apologies**

Apologies for absence were received on behalf of County Councillors H Henshaw and J Lawrenson.

**Item 2 Audit Committee  
Constitution: Membership; Chair and Deputy Chair;  
Terms of Reference**

Details of the committee's membership as agreed by the full council on 26 May 2011 were presented for information.

The committee was informed that the county council had appointed County Councillor S Chapman and County Councillor M Younis as Chair and Deputy Chair of the committee for the ensuing year.

The committee's terms of reference were also presented.

**Resolved:**

- (i) That the membership of the committee be noted.
- (ii) That the appointment by the full council of Councillors S Chapman and M Younis as Chair and Deputy Chair of the committee respectively be noted.
- (iii) That the committee's terms of reference be noted.

**Item 3 Disclosure of Personal and Prejudicial Interests**

The chair of the committee, County Councillor S Chapman declared a personal interest in Item 13 as a home educator.

County Councillor Mrs S Fishwick declared a personal interest in item 7 as the Chair of the Combined Fire Authority Audit Committee.

County Councillor D Westley declared a personal interest in items 5 and 15 as a member of the Cabinet on West Lancashire Borough Council.

County Councillor O'Toole declared a personal interest in item 7 as the Chair of the Lancashire Combined Fire Authority.

**Item 4 Minutes of the meeting held on 21 March 2011**

The Minutes of the previous meeting held on the 21 March 2011 were presented.

**Resolved:** That the Minutes of the meeting held on 21 March 2011 be confirmed and signed by the Chair.

**Item 5 Update on treasury management activity**

A presentation was made to the committee by Mike Jensen, head of treasury management and the pension fund who was accompanied by Andy Ormerod, senior accountant.

It was reported that this was the first complete year of operation under the new treasury management strategy focussing on improving security of funds and reducing overall capital financing charges.

The report gave details of the general economic environment surrounding treasury management activities and set out the position on the borrowing and lending activities of the county council over the year including provisional year end results.

The committee congratulated the head of treasury management on a reported under spend of £15.192m in the financing charges budget. The committee was informed that this was partly as a result of a debt restructuring exercise and noted the risks associated with such.

The current situation with regard to the council's investment in the Icelandic bank, Landsbanki was also reported. The committee was informed that it was expected that a final decision would be made in September 2011 on whether local authorities would be considered priority creditors, having first call upon the assets of the failed bank, therefore maximising the amount the County would be paid following the winding up process. It was expected that the authority may recover approximately 94% of the value of the claim.

The head of treasury management indicated that in addition to regular updates at quarterly meetings of the committee, he intended to provide a separate briefing session on treasury management activities.

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

#### **Item 6            Overview of the implementation of International Financial Reporting Standards for the accounts of the county council**

George Graham, deputy county treasurer, reported on the progress made to date in relation to the implementation of the new International Financial Reporting Standards (IFRS) for the accounts of the county council.

It was noted that the outcome of the audit of the council's accounts would be reported back to the committee in September including the assessment of the council's delivery of its transitional IFRS accounts.

**Resolved:** That the report be noted.

#### **Item 7            The future of local public audit**

The deputy county treasurer presented a report on the government's consultation proposals for the new audit regime for local authorities following the proposed abolition of the Audit Commission.

It was reported that in broad terms the government proposed to mirror the Companies Act regime for local authorities. While as a broad framework this was regarded as acceptable, there were certain areas of detail which were considered to require further work.

The committee noted that the proposals also set out specific proposals for the audit of small local bodies, mainly parish and town councils which could have fundamental implications for the county council.

The committee was asked to endorse the proposed response to the government's consultation on the future of public audit as set out in the appendices to the report.

In considering the council's response to the consultation, the committee agreed that the proposed response to question 11 be clarified to reflect the council's view that the Audit Committee should be retained in its current form.

It was also noted that the government proposed to produce draft legislation for scrutiny, probably this autumn. The government had also announced preparations for the 'outsourcing' of 2012/13 as part of the transition to the new arrangements.

Gill Eastwood, director of audit, Audit Commission, informed the committee that the Audit Commission also expected to be consulted on the proposals. They intend to convey to the government the importance of safeguarding the independence of the audit function and securing appropriate accountability to the public and parliament for public money. The Commission also proposed to form an employee business practice and hoped to be able to continue to provide a service to the county council.

**Resolved:** That, subject to clarification with regard to question 11 to reflect the council's view that the Audit Committee should be retained in its current form, the county council's proposed response on the future of local public audit as set out in appendices to the report now presented, be endorsed.

#### **Item 8. County Council and Pension Fund External Audit Fees 2011-12**

Gill Eastwood, director of audit, Audit Commission, presented a report on the proposed fees for the external audit of Lancashire County Council and Lancashire Pension Fund for 2011/12.

These comprised of two separate audit fee letters, one for the audit of Lancashire County Council and one for Lancashire Pension Fund. The letters set out the main elements of the proposed audit work for 2011/12 and highlighted the specific risks which would be reviewed as part of this work.

**Resolved:** That the Audit Commission's fees letters for the audit and inspection of the County Council and the Pension Fund for the year ending 31 March, 2012 be noted.

#### **Item 9. Risk Management Update Report**

A presentation was made to the committee by Habib Patel, performance manager, who introduced the latest version of the authority's risk register.

The committee was informed that following a recent meeting of directorate

representatives, the risk register had been revised. A copy of the revised risk register was circulated to the members (copy set out in the Minute book at Annex A). It identified the significant directorate and cross cutting risks which the council faced together with current and planned actions to mitigate the risks. This revised register included revised scores for three areas of risk identified in the register relating to the Public Health White Paper, the death or serious injury of a child known to the council and corporate manslaughter on the highway.

It was noted that following the reconfiguration of the Policy Unit, the Internal Audit Service would take on the role of facilitating risk management across the council from 1 July 2011.

**Resolved:** That:

- i) The content of the corporate risk register be noted.
- ii) The actions being taken in response to identified risks and the current process for identifying risk as set out in the report now presented, be noted.

#### **Item 10 Annual Governance Statement**

A report on the Annual Governance Statement was presented by Roy Jones, assistant county secretary. The statement was prepared in compliance with the Accounts and Audit Regulations 2011, which requires a review to be conducted of the governance arrangements in the authority.

This had been achieved by means of obtaining statements of assurance from executive directors and by reference to the annual report of the head of internal audit.

The new Annual Governance Statement was presented at Appendix 'A'. The committee's attention was drawn to the head of internal audit concerns relating to the authority's arrangements for purchasing and procurement and the requirement for officers to make adequate declarations of personal interests. These were referred to in the statement and the authority's arrangements for the programme of improvement on governance issues in the coming year.

It was noted that the Annual Governance Statement was to be signed by the deputy leader and the chief executive for the year in question, and the committee was now being asked to approve it.

**Resolved:** That the Annual Governance Statement for 2010/11 as now presented, be approved.

**Item 11. Response of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing**

The committee considered a response to the Audit Commission's request for information to support its compliance with international standards on auditing and quality control.

The committee was asked to confirm whether it had knowledge of any actual, suspected or alleged frauds affecting the council and how it oversaw its management processes to identify and respond to the risk of fraud. In addition, the commission also sought to understand how the Audit Committee gained assurance that all relevant laws and regulations had been complied with.

A response to the commission had been prepared on behalf of the county Treasurer and was set out at Appendix A to the report. The chair of the committee was requested to sign the response once it had been approved by the committee.

**Resolved:** That the response to the Audit Commission's request for information to support its compliance with international standards on auditing and quality control as set out at Appendix A, be approved and signed by the chair of the committee.

**Item 12. Internal Audit: annual report to the authority for 2010/11**

The committee considered the Internal Audit annual report for 2010/11, as presented by Ruth Lowry, head of internal audit.

The report was presented in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. The opinion given in the report confirmed that there was generally a sound system of internal control, adequately designed to meet the council's objectives, and that controls were generally being applied consistently.

The report also identified individual key issues and themes that presented limited exceptions to this broad conclusion, in particular the procurement processes followed across the council had not in all cases followed corporate procedures; and there was a requirement for officers to make adequate declarations of personal interests, both to enhance the council's governance arrangements and particularly in light of the introduction of the Bribery Act from 1 July 2011

It was reported that the matters included in the report had been discussed with the relevant service management teams as well as with the council's Management Team and action plans had been agreed and were being implemented.

**Resolved:** That the internal audit annual report to the authority for 2010/11 be noted.

**Item 13. Internal Audit Service progress report**

The head of internal audit presented the internal audit progress report for the year to date.

The report summarised the work undertaken by the council's Internal Audit Service under the internal audit plan for 2010/11 and the work carried forward from the previous audit plan completed during the year.

The report supplemented the internal audit annual report also presented to the Audit Committee at the meeting.

The Chair referred to the work of the Internal Audit Service in relation to elective home education and questioned whether it was a statutory duty of the council to identify children resident in Lancashire who may not be receiving a suitable level of education as indicated in the report. It was agreed that the head of internal audit would investigate the matter further.

**Resolved:** That the internal audit progress report for the year 31 March, 2011 and work relating to that year completed during April and May 2011 as now presented, be noted.

**Item 14 Internal Audit Service terms of reference and strategy**

The head of internal audit presented a report on revised terms of reference for the Internal Audit Service.

It was reported that the Internal Audit Service worked to terms of reference which reflected the requirements of the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. Although this Code remained unchanged, it was felt appropriate periodically to review the terms of reference and to reflect the changes that have occurred within the county council since the Internal Audit Service's terms of reference and strategy were last revised.

A copy of the revised terms of reference was presented at Appendix 'A'.

**Resolved:** That the Internal Audit Service revised terms of reference and audit strategy as now presented, be agreed.

**Item 15. Counter fraud and special investigations annual report 2010/11**

The head of internal audit presented a summary of the work performed by the Internal Audit Service during 2010/11 to support management in preventing and detecting fraud and corruption.

It was noted that no single issue had been identified that would have a material impact on the county council's overall control environment.

The report had been prepared for the Standards Committee and a similar report with additional data on each case had been reported to the county treasurer.

A copy of the annual report was presented at Appendix 'A'.

**Resolved:** That the 2010/11 counter fraud and special investigations report as now presented, be noted.

#### **Item 16. Overview and Scrutiny annual report**

Josh Mynott, committee support team leader, presented the annual report of the Overview and Scrutiny Committees.

The report gave details of the key activities of the overview and scrutiny committees in the previous year.

The report was presented to the Audit Committee to support the development of a co-operative and mutually supportive relationship between the two bodies with separate yet complementary functions.

**Resolved:** That the annual report of Overview and Scrutiny be noted.

#### **Item 17. Urgent Business**

There were no items of urgent business.

#### **18. Date of Next Meeting**

**Resolved:** It was noted that the next meeting of the committee would be held on Monday 26 September 2011 at 2.00 p.m. at the County Hall, Preston.

I M Fisher  
County Secretary and Solicitor

County Hall  
Preston