

Report of the Audit and Governance Committee - Matters for Information

The following matters were considered by the Audit and Governance Committee at its meeting on 29 September 2014:

1. Internal Audit annual report to Lancashire County Council for 2013/14

The committee considered the Internal Audit annual report for 2013/14, as presented by Ruth Lowry, chief internal auditor.

The report summarised the work of the Internal Audit Service during 2013/14 and the key themes arising in relation to internal control, governance and risk management across the council.

The opinion given in the report confirmed that only limited assurance could be given overall that the council operated generally sound systems of internal control.

It was reported that there had been a number of high profile issues during 2013/14 and that these matters alone indicated fundamental weaknesses in the council's corporate governance arrangements that precluded any more favourable evaluation of the council's risk management, control and governance arrangements. It was further reported that, although these events took place during 2013/14, the issues were rooted in decisions made, and actions taken, from 2010 onwards.

The assurance given in previous years was discussed. The chief internal auditor pointed to a gradual deterioration over recent years of the level of assurance she had been able to provide, and to the previously even spread between substantial full assurance and limited/ nil assurance. That balance had now tipped and only limited/ nil assurance had been provided over the majority of control systems for 2013/14.

Decision Taken: That the internal audit annual report to the authority for 2013/14 as set out at Appendix A to the report now presented be noted.

2. Annual Governance Statement 2013/14

Ian Young, county secretary and solicitor presented the Annual Governance Statement (AGS) for 2013/14, for inclusion in the County Council's Statement of Accounts for 2013/14.

The AGS had been carefully considered by the Management Team, recognising that whilst the chief internal auditor had provided limited assurance overall that there was generally a sound system of internal control.

The committee noted that the council had over the past twelve months experienced exceptional challenges which had absorbed and diverted a considerable amount of senior leadership time, circumstances which had impacted upon a number of the issues relevant to the adequacy and effectiveness of the council's control environment highlighted by the chief internal auditor's annual report.

It was also noted that all outstanding actions would now form part of the chief internal auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance would achieve at least a substantial assurance assessment in the chief internal auditor's report for the year ending 31 March 2015.

Decision Taken: That the Annual Governance Statement for 2013/14 as now presented at Appendix A to the report be approved for inclusion in the County Council's Statement of Accounts for 2013/14.

3. Approval of the County Council and Pension Fund Letters of Representation 2013/14

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 before the audit report was issued.

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

4. External Audit Lancashire County Council 2013/14 - 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 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 the council did not have proper arrangements in place to secure value for money. This took account of the balance between those areas where the council's arrangements were demonstrably strong, and those areas of corporate and financial governance where the council had recently identified a number of fundamental weaknesses in its arrangements. It was acknowledged that the issues had emerged during the year but that they related to arrangements, decisions and actions taken in previous years.

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 2013. 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.

Decision Taken: That:

- i) The external audit findings report covering the audit of the County Council for year ended 31 March 2014 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.

5. Approval of the County Council's Statement of Accounts 2013/14

The committee was asked to approve the county council's Statement of Accounts for 2013/14, as presented by George Graham, deputy county treasurer.

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 8 of the agenda were reflected within the statement

The committee was taken through the main components and key issues of the statement.

Decision Taken: That the Lancashire County Council Statement of Accounts for 2013/14 be approved and signed by the chair of the committee.

10. External Audit Lancashire County Pension Fund Annual Audit Findings - 2013/14

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 adjustments had been identified 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 2014 and the amount and disposition of the fund's assets and liabilities.

Decision Taken: That:

- i) The external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2014 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.

11. Approval of the Lancashire County Pension Fund's Statement of Accounts 2013/14

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2013/14, as presented by George Graham, deputy county treasurer.

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 the Fund account, the Statement of Net Assets, investment policy and performance and the actuarial valuation.

Decision Taken: That the Lancashire County Pension Fund's Statement of Accounts for 2013/14 be approved and signed by the chair of the committee.

12. 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 2014.

Decision Taken: That the review of treasury management activities for the period 1 April to 31 August 2014 shown at appendix A to the report now presented, be noted.

13. Public Interest Disclosure Act 1998 (Whistleblowing Act) Summary

Ruth Lowry, chief internal auditor 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 2013, the internal audit service had received 21 complaints under this policy. Details of the complaints were shown at Appendix A to the report.

Decision Taken: That the report be noted.