

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 28th September, 2015 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	T Martin
C Dereli	A Schofield
G Driver	V Taylor
S Holgate	B Winlow

County Councillors S Holgate and T Martin replaced County Councillors D Clifford and C Pritchard respectively at this meeting.

Officers in attendance

Ian Young – Director of Governance, Finance and Public Services
Abigail Leech – Head of Service Corporate Finance and S.151 Officer
Ruth Lowry – Head of Service Internal Audit
Karen Murray – Director, Grant Thornton
Caroline Stead – Grant Thornton
Mike Jensen – Chief Investment Officer
Chris Mather - Democratic Services Manager

Officers were asked to make the necessary arrangements to webcast future meetings of the Committee.

1. Apologies

None.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 30 June 2015

It was noted that Mike Jensen had attended the last meeting but his name had been omitted from the Minutes.

Resolved: That, subject to the above amendment, the Minutes of the meeting held on 30 June 2015 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 current financial year to the end of July 2015 and included:

- A review of the economic conditions during 2015/16,
- Borrowing activity,
- Investment activity,
- Actual results measured against 2015/16 Prudential indicators and Treasury Management Indicators.

Officers responded to questions raised by the Members in relation to investment and borrowing activities. It was agreed that further information about the £137m increase in bonds would be circulated to members of the Committee.

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 2015 shown at Appendix 'A' to the report now presented, be noted.

5. Updated Annual Governance Statement

Ian Young, Director of Governance, Finance and Public Services, informed the Committee that Abigail Leech, Head of Corporate Finance, had been appointed as the Council's Interim S.151 officer for the purposes of approving the Council's Statement of Accounts. This appointment was necessary due to interim Director of Financial Resources and S.151 officer being off work due to ill health. It was also reported that the Chief Executive had subsequently appointed Neil Kissock as the acting Director of Financial Resources pending the return of the current post holder, and subject to constitutional requirements.

Mr Young raised the issue of training for members of the Committee. It was agreed that a training session on the role, function and key aspects of internal and external audit, as well as risk management would be held on the morning of the next Committee meeting to be held on 25 January 2016. A training plan could also be considered as part of the wider member development training programme.

Mr Young then presented an update in relation to the Annual Governance Statement. The report identified a number of key issues and themes that had emerged during 2014/15 and which would continue to feature in 2015/16. The report also provided the Committee with an update in relation to those issues which were also relevant to the External Auditor's Value for Money (VfM) conclusion contained within the Audit Findings Report elsewhere on the agenda.

It was noted that the Management Team had agreed actions to support the development and strengthening of the internal control framework including the production of a Risk and Opportunity Register and a process that would involve

quarterly reports being presented to Management Team, the Cabinet Committee on Performance Improvement and the Audit and Governance Committee.

It was also noted that a revised Internal Audit Plan for 2015/16 and the Audit Plan for 2016/17 would be presented to the next meeting of the Committee in January 2016. The updated plan would identify areas where Internal Audit would work collaboratively with Heads of Service to identify risk and controls.

The Committee raised a number of questions around the Council's governance arrangements and in particular the Internal Audit Service's inability to provide an overall opinion. Concerns were expressed about the Council's ongoing budget pressures and the effects which these might have on the future size, structure and work of the Internal Audit Service. Officers confirmed that the proposed model for the Internal Audit Service would be considered by Management Team in the context of the budget forecasts to 2021 and the Council's decisions on service delivery which would be published for consultation in November 2015 but it was confirmed that there was no proposal to out-source the Internal Audit service.

In response to concerns about the performance of the Council's Procurement Service, officers advised that the actions taken by Management Team and Cabinet had improved performance and transparency around the procurement function since the return of the Service from One Connect Limited. The External Auditor had acknowledged the improvements and was satisfied with the direction of travel in this area. Officers agreed to present a report on the Procurement Service and function to the next meeting of the Committee in January 2016. It was agreed that officers would inform Members what the current staffing vacancy level was in the Procurement Service.

Comments were raised about the forecast overspend in 2015/16. Members were reminded that this matter had been highlighted in a report to Cabinet on 12 August 2015 and the issue would be further addressed as part of the budget report to be presented to Cabinet in November.

Resolved:

- (i) That the report including the proposals in relation to the approval of a revised Internal Audit Plan for the remainder of 2015/16 and the Internal Audit Plan for 2016/17 be noted.
- (ii) That the Committee is concerned about the possibility of the Internal Audit Service not being able to carry out and fulfil its functions due to the Council's budgetary constraints.
- (iii) That the proposed training session for members of the Committee on 25 January 2016 be noted.

6. Approval of the County Council's and County Pension Fund's Letter of Representation 2014 15

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.

7. Approval of the County Council's Statement of Accounts 2014/15

A report was presented on a summary of the process of preparation and the main points of the Statement of Accounts for 2014/15; 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).

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 7 of the agenda were reflected within the statement.

The Committee was taken through the main components and key issues of the statement including:

- Details of the Council's spending and income in 2014/15, and how it compared with the budget.
- Financial Statements including the movement in reserves and comprehensive income and expenditure statements, balance sheet and cash flow statement.
- The external auditor's opinion on the accounts.

Officers responded to a number of questions raised by members. Members were informed that the Statement had to be produced in accordance with accounting standards and it was acknowledged that this made some parts of the Statement

difficult to read. Officers agreed to see if further changes and improvements could be made to the style and format of the Statement to make it easier to understand. It was suggested that consideration be given to the better use of graphs and pie charts.

With regards to comments made about the Council's reserves, members were reminded that this had been covered in a report to Cabinet on 12 August. It was agreed that the report would be recirculated to members for their information. It was also agreed that a more detailed breakdown of savings on the revenue budget and in particular within the Environment Directorate would be circulated to members.

It was noted that the accounts of the County Council had been placed on deposit and made available for public inspection between 6 July and 31 July 2015.

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 2014/15 be approved and signed by the Chair of the Committee.

8. External Audit - Lancashire County Council - Audit Findings Report 2014/15

A report was presented by Karen Murray, external auditor, on the overall findings on the audit of the accounts for Lancashire County Council, the proposed opinion on those accounts and the Value for Money conclusion. 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, the external auditor, informed the committee that the Council's accounts and working papers had again been prepared to a good standard and that none of the matters arising from the audit impacted on the Council's reported financial position. A small number of amendments had been made in agreement with the Interim S.151 officer, in respect of misclassifications and errors. In addition, the Interim S.151 officer had agreed to include some additional disclosures in the accounts in respect of the waste PFI buyout. The accounts had also been amended to strengthen the disclosures in a number of areas to ensure compliance with the Code of Practice and to better identify the nature of the transactions and this was an area where the external audit team would continue to work with the Council to further improve disclosures.

The report also included commentary on the Value for Money conclusion. The external auditor concluded that the Council did not have proper arrangements in place in its use of resources. This related primarily to weaknesses in the Council's arrangements for financial governance. It was recognised that this has been a challenging year for the Council and that Management Team had acknowledged the weaknesses in the Council's governance framework in the Annual Governance Statement for 2014/15.

The key issues impacting on the Value for Money conclusion were that the Council's Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control for the year. The external auditor noted that the Council had received assurance from internal audit that action had been taken to address specific issues raised from their work in 2013/14; that there was assurance from work on 4 key financial systems for 2014/15; and that there were some external assurances as reflected in the Annual Governance Statement. However, the changes to the internal audit plan approved in January 2014/15 meant that the internal audit plan in place for the year wasn't sufficiently broad.

Although Management Team agreed some actions, reported in the Annual Governance Statement approved by Committee in July, to support the development and strengthening of the internal control framework, there had not yet been any progress in delivering this work. As a result, there was a risk the Council would not be able to receive a Head of Internal Audit opinion for 2015/16. Secondly, the Value for Money opinion was impacted by the weaknesses identified in the Council's procurement arrangements which were identified when this was transferred back in-house on 1 April 2014. At that time, the Council identified a number of contracts that had either expired or would do so before a tender process could be run. In total, some £20m of council contracts were identified. It was acknowledged that action had since been taken to address the issues in the Council's procurement function.

The external auditor also commented on the Council's arrangements for strategic financial planning and noted that the Council had identified increasing financial pressures because of risks associated with the identification and delivery of savings schemes and on-going demand-side pressures. She also noted that significant work was underway across the Council to address the position, reporting back in the Autumn in line with the budget setting timetable.

The external auditor reported that the audit would not be certified as closed because the audits for 2012/13 and 2013/14 remained open, pending the conclusion of issues arising in 2014.

Resolved:

- (i) That the external audit findings report covering the audit of the County Council for year ended 31 March 2015 be noted.
- (ii) That the adjustments to the financial statements and other issues raised by the external auditor, as set out in the report presented, be noted.

9. Approval of the Lancashire County Pension Fund's Statement of Accounts 2014/15

The Committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2014/15, as presented by Abbi Leech Head of Corporate Finance and Interim S.151 officer.

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 2014/15 be approved and signed by the Chair of the Committee.

10. External Audit - Lancashire County Pension Fund Audit Findings Report 2014/15

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 2015 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:

- (i) That the external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2015 be noted.
- (ii) That the adjustments to the financial statements and other issues raised by the external auditor as set out in the report presented, be noted.

11. Urgent Business

There were no items of urgent business.

12. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Monday 25th January 2016 at 2:00pm at County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston