

Lancashire County Council

Audit and Governance Committee

Monday, 14th January, 2013 at 2.00 pm in Cabinet Room 'B' - County Hall,
Preston

Agenda

Part 1 (Open to Press and Public)

No. Item

1. **Apologies**

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

Members are asked to consider any Pecuniary and Non Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

3. **Minutes of the Meeting held on 26 September 2012** (Pages 1 - 6)
To be confirmed, and signed by the chair.

4. **Accounts of Lancashire County Developments Limited 2011/12** (Pages 7 - 32)

5. **Update on treasury management activity** (Pages 33 - 44)

6. **Internal Audit Service Progress Report** (Pages 45 - 58)

7. **External Audit - Annual Audit Letter 2011/12** (Pages 59 - 72)

8. **County Council and Pension Fund External Audit Fees 2012-13** (Pages 73 - 78)

9. **Urgent Business**

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

10. Date of Next Meeting

The next meeting of the Committee will be held on 25
March 2013 at 2.00pm at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 3

Lancashire County Council Audit and Governance Committee

Monday 26 September 2012

Minutes

Present:

County Councillors

S Chapman (Chair)

K Brown

M Welsh

H Henshaw

D Westley

M Younis

Officers in attendance

John Carr – head of fleet services - Lancashire County Commercial Group

George Graham – deputy county treasurer

Steve Freeman - accountancy and financial planning manager

Ruth Lowry – head of internal audit

Karen Murray - district auditor, Audit Commission

Fiona Blatcher – senior audit manager, Audit Commission

Roy Jones - assistant county secretary

Cath Rawcliffe – committee support officer

1. Apologies

Apologies were presented on behalf of County Councillor C Grunshaw and M Parkinson.

2. Disclosure of Pecuniary Interests

None were disclosed.

3. Minutes of the Meeting held on 25 June 2012

Resolved: That the minutes of the meeting held on 25 June 2012 be confirmed and signed by the chair.

4. Management of vehicle assets – Progress report

John Carr, head of fleet services, presented an update on the actions taken in response to the internal audit report on the management of vehicle assets.

The committee was informed that there were still outstanding issues which required further consideration by senior management before the Corporate Fleet Management Policy with associated guidance could be finalised. These related to the recovery of penalty charges from staff and vehicle specifications for council's fleet vehicles.

The committee was also informed that the Internal Audit Service had been consulted on the revised policy. However, any future review of the management of vehicle assets would be dependent upon whether the fleet management service remained within the County Council or transferred to One Connect Ltd.

Resolved: That the report be noted.

5. Update on Treasury Management Activity

A presentation was made to the committee by George Graham, deputy county treasurer 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 2012/13
- An assessment of the appropriateness of treasury strategy to the current and predicted economic environment
- Borrowing to finance capital expenditure
- Investment of cash balances
- Comparison of current borrowing levels with 2012/13 prudential indicators.

Details of the treasury management activities were presented at appendix A.

In response to concerns raised by the members in respect of the council's current borrowing policy, the deputy county treasurer advised that the views of the council's consultants had been taken on board and that over time, the council would be reducing its exposure to short term debt. However, for the time being, the current policy of keeping a higher proportion of borrowing at variable rates or short dated maturities was enabling the council to take advantage of the very low rates available on short term borrowing.

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

6. Internal Audit Service progress report

Ruth Lowry, head of internal audit, presented an internal audit progress report for the six months to 30 September 2012.

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 committee noted that 'limited assurance' had been given to the control framework in respect of the council's information governance and that it was proposed to appoint a new Senior Information Risk Officer to take responsibility for such matters. Despite assurances that senior officer discussions on the new appointment were ongoing, the committee was concerned that the matter was not being given sufficient priority and requested that their concerns be conveyed to the Chief Executive. In addition, the committee requested that a progress report on this matter and on the progress being made to reinvigorate the information governance control processes be presented to their next meeting on 14 January 2013.

Discussion also took place on the service areas highlighted in the report that had since transferred to One Connect.

Resolved: That:

- i) The internal audit progress report for the six months to 30 September 2012 as now presented be noted;
- ii) The Chief Executive be advised of the committee's concern at the delay in appointing a new Senior Risk Information Officer;
- iii) That an update report on the progress being made to appoint a Senior Risk Information Officer and to reinvigorate the information governance control processes, be presented to the next meeting of the committee on 14 January 2013.

7. Review of Internal Audit

Fiona Blatcher, senior audit manager presented a report on the Audit Commission's review of the Internal Audit Service.

It was noted that the review had been undertaken at the request of the Head of Internal Audit.

It was reported that the council's Internal Audit function met the standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government and demonstrated many of the characteristics of best practice. A small number of recommendations for improvement had been made for which an action plan had been agreed.

The Chair thanked the Audit Commission for their detailed review of the service.

Resolved: That the report and the completed action plan be noted.

8. Annual Governance Reports 2011-12

The committee considered the Audit Commission's Annual Governance Report for the year ending 31 March 2012. The report included the letter of representation which gave the Audit Commission specific management assurances regarding the accounts of the Lancashire County Council and Lancashire County Pension Fund.

In commenting on the county council's accounts, Karen Murray, district auditor, informed the committee that she had not identified any material errors within the financial statements and those errors which had been identified and which were set out on page 5 of the report, had not affected the underlying financial position of the council. She also commented that this was a significant achievement on the part of the council's finance staff as it had been a particularly challenging year with the introduction of a number of changes.

The report also included the Audit Commission's value for money conclusion which assessed whether the council had put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. The committee noted that overall the county council had demonstrated a strong financial performance and responded well to the demands placed on it whilst showing an overall improvement in performance across its services.

In commenting on the Lancashire County Pension Fund account, Fiona Blatcher, senior audit manager, informed the committee that the audit work had identified a potential misclassification of accounting entries between the County Council and the Pension Fund and that the investment assets balance and investment liabilities balance had been understated by 0.7m. A small number of amendments to the accompanying disclosure requirements were also highlighted.

The deputy county treasurer assured the committee that these errors would be rectified.

The committee was informed that the county treasurer had signed the letter of representation to the district auditor and members were asked to agree to the Chair of the committee signing the letter.

Resolved: That:

- i) The Audit Commission Annual Governance Report covering the audit of the County Council and Lancashire County Pension Fund for year ended 31 March 2012 be noted.
- ii) The adjustments to the financial statements and disclosure requirements as set out in the report now presented be noted.
- iii) The Chair of the committee be authorised to sign the letter of representation tabled at the meeting.
- iv) The findings in relation to the value for money conclusion as set out in the report now presented be noted.

9. Approval of the Lancashire County Pension Fund's Statement of Accounts 2011/12

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2011/12, 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 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.

The Statement had been signed by the treasurer to the Lancashire County Pension Fund to certify that it presented fairly the position of the Fund at 31 March 2012 and its income and expenditure for 2011/12.

It was noted that the accounts of the Lancashire County Pension Fund, had been placed on deposit and had been available for public inspection between 2 July and 27 July 2012.

The committee raised concern with regard to the Fund's assets and recommended that the Fund should look to increase its membership to prevent its assets falling short of its liabilities.

In response, the Deputy County Treasurer pointed out that the membership of the Fund was expected to increase following the implementation of the auto-enrolment scheme which required all employers to enrol their workers into a qualifying workplace pension scheme. These changes would apply to the County Council from 1 January 2013.

Discussion also took place on the equity holdings of the Fund. It was expected that the Fund would invest in an increased range of equities in the future. Members underlined the importance of taking social, environmental and ethical considerations into account when considering investment opportunities.

Resolved: That the Lancashire County Pension Fund's Statement of Accounts for 2011/12 be approved and signed by the chair of the committee.

10. Approval of the County Council's Statement of Accounts 2011/12

The committee was asked to approve the county council's Statement of Accounts for 2011/12, as presented by 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).

The statement had been compiled according to an agreed detailed programme of work to close the council's accounts accurately and approve them within the deadline of 30 September. The statement had been signed by the county treasurer to certify that it presented fairly the income and expenditure for 2011/12 and the financial position of the county council as at 31 March 2012.

The committee was taken through the main components and key issues of the statement, including the details of the status of the Statement of Accounts i.e. details of the council's spending and income in 2011/12 and how it compared with the budget; the main changes to the accounts for 2011/12 under IFRS, the financial statements including the movement in reserves statement, the comprehensive Income and expenditure statement, the balance sheet and cash flow statement and finally the auditor's report.

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

It was noted that the accounts of the county council had been placed on deposit and had been available for public inspection between 2 July and 27 July 2012.

The committee also noted the total amount of expenditure on Private Finance Initiative (PFI) projects. The committee expressed the hope that value for money would be achieved given the significant amount of expenditure involved.

Resolved: That the Lancashire County Council Statement of Accounts for 2011/12 be approved and signed by the chair of the committee.

11. Urgent Business

There were no items of urgent business.

12. Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Monday 14 January 2013 at 2.00 p.m. at the County Hall, Preston.

County Hall
Preston

I M Fisher
County secretary and solicitor

Agenda Item 4

Audit and Governance Committee
Meeting to be held on 14 January 2013

Electoral Division affected: All

Accounts of Lancashire County Developments Limited 2011/12
(Appendix 'A' refers)

Contact for further information:
Beryl Rhodes, 01772 533603, Lancashire County Developments Limited
beryl.rhodes@lancashire.gov.uk

Executive Summary

This report sets out the Financial Statements of Lancashire County Developments Limited for 2011/12.

Recommendation

The committee is requested to note the 2011/12 Statement of Accounts for Lancashire County Developments Limited.

Background

Lancashire County Developments Limited (LCDL) is the council's economic development company and is focussed on delivery in line with the County Council's Economic Development Framework.

On the 17th July 2003, the Full Council, on the recommendation of the Cabinet, resolved that the Lancashire County Developments Limited audited Statement of Accounts be reported to the Audit Committee for information.

An overview of 2011/12 for the company by its Chair may be seen on pages 3 and 4 of the Financial Statements for LCDL, which are attached at Appendix 'A'. Beryl Rhodes, LCDL Head of Commercial and Central Finance, will attend the meeting to respond to any questions.

The following summarises the key points from the 2011-2012 financial year (ending on 31st March 2012)

LCDL Group profit before taxation £4,251,122 for the period. The two major factors that gave rise to the profit were:

1. A £6,000,000 gain arising from the disposal of fixed assets as a result of the fire at the Lancashire Business Park in Leyland. The building was fully insured and our insurers have accepted liability. The accounts reflect the loss of the building and assume that the replacement will be built using the

insurance monies, creating a building of significantly higher value than the one which was destroyed. This appears in the accounts as a £6m profit on disposal of fixed assets.

2. A loss of £1,894,355 resulting from the reduction in the valuation of the property assets following a requirement by the Auditors to have the property portfolio externally valued:

The revaluation of the property portfolio has given rise to a reduction of £17m in the Company's net asset. The property portfolio is therefore now valued at £23million.

The accounts were audited by Grant Thornton who are the company's external auditors. The full report and accounts was then submitted to the LCDL Audit Committee, who recommended the accounts to the Board for signature and filing at Companies House. The accounts have subsequently been approved for signature by the LCDL Board and filed at Companies House.

Consultations

N/A

Advice

N/A

Implications:

This item has the following Risk Management implications:

N/A

Implications: Other

This item has the following implications:

N/A

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Ext
Financial Statements working papers	2011/12	Beryl Rhodes, LCDL Tel : 01772 533603

Reason for inclusion in Part II, if appropriate

N/A

Financial Statements Lancashire County Developments Limited

For the year ended 31 March 2012



Company No 1624144

Company information

Company registration number :	1624144
Registered office :	P O Box 78 County Hall Preston Lancashire PR1 8XJ
Directors :	Ms N D Penney M J Welsh H Henshaw J R C Lawrenson G Driver M P France T M Ashton P Halsall M Green
Secretary :	I M Fisher
Bankers :	The Royal Bank of Scotland Plc 97 Fishergate Preston PR1 2DP
Auditor :	Grant Thornton UK LLP Registered Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

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Chair's statement

The accounts of the group for the year ending 31 March 2012 include a number of technical factors which result in a pre-tax profit of £4,251,122 and a reduction of £16,297,671 in the value of fixed assets

A major fire on 21 December 2011 resulted in the destruction of Unit 3 on the Leyland Business Park, the building was fully insured and liability has been accepted by the group's insurers. The damaged building will be replaced with new buildings which will have a significantly higher book value, this is reflected in the accounts by a £6,000,000 profit on the disposal of fixed assets. This is offset by a book loss of £1,894,355 consequent on a revaluation of the group's properties to reflect current market conditions. This amount should be recouped in subsequent years when and as the commercial property market recovers. The fact that we are able to absorb these book losses is a testament to the overall strength of the balance sheet.

Operating profit less net interest payable for the year is £145,477 which is substantially ahead of budget and is a creditable performance in a year when trading conditions have been difficult. It is gratifying to report that our rental income has held up well, in adverse circumstances we have retained the large majority of tenants and continue to attract new ones. The Board wishes to express its appreciation to our staff, particularly at the Leyland Business Park, who maintained our reputation as high quality landlords throughout and for those who negotiated an extremely satisfactory settlement with our insurers.

The re-structuring of the group's management and services that commenced last year is now complete and our medium term prospects are set out in the Business Plan for 2012/13 which has been circulated to all relevant stakeholders.

In the opinion of the board the accounts for 2011/12 establish a sound financial platform for the group's future operations.

Report of the directors

The directors present their report together with the audited financial statements of the company and the group for the year ended 31 March 2012

Principal activities

The principal activities of the group are to invest in Lancashire with a view to acting as a catalyst in promoting the economic development of industry in the County, to provide industrial premises and associated facilities for businesses and to promote job creation and training particularly associated with new technologies

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989

Business review

A detailed review of operations of the group during the year and a commentary on the state of affairs, financial position and plans for the future is contained in the Chair's statement

The group loss before taxation amounted to £4,251,122 (2011 £1,774,564) The group profit after taxation amounted to £4,198,368 (2011 Loss £1,801,385), which has been transferred to reserves

Capital funding

Lancashire County Developments Limited is a company limited by guarantee, therefore, does not have a share capital

Directors and employees

The Board of Directors during the year ended 31 March 2012 is shown below All served on the Board throughout the year and thereafter, unless otherwise indicated

Ms N D Penney
M J Welsh
H Henshaw
J R C Lawrenson
G Driver
M P France
G Fitzgerald
T M Ashton
P Halsall
M Green

At 31 March 2012, the group had no paid employees (2011 Nil), because with effect from 1 January 2004 all employees of the group were transferred to become employees of Lancashire County Council Management services were also provided by the staff of Lancashire County Council and by professional advisers

Statement of directors' responsibilities

The directors are responsible for preparing the Report of the directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

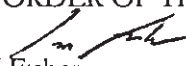
In so far as each of the directors is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Auditors

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed to be reappointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 unless the company receives notice under 488(1) of the Companies Act 2006

BY ORDER OF THE BOARD


I M Fisher
Secretary
20 September 2012

Report of the independent auditor to the members of Lancashire County Developments Limited

We have audited the financial statements of Lancashire County Developments Limited for the year ended 31 March 2012 which comprise the principal accounting policies, the consolidated profit and loss account, the statement of total recognised gains and losses, the group and parent company reconciliation of movement in members' funds, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

STUART MUSKETT (Senior Statutory Auditor)
For and on behalf of
GRANT THORNTON UK LLP
STATUTORY AUDITOR
CHARTERED ACCOUNTANTS
MANCHESTER

2 NOVEMBER 2012

Principal accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention modified by the revaluation of certain fixed assets

The principal accounting policies of the group are set out below

Basis of consolidation

The group financial statements combine the financial statements of Lancashire County Developments Limited and all of its subsidiary undertakings

In the year of acquisition, the consolidated profit and loss account incorporates the group's share of the results of subsidiary undertakings from the date of acquisition

The group also holds corporate investments in certain companies where its shareholding is in excess of 20% of the total voting capital of these companies. In order to reflect the investment nature of all holdings, the group accounts for profits and losses on all of its corporate investments upon realisation. As the investments are held primarily for the purpose of promoting economic development, disclosure of share capital, reserves and results for the year of each investment, as required by the Companies Act 2006, is not considered appropriate

Income from investments

Investment income is the amount of income receivable in the accounting period from investments and loans

Income from property

Property income comprises rents arising from investment properties in the accounting period, but excludes service charges which are credited against the relevant expenditure

Assets under the course of construction

Assets under the course of construction are capitalised at cost less any provision for impairment

Investment properties

In accordance with Statement of Standard Accounting Practice No 19, certain of the group's properties are held for long-term investment and are included in the balance sheet at their open market values. The surplus(es) or deficit(s) on revaluation of such properties are transferred to the investment property revaluation reserve. Depreciation is not provided in respect of freehold investment properties. Leasehold investment properties are not amortised where the unexpired term is over twenty years.

This policy represents a departure from statutory accounting principles, which require depreciation to be provided on all fixed assets. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Corporate investments

Investments are stated at cost less provision for impairment. Provision is made against investments if, in the opinion of the directors, the diminution in value is considered permanent and likely to crystallise in the foreseeable future. All costs incurred in connection with the making of corporate investments are written off in the period in which they are incurred.

Government and EEC grants

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible fixed assets. This does not comply with paragraphs 17 and 27 of Schedule 1 to SI 2008/410, which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grant to be treated as deferred income.

As stated above no depreciation is provided on investment properties and therefore, there would be no corresponding release of any deferred income to profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of the affairs of the group at the balance sheet date.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Leased assets

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Consolidated profit and loss account

	Note	2012 £	2011 £
Continuing activities			
Operating income	2	6,109,987	8,219,792
Expenditure		<u>(5,722,196)</u>	<u>(8,487,231)</u>
Operating profit/(loss)		387,791	(267,439)
Profit on disposal of tangible fixed assets	7	6,000,000	191,000
Unrealised loss on revaluation of investment properties		(1,894,355)	(1,513,666)
Provisions against investments		-	<u>7,138</u>
Profit/(loss) on ordinary activities before interest and taxation		4,493,436	(1,582,967)
Interest receivable	3	34,697	90,678
Interest payable and similar charges	3	<u>(277,011)</u>	<u>(282,275)</u>
Profit/(loss) on ordinary activities before taxation	2	4,251,122	(1,774,564)
Taxation on profit/(loss) on ordinary activities	5	(52,754)	(26,821)
Profit/(loss) retained and transferred to reserves	13	<u>4,198,368</u>	<u>(1,801,385)</u>

Statement of total recognised gains and losses

	2012 £	2011 £
Profit / (Loss) for the financial year	4,198,368	(1,801,385)
Loss on revaluation of corporate investments	-	(712,276)
Unrealised loss on revaluation of investment properties	<u>(14,065,819)</u>	
Total recognised gains and losses relating to the year	<u>(9,867,451)</u>	<u>(2,513,661)</u>

Reconciliation of movement in members' funds/(deficit)

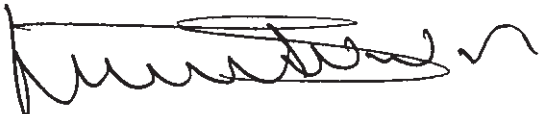
Group	2012	2011
	£	£
Profit/(loss) for the year	4,198,368	(1,801,385)
Unrealised revaluation of investment properties	(12,344,819)	-
Realisation of prior years' revaluation of investment properties	(1,721,000)	-
Impairment of investment in the year	-	(712,276)
Net (reduction in) members' funds	<u>(9,867,451)</u>	<u>(2,513,661)</u>
Members' funds at beginning of the year	<u>39,292,951</u>	<u>41,806,612</u>
Members' funds at end of the year	<u><u>29,425,500</u></u>	<u><u>39,292,951</u></u>
 Company		
(Loss) for the year	(975,302)	(1,897,283)
Members' deficit at beginning of the year	<u>(12,499,947)</u>	<u>(10,602,664)</u>
Members' deficit at end of the year	<u><u>(13,475,249)</u></u>	<u><u>(12,499,947)</u></u>

The accompanying notes form part of these financial statements.

Consolidated balance sheet

	Note	2012 £	2011 £
Fixed assets			
Investment properties	7	23,250,032	40,582,361
Corporate investments	8	3,639,089	2,604,431
		<u>26,889,121</u>	<u>43,186,792</u>
Current assets			
Debtors	9	10,176,144	2,633,481
Cash at bank and in hand		3,718,922	6,508,886
		<u>13,895,066</u>	<u>9,142,367</u>
Creditors :amounts falling due within one year	10	<u>(3,974,398)</u>	<u>(5,630,290)</u>
Net current assets		9,920,668	3,512,077
Total assets less current liabilities		<u>36,809,789</u>	<u>46,698,869</u>
Financed by			
Capital funding reserve	13	8,730,878	8,730,878
Investment property revaluation reserve	13	5,265,498	19,331,317
Profit and loss account	13	15,429,124	11,230,756
Members' funds		<u>29,425,500</u>	<u>39,292,951</u>
Creditors .amounts falling due after more than one year	11	7,230,000	7,273,918
Provisions for liabilities	12	154,289	132,000
		<u>36,809,789</u>	<u>46,698,869</u>

These financial statements were approved by the Board on 20 September 2012 and signed on their behalf by

Mr M Welsh  Chair

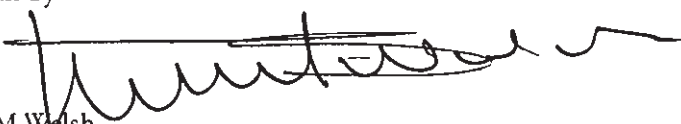
Company no. 1624144

The accompanying notes form part of these financial statements.

Company balance sheet

	Note	2012 £	2011 £
Fixed assets			
Corporate investments	8	<u>9,319,734</u>	<u>9,268,725</u>
		<u>9,319,734</u>	<u>9,268,725</u>
Current assets			
Debtors	9	1,149,503	1,613,160
Cash at bank and in hand		-	39,162
		<u>1,149,503</u>	<u>1,652,322</u>
Creditors .amounts falling due within one year	10	<u>(16,714,486)</u>	<u>(16,147,076)</u>
Net current liabilities		<u>(15,564,983)</u>	<u>(14,494,754)</u>
Total assets less current liabilities		<u><u>(6,245,249)</u></u>	<u><u>(5,226,029)</u></u>
Financed by.			
Capital funding reserve	13	7,660,241	7,660,241
Profit and loss account	13	<u>(21,135,490)</u>	<u>(20,160,188)</u>
Members' deficit		<u>(13,475,249)</u>	<u>(12,499,947)</u>
Creditors amounts falling due after more than one year	11	7,230,000	7,273,918
		<u>(6,245,249)</u>	<u>(5,226,029)</u>

These financial statements were approved by the Board on 20 September 2012 and signed on their behalf by


 Mr M Welsh

Chair

Company no: 1624144

The accompanying notes form part of these financial statements.

Consolidated cash flow statement

	Note	2012 £	2011 £
Net cash outflow from operating activities	14	29,623	(273,620)
Returns on investments and servicing of finance			
Interest received		34,697	90,678
Interest paid		<u>(277,011)</u>	<u>(282,275)</u>
Net cash inflow / (outflow) from returns on investments and servicing of finance		(242,314)	(191,597)
Taxation paid		-	(48,821)
Capital expenditure and financial investment			
Purchase of investment properties		(627,845)	(1,776,682)
Disposal of investment properties		-	191,000
Purchase of corporate investments		(2,259,888)	(1,348,512)
Disposal and repayment of corporate investments		<u>1,231,219</u>	<u>692,155</u>
Net cash outflow from capital expenditure and financial investment activities		(1,656,514)	(2,242,039)
Net cash outflow before financing		<u>(1,869,205)</u>	<u>(2,756,077)</u>
Financing			
Repayment of bank loans		<u>9,903</u>	<u>(678,108)</u>
Net cash outflow from financing	15	9,903	(678,108)
Decrease in cash in the year	16	<u>(1,859,302)</u>	<u>(3,434,185)</u>

The accompanying notes form part of these financial statements.

Notes to the financial statements

1 Constitution

Lancashire County Developments Limited is a company limited by guarantee. At 31 March 2012 there were 3 members (2011: 3), each of whom on a winding-up had undertaken to contribute an amount not exceeding £1.

2 Operating income and profit / (loss) on ordinary activities before taxation

Operating income and profit / (loss) on ordinary activities before taxation are attributable to the group's principal activities, which were carried out entirely within the United Kingdom. The profit / (loss) on ordinary activities before taxation is stated after charging:

	2012	2011
	£	£
Auditors' remuneration		
– audit services	23,434	28,416
– non-audit services	44,295	31,617
Management fee paid to Lancashire County Council	204,060	344,724
Operating lease rentals		
– land and buildings	<u>96,895</u>	<u>104,114</u>

Non-audit services relate primarily to tax compliance and advisory fees.

3 Net interest

	2012	2011
	£	£
Interest payable and similar charges		
Bank loans	<u>277,011</u>	<u>282,275</u>
Interest receivable		
Bank interest receivable	<u>34,697</u>	<u>90,768</u>

4 Directors and employees

The chairman received £Nil (2011: £Nil) during the year. The total received from the group by the other directors was £Nil (2011: £Nil).

The employees of the group were officially transferred to Lancashire County Council with effect from 1 January 2004. The average number of employees in the year ended 31 March 2012 was Nil (2011: Nil). Employee costs of £1,541,335 for the year (2011: £2,335,505) were recharged from Lancashire County Council to Lancashire County Developments Limited and are included within administrative expenses.

5 Taxation

	2012	2011
	£	£
Corporation tax on profit / (loss) on ordinary activities at 26% (2011 28%)		
– current year	30,465	-
– adjustment in respect of prior years	-	(41,179)
	<u>30,465</u>	<u>(41,179)</u>
Deferred taxation		
– current year (other)	22,289	52,447
– adjustment in respect of prior years	-	15,553
	<u>22,289</u>	<u>68,000</u>
	<u>52,754</u>	<u>26,821</u>
Tax on profit / (loss) on ordinary activities		

Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 26% (2011 28%) The differences are explained as follows

	2012	2011
	£	£
Profit / (Loss) on ordinary activities before taxation	<u>4,251,122</u>	<u>(1,774,564)</u>
Profit / (Loss) on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 26% (2011 28%)	1,105,292	(496,878)
Effect of		
Expenses not deductible for tax purposes	187,031	412,522
Differences between capital allowances and depreciation	(40,857)	(28,269)
Non-taxable income	(8,186)	-
Pension	(3,013)	-
Marginal relief	(2,238)	-
Profit on disposal	(1,207,564)	-
Unrelieved tax losses	-	112,625
Adjustment in respect of prior years	-	(41,179)
	<u>30,465</u>	<u>(41,179)</u>

6 Profit and loss account

Under the provisions of s480 of the Companies Act 2006, Lancashire County Developments Limited has not published its own profit and loss account. The loss dealt with in the financial statements of the parent undertaking is £975,032 (2011 £1,897,283)

7 Investment properties

Group	Freehold	Assets under the course of construction	Total
	£	£	£
Cost or valuation and net book value			
At 1 April 2011	40,582,361	-	40,582,361
Additions	156,845	-	156,845
Revaluation in the year	(15,960,174)	-	(15,960,174)
Disposal	(1,529,000)	-	(1,529,000)
At 31 March 2012	<u>23,250,032</u>	<u>-</u>	<u>23,250,032</u>
Cumulative grants			
At 31 March 2012			<u>3,143,188</u>
At 31 March 2011			<u>3,143,188</u>

The properties were externally revalued on an open market basis as at 31 March 2012 by King Sturge LLP. The historical cost of the premises are as follows

	£
At 31 March 2011	34,970,187
Additions	156,840
At 31 March 2012	<u>35,127,027</u>

In December 2011 a significant part of one of the group's properties was destroyed in a fire. The disposal of this asset has been reflected in these financial statements along with the current best estimate of the insurance proceeds receivable which are yet to be finalised.

Company

At the year end the cost and net book value of the assets was £Nil (2011 £Nil)

Capital commitments

At 31 March 2012, the group and the company had capital commitments of £Nil (2011 £Nil)

8 Corporate investments

	2012 £	Group 2011 £	2012 £	Company 2011 £
Shares in subsidiary undertakings	-	-	200	200
Shares in associated undertaking	163,136	163,136	-	-
Loans to subsidiary undertakings	-	-	9,219,529	9,219,529
Other investments in shares	1,120,464	739,318	100,005	48,996
Other participating interests	28,687	22,698	-	-
Other loans	2,326,802	1,679,279	-	-
	<u>3,639,089</u>	<u>2,604,431</u>	<u>9,319,734</u>	<u>9,268,725</u>

Subsidiary undertakings	Principal activity	% of ordinary shares	% of preference shares
Lancashire County Developments (Investments) Limited	Investment company	100	-
Lancashire County Developments (Property) Limited	Property investment	100	-
Lancashire Enterprises (Investments) Limited	Investment company	100	100
Lancashire County Enterprises (Leasing) Limited	Dormant	100	-
The Lancashire Rosebud (Small Firms) Fund Company Limited (Limited by guarantee)	Dormant	-	-

Associated undertaking

North West Regional Fund Limited	Investment company	25	-
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Other participating interests

Other participating interests at 31 March 2012 represent investments in The HSBC (UK) Enterprise Fund for the North West and the Enterprise Venture Fund. The interests are 11.9% and 15.7% respectively (2011: 11.9% and 15.7% respectively).

Corporate investments (continued)

Group

	Shares in associated undertakings £	Other participating interests £	Other investment in shares £	Loans £	Total £
Cost					
At 1 April 2011	163,136	22,698	2,107,441	2,982,265	5,275,540
Additions	-	-	-	2,259,888	2,259,888
Amounts written off	-	-	(544,134)	(215,366)	(759,500)
Repayments	-	-	-	(887,550)	(887,550)
Transfer	-	-	247,000	(247,000)	-
Net share of profits of other participating interests	-	5,989	-	-	5,989
At 31 March 2012	<u>163,136</u>	<u>28,687</u>	<u>1,810,307</u>	<u>3,892,237</u>	<u>5,843,363</u>
Provisions					
At 1 April 2011	-	-	1,368,123	1,302,986	2,671,109
Charge for the year	-	-	-	274,072	274,072
Amounts written off	-	-	-	(689,903)	(689,903)
Transfer	-	-	(727,276)	727,276	-
At 31 March 2012	<u>-</u>	<u>-</u>	<u>640,847</u>	<u>1,614,431</u>	<u>2,255,278</u>
Net book value					
At 31 March 2012	<u>163,136</u>	<u>28,687</u>	<u>1,120,464</u>	<u>2,326,802</u>	<u>3,639,089</u>
At 31 March 2011	<u>163,136</u>	<u>22,698</u>	<u>739,318</u>	<u>1,679,279</u>	<u>2,604,431</u>

Other investments	Principal activity	% of ordinary shares held at 31 March 2012	% of preference shares held at 31 March 2012
Manhattan Showers Limited	Manufacture of shower screens	20	-
North West Regional Fund Limited	Investment company	25	-
Plant Impact Plc	Development of crop nutrients and natural pesticides	3 72	-
SOL Publications Limited	Publishing and Media company	15	-
Outerlin Limited (formerly EXML Systems)	Development of Expense World Expenses System	2	-

The group holds other investments in which more than 20% of share capital is held. The group does not include these as associated undertakings as no significant influence is exerted over these companies.

9 Debtors: amounts falling due within one year

	2012 £	Group 2011 £.	2012 £	Company 2011 £
Trade debtors	1,731,232	1,579,824	258,607	551,305
Accrued income and prepayments	8,109,986	228,330	29,798	18,296
Amounts owed by parent undertaking	157,989	748,086	667,481	748,086
Amounts owed by other group undertakings	-	-	-	208,008
Amounts owed by related undertakings	-	2,938	-	2,938
Other debtors	1,320	7,776	-	-
Social security and other taxes	175,617	66,527	175,617	66,527
Deferred taxation (note 12)	-	-	18,000	18,000
	<u>10,176,144</u>	<u>2,633,481</u>	<u>1,149,503</u>	<u>1,613,160</u>

Included within accrued income and prepayments is an amount representing the expected insurance proceeds of £8,000,000, please see note 7 for further details

10 Creditors: amounts falling due within one year

	2012 £	Group 2011 £.	2012 £	Company 2011 £
Bank overdraft	-	930,662	542,554	930,662
Bank loans (note 11)	53,821	-	53,821	-
Trade creditors	1,106,300	329,775	1,106,300	329,775
Amounts owed to parent undertaking	-	1,010,991	-	1,010,991
Amounts owed to other group undertakings	-	-	14,451,786	12,629,480
Amounts owed to related undertakings	-	85,036	-	85,036
Corporation tax	30,465	-	-	-
Accruals and deferred income	2,783,812	3,273,826	560,025	1,161,132
	<u>3,974,398</u>	<u>5,630,290</u>	<u>16,714,486</u>	<u>16,147,076</u>

11 Creditors: amounts falling due after more than one year

	Group and Company	
	2012	2011
	£	£
Amount owed to parent undertaking - Lancashire County Council	7,230,000	7,230,000
Bank loans	-	43,918
	<u>7,230,000</u>	<u>7,273,918</u>

The loan from Lancashire County Council included in creditors amounts falling due after more than one year of £7,230,000 is interest free and is repayable in full on 30 September 2030

The Royal Bank of Scotland plc bank loans are repayable as follows

	Group and company	
	2012	2011
	£	£
Within one year	-	-
After one and within two years	53,821	43,918
After two and within five years	-	-
	<u>-</u>	<u>43,918</u>

The bank loan is secured by fixed and floating charges over all assets of the group and is repayable by equal quarterly instalments Interest is based upon bank LIBOR rate

12 Provisions for liabilities

Deferred taxation

	Group	Company
	£	£
Provision/(asset) at 1 April 2011	132,000	(18,000)
Charge for the year	22,289	-
Provision/(asset) at 31 March 2012	<u>154,289</u>	<u>(18,000)</u>

Deferred taxation provided for in the financial statements is set out below

	Group		Company	
	Amount provided 2012	2011	Amount provided 2012	2011
	£	£	£	£
Accelerated capital allowances	132,000	179,000	(18,000)	(18,000)
Other timing differences	22,289	(47,000)	-	-
	<u>154,289</u>	<u>132,000</u>	<u>(18,000)</u>	<u>(18,000)</u>

13 Reserves

Group	Capital funding reserve £	Investment property revaluation reserve £	Investment revaluation reserve £	Profit and loss account £
At 1 April 2011	8,730,878	19,331,317	-	11,230,756
Profit for the year	-	-	-	4,198,368
Unrealised movement in revaluations	-	(12,344,819)	-	-
Realisation of prior year revaluations	-	(1,721,000)	-	-
At 31 March 2012	<u>8,730,878</u>	<u>5,265,498</u>	<u>-</u>	<u>15,429,124</u>

Company	Capital funding reserve £	Profit and loss account £
At 1 April 2011	7,660,241	(20,160,188)
Loss for the year	-	(975,302)
At 31 March 2012	<u>7,660,241</u>	<u>21,135,490</u>

14 Net cash outflow from operating activities

	2012 £	2011 £
Operating profit / (loss)	387,791	(267,439)
Decrease / (Increase) in debtors	457,337	(205,781)
(Decrease) / Increase in creditors	(809,516)	205,589
Share of (profit)/loss in participating interests (note 8)	(5,989)	(5,989)
Net cash outflow from operating activities	<u>29,623</u>	<u>(273,620)</u>

15 Reconciliation of net cashflow to movement in net (debt)/ funds

	2012 £	2011 £
Decrease in cash in the year	(1,859,302)	(3,434,185)
Cash outflow from movement of debt	9,903	678,108
Movement in net funds	<u>(1,869,205)</u>	<u>(2,756,077)</u>
Opening net funds	(1,695,694)	1,060,383
Closing net (debt)/funds	<u>(3,564,899)</u>	<u>(1,695,694)</u>

16 Analysis of changes in net funds

	At 31 March 2011 £	Cashflows £	At 31 March 2012 £
Bank overdraft	(930,662)	930,662	-
Cash at bank and in hand	6,508,886	(2,789,964)	3,718,922
Cash at bank	5,578,224	(1,859,302)	3,718,922
 Bank loans			
The Royal Bank of Scotland plc	(43,918)	(9,903)	(53,821)
 Other loans			
Lancashire County Council	(7,230,000)	-	(7,230,000)
	<u>(1,695,694)</u>	<u>(1,869,205)</u>	<u>(3,564,899)</u>

17 Operating lease commitments

Operating lease payments due within one year are as follows

	2012 Land and Buildings £	2011 Land and Buildings £
Expiring after five years	<u>96,895</u>	<u>92,860</u>

18 Related parties

The company has made purchases on behalf of Lancashire and Blackpool Tourist Board Limited of £Nil (2011 £Nil) The amount owed by this related party at 31 March 2012 is £Nil (2011 £Nil)

Sales from Lancashire County Council during the year amount to £2,488,260 (2011 £2,491,809)
 Purchases with Lancashire County Council amount to £3,734,591 (2011 £4,306,982) The amount owed by this related party at 31 March 2012 is £808,831 (2011 £854,960) The amount owed to this related party at 31 March 2012 is £932,202 (2011 £1,010,991)

Audit and Governance Committee
Meeting to be held on 14 January 2013

Electoral Division affected: <u>None</u>

Update on treasury management activity

Appendices 'A' and 'B' refer

Contact for further information:

Mike Jensen, 01772 534742, County Treasurer's Department.

mike.jensen@lancashire.gov.uk

Executive Summary

The report set out in Appendix A is a review of the County Council's treasury management activities during the third quarter of the 2012/13 financial year. Treasury management activities are regulated by the CIPFA Code of Practice and it is best practice to review treasury management activities on a regular basis to ensure the effective governance and oversight of treasury management activities.

This review outlines the treasury management activities of the County Council between September and November 2012 and includes:

- A review of the economic conditions and the impact on the County Council's borrowing and lending activities.
- Summaries of borrowing and investment transactions.
- Monitoring of Prudential Indicators
- An update on the investment in Landsbanki hf.

Recommendation

The Committee is asked to note the report on recent treasury management activities in Appendix 'A' and Appendix 'B'

Background and Advice

At the meeting of the Cabinet on 9 July 2009 it was agreed that in order to strengthen members' oversight of the County Council's treasury management activities, the Audit Committee should monitor and scrutinise regular updates on treasury management issues. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee. The aim of the report is to inform members of the general economic environment surrounding treasury management activities and to set out the position on the borrowing and lending activities of the County Council.

The quarterly report attached at Appendix 'A' is the review of treasury management activity for the third quarter of the 2012/13 financial year.

Consultations

Arlingclose Limited provides advice on treasury management.

Implications:

N/A

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
Treasury Management Strategy Statement 2012/13	County Council 24 Feb 2012	Andy Ormerod County Treasurer's Dept X34740
Investment Strategy and Approach.	Cabinet 5 Jan 2012	Andy Ormerod County Treasurer's Dept X34740

Treasury Management Activity Mid-Year Report 2012-13

Background

At the meeting of Cabinet on 9 July 2009, it was agreed that in order to strengthen members' oversight of the County Council's treasury management activities, the Audit Committee should receive regular updates on treasury management issues and that members of the Audit Committee should receive more detailed training in order to enable effective oversight of the County Council's treasury management activities. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee.

This report considers treasury management activity over the first 5 months of the financial year.

Economic Overview

Despite some stronger economic growth data towards the end of 2012, consumers are yet to loosen their purse strings and businesses are still reticent to make long-term investment decisions. The momentum in GDP growth is therefore unlikely to be sustained while uncertainty over the economic outlook persists. Consumer Price Inflation has fallen close to the Bank of England's 2% target, although it is expected to be affected by volatility in energy and commodity prices throughout 2013.

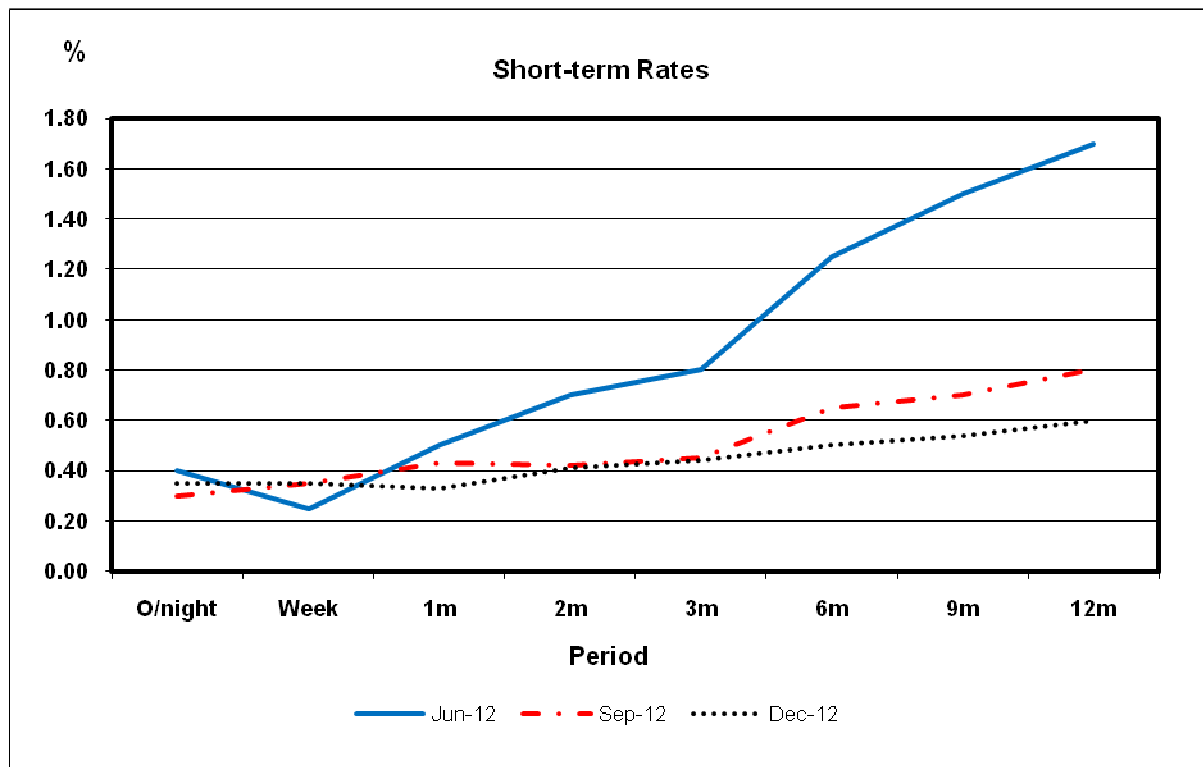
Having voted to increase quantitative easing by £50bn in July, the Bank's Monetary Policy Committee is waiting to assess the effectiveness of the Funding for Lending Scheme that started in August. Further asset purchases remain a distinct possibility, although there is a developing consensus that quantitative easing is becoming less effective.

The US Federal Reserve has responded to the slowdown in growth and employment with large scale asset purchases of \$40bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' nevertheless remains a serious risk unless a political solution is reached soon.

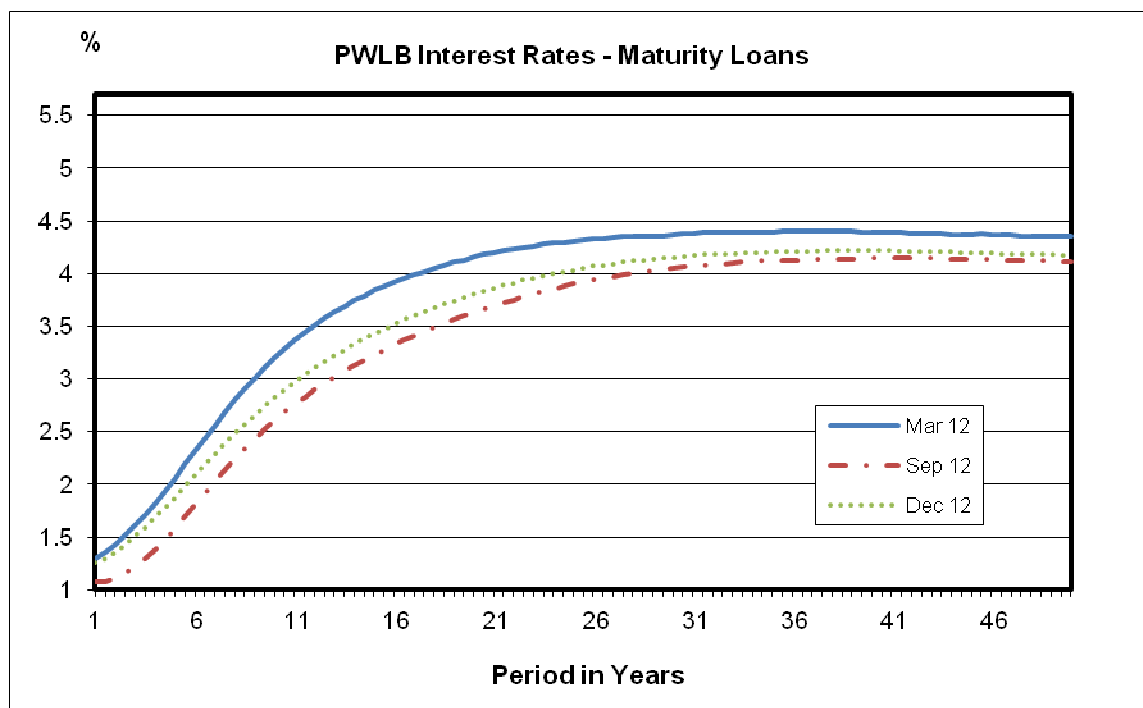
The Eurozone is making slow headway, with the European Stability Mechanism now operational, announcements on the Outright Monetary Transactions programme well received, and some progress being made towards banking union. These have placated markets and curtailed some of the immediate risks to the stability of the monetary union. A sustainable solution to the Eurozone crisis is some way off though, as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

Interest Rate Environment

Short term interest rates continue at the very low levels since the Bank of England reduced base rate to 0.5% in March 2009. The chart below shows the downward pressure and movement of rates during the year.



Current longer term PWLB rates are shown below.



During the summer uncertainty in world markets has increased the demand for UK government debt which puts downward pressure on UK interest rates. The effects of this can be seen in the fall of the PWLB rates in the period. The shape of the curve has remained constant with rates much lower at the short end.

Outlook for Interest Rates

Arlingclose Limited, the County Council's treasury management adviser, are predicting that it could be 2016 before official UK interest rates rise. The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until at least 2015, and with the UK's safe haven status and minimal prospect of short-term rate rises, gilt yields are expected to remain near their current lows.

Arlingclose central interest rate forecast – November 2012

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Current	0.50	0.40	1.09	2.71
Q4 2012	0.50	0.55	1.10	2.80
Q1 2013	0.50	0.55	1.10	2.80
Q2 2013	0.50	0.60	1.25	2.80
Q3 2013	0.50	0.60	1.25	2.80
Q4 2013	0.50	0.60	1.25	2.80
H1 2014	0.50	0.70	1.40	2.90
H2 2014	0.50	0.75	1.40	2.90
H1 2015	0.50	0.75	1.40	3.00
H2 2015	0.50	0.75	1.40	3.00

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

Current Treasury Management Policy

Historically, the Council's investment portfolio, like that of many local authorities, had consisted almost entirely of fixed term deposits with very short maturity periods, and borrowing was provided entirely through PWLB loans with long dated maturities. This served the Authority well during a decade of consistent economic growth, low inflation and a stable economic environment where the County Council could consistently invest balances at a higher return than the cost of borrowing. However in 2007 the collapse of the banking system and subsequent world recession ended this benign financial environment.

The current borrowing policy of keeping a higher proportion of borrowing at variable rates or short dated maturities is enabling the County Council to take advantage of the very low rates available on short term borrowing. In addition, given that the current pressure on rates is still downwards, it positions the County Council to take advantage of any further falls in longer term rates in the near future.

The current investment policy of accessing high credit quality institutions through bond investments as opposed to placing fixed term deposits directly with banks

continues to be the County Council's preferred strategy given the continued difficult credit environment.

The County Council identifies sub-portfolios into which the overall investment portfolio is divided, broadly reflecting the County Council's overall cash position and profile of when balances are required. From this position it is possible to provide geographical and financial sector diversity, whilst increasing liquidity and credit quality management. Inflation and interest rate risk can also be managed and there is a possibility of increased investment returns if suitable opportunities arise.

The sub-portfolios include:

- **Bond liquidity book** made up of short dated gilt edged securities, commercial bonds, treasury bills, short date sovereign (UK government) and supra-national bonds (i.e. bonds from institutes such as the EBRD). All these instruments can be bought or sold at very short notice. This sub portfolio is for the management of day to day cash flows.
- **Bank liquidity book** made up of call accounts, short dated bank deposits, bank certificates of deposit, money market funds, reverse repurchase agreements, again to manage daily cash flows.
- **Core Maturity matching book** for medium term and less volatile reserves. These instruments can be matched to the expected cash flows pertaining to reserves which will be held over a longer period. This will comprise gilt edged securities, Sovereign and Sovereign Guaranteed Bonds, Supra national bonds, Local Authorities bonds/debt and Bond funds. Possibly longer term bank deposits with institutions of very high credit quality. A significant proportion of this portfolio will still be highly liquid, principally to afford the ability to react to changing circumstances.
- **Core cash book** for longer term investments. This can be used to provide a higher yield on cash which the Authority can lend for longer periods – investments would include structured deposit/certificates of deposit/Notes short/medium term maturities with capital protection.
- **Specific situation book** – index linked gilts or bonds, structured deposits and certificates of deposit. This portfolio will be tailored to specific requirements as they arise, examples might include PFI reserves.

A table outlining the types of financial instruments to be held within these portfolios and how they are accounted for is included at Appendix B.

Investment Activity

The table below shows investment activity during September to November 2012

Bank Deposits

	Call	Fixed	Structured	Total
	£m	£m	£m	£m
Balance 1st September	16.51	129.60	124.18	270.29
Maturities	(476.74)	-	-	(476.74)
New Investments	477.14	-	-	477.14
Balance 30th November	16.91	129.60	124.18	270.69

Bonds

	Local Authority Bonds	UK Govt Gilts	Corporate & Supra-nationals	Total
	£m	£m	£m	£m
Balance 1st September	37.91	178.90	86.39	303.20
Maturities	-	(126.05)	(148.31)	(274.36)
New Investments	-	95.77	193.43	289.20
Balance 30th November	37.91	148.62	131.51	318.04

Overall the level of investments has remained fairly static with some realignment made between the UK gilt and corporate bond portfolios.

Borrowing Activity

Current market conditions continue to enable the County Council to take advantage of short term market borrowing. The table below shows the borrowing activity which has taken place between September and the end of November 2012. The total is net of transferred debt.

	PWLB Fixed Rate £m	PWLB Variable Rate £m	Long Term Market Loan £m	Other Locals £m	Police, Fire and Lancashire District Councils £m	TOTAL £m
Balance 1st September	168.30	125.75	52.32	279.50	94.65	720.52
Maturities	-	-	-	(98.10)	(85.39)	(183.49)
New Borrowing	-	-	-	113.04	78.62	191.66
Balance 30th November	168.30	125.75	52.32	294.44	87.58	728.69

The total borrowing level changes daily depending on the County Council's cash flow position, but overall there has been no significant change in the total level of borrowing during the period.

Prudential Indicators

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31st August 2012 compared to the prudential indicators set in the treasury management strategy for 2012/13 is set out below.

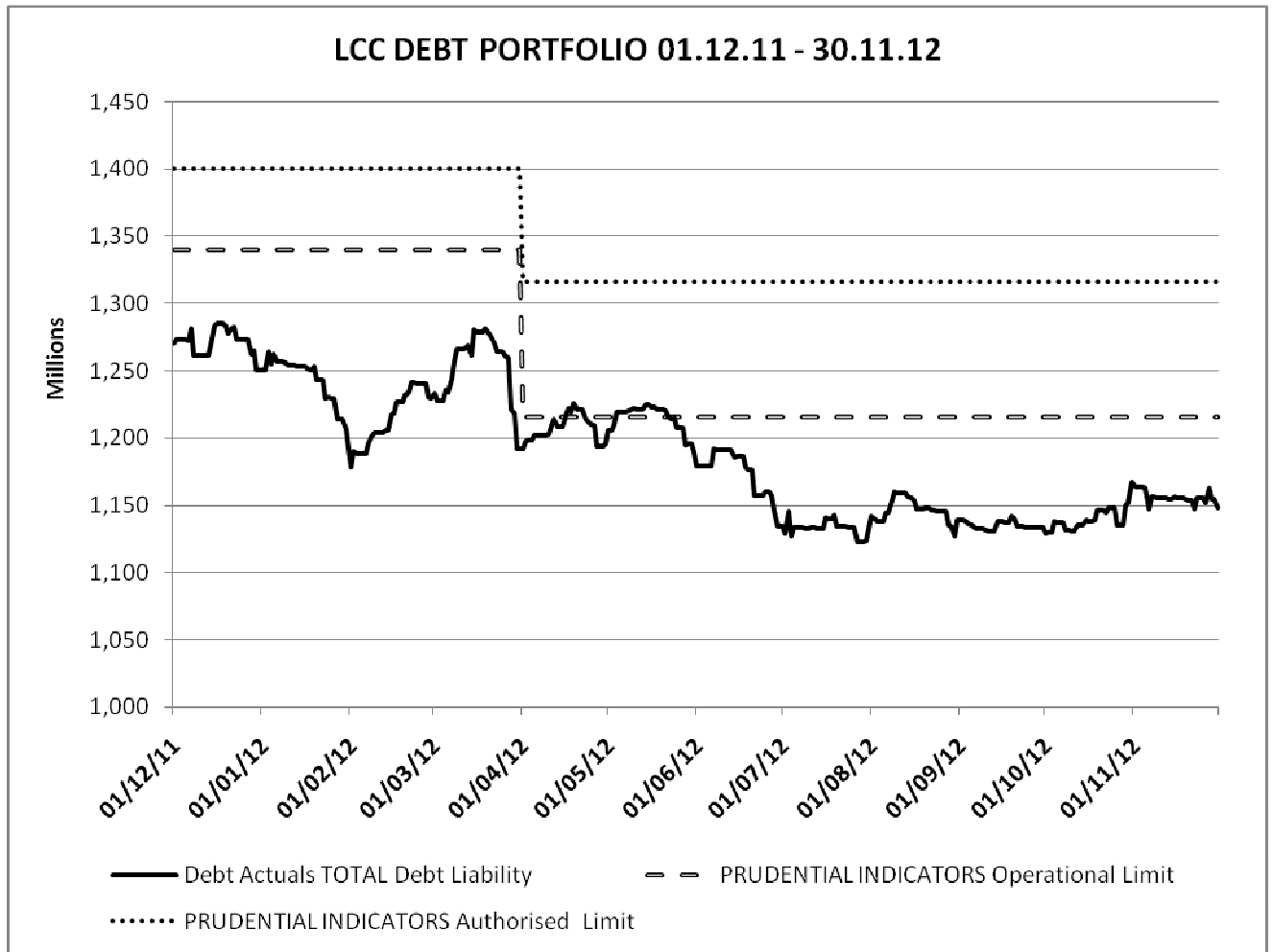
Treasury Management Prudential Indicators	2012/13 £M	30 th Nov Actual £M
1. Adoption of CIPFA TM Code of Practice	ADOPTED	
2. Authorised limit for external debt - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	791	729
Other long-term liabilities(PFI schemes)	525	419
TOTAL	1316	1148
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.		
Borrowing	741	729

Other long-term liabilities	475	419
TOTAL	1216	1148

4. Maturity structure of debt

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	52.43
12 months and within 2 years		75	-
2 years and within 5 years		75	-
5 years and within 10 years		75	21.15
10 years and above	25	100	26.42

The graph below shows the level of total debt for each day of the past calendar year compared with the prudential indicator operational and authorised boundaries.



Budget Monitoring Position

	Cash Limit	Est Actual	Variance
	£m	£m	£m
MRP	25.996	25.996	-
Interest Paid	20.720	18.000	(2.720)
Interest Received	(11.309)	(18.589)	(7.280)
Grants	(0.403)	(0.403)	-
	35.004	25.004	(10.000)

Current Projections indicate a £10m under- spend against the financing charges budget.

This position can change taking account both of ongoing performance and also market movements as is kept under regular review and an updated forecast is provided to the County Treasurer on a monthly basis.

Icelandic Banks

At the time the Icelandic banks collapsed in October 2008, the County Council had an investment of £10.0m with Landsbanki. Under the treasury management strategy in operation at that time, the County Council's share of the deposit was £6.436m.

The County Council was one of many UK and Dutch Local Authorities with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14th and 15th of September 2011. The Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki administration would exceed the book value of recognised priority claims by around ISK 121bn, taking into account the sale of its holding in Iceland Foods. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations.

The winding up board made its first distribution on 7th December 2011, the second distribution on 25th May 2012 and the 3rd distribution on 9th October 2012. Approximately 48% of the total claim has now been repaid. The table below shows the combined amount of the distributions and the amount outstanding.

<u>CLAIM</u>	£
Principal	6,435,808.29
Interest	93,384.46
Total	6,529,192.75
Received	3,098,465.33
Claim outstanding	3,430,727.42

Appendix B

Portfolio	Instruments	Initial Valuation/ Measurement	Subsequent Valuation Method	Value Fluctuations	Classification & Remarks
Core Cash Book	Fixed Deposit, Structured Deposits	Fair Value plus transaction costs	Amortised Costs	Comprehensive Income & Expenditure Statement	Loans and Receivables. Long Term defined as greater than 1yr to maturity.
Bank Liquidity Book	Term or Structured Deposits	Fair Value plus transaction costs	Amortised Costs	Comprehensive Income & Expenditure Statement	Loans and Receivables. Deposits less than 1 yr to maturity
Bank Liquidity Book	Fixed Deposits Call Accounts	Fair Value plus transaction costs	Amortised Costs	Comprehensive Income & Expenditure Statement	Loans and Receivables. These are cash and cash equivalents defined as having less than 3 months to maturity.
Bank Liquidity Book	Money Market Funds / Bond Funds	Fair Value plus transaction costs	Fair Value	AFS Reserve until disposal, then recycled through income and expenditure account.	Available For Sale Reserve holds change in value (paper gain or loss) until the value of the asset is realised.
Core Maturity Matching Book	Gilts, Index Linked Gilts, Supra national and Corporate Bonds	Fair Value plus transaction costs	Fair Value	AFS Reserve until disposal, then recycled through income and expenditure account.	Available For Sale Reserve holds change in value (paper gain or loss) until the value of the asset is realised.
Core Maturity Matching Book	Local Authority Bonds	Fair Value plus transaction costs	Fair Value	AFS Reserve until disposal, then recycled through income and expenditure account.	Available For Sale Reserve holds change in value (paper gain or loss) until the value of the asset is realised.
Bond Liquidity Book	Gilts, Index Linked Gilts, Supra national and Corporate Bonds	Fair Value plus transaction costs	Fair Value	Income and Expenditure Account.	The active portfolio is held for trading and therefore realised and unrealised gains and losses are taken straight to Financing and Investment Income and Expenditure Account.

Audit and Governance Committee

Meeting to be held on 14 January 2013

Electoral Division affected: All

Internal Audit Service Progress Report

(Appendices A and B refer.)

Contact for further information:

Ruth Lowry, (01772) 534898

Executive Summary

In the context of fulfilling its responsibility to consider periodic reports of internal audit activity and outcomes, the committee is asked to consider the progress report for the period to 14 December 2012 (Appendices A and B).

Recommendation

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the period to 14 December 2012.

Background and advice

This report sets out for the Committee the internal audit work performed, the key issues emerging from it and management's responses to it.

Appendix A to this report summarises the main issues emerging from the internal audit work completed to date. Appendix B sets out the work performed against the annual audit plan for the year and the assurance assessment provided where work has been completed, including our work to assess progress against management's agreed action plans. The table in this appendix also indicates where the audit plan has been amended.

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
Not applicable.		

Reason for inclusion in Part II, if appropriate: Not applicable.

Matters arising from internal audit work completed during the period

1 Introduction

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It summarises the work undertaken during the year to 14 December 2012 by the council's Internal Audit Service under the internal audit plan for 2012/13.
- 1.2 A full table of all the audit work currently planned for 2012/13 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have been deferred or removed from the plan, and where additional work has been included in the programme for the year.
- 1.3 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

2 Key issues

Corporate arrangements in relation to information governance

- 2.1 The council's information governance arrangements remain substantially unchanged since the last meeting of the Audit and Governance Committee in September 2012. The arrangements are still subject to further development, and assurance cannot yet be provided over the corporate controls in place.
- 2.2 Assistance is being provided by the Internal Audit Service to develop the documentation required by the council as we begin to work more closely with the NHS and take on responsibility for public health.

Legislative compliance

- 2.3 The Deputy County Secretary and Solicitor presented a report to the Audit Committee in June 2012 addressing assurance over the council's compliance with legislation, in which he stated that "a high degree of assurance can be provided" over the council's "compliance with legislation focussed specifically on local government, from a governance perspective (as opposed to service specific) legislation". However he also stated that "a lesser degree of assurance can be provided in relation to legislation that is local government-specific but relates to functions".
- 2.4 We have undertaken specific compliance testing and have provided substantial assurance over the Registrar's Service's compliance with the legislation governing the solemnisation of marriages. We have almost completed our work on the Trading Standards Service.
- 2.5 We have also undertaken work on the role of the independent reviewing officers (IROs) who are required to assess the adequacy of social care provision for

Internal Audit Service progress against plan 2012/13

Audit and Governance Committee meeting 14 January 2013

children looked after and child protection cases. Our work has not focussed solely on the IROs' compliance with relevant statutory guidance but it should be noted that the IROs are not fully compliant with the statutory guidance relating to their work, and that a high court judgement was made in June 2012 against the council and one of its IROs.

Direct payments

- 2.6 We have completed our detailed work on direct payments within both ACS and CYP, and are continuing to consider with management the issues that will be raised as elements of these services transfer to the council's new Benefits Service that will be operated by One Connect Ltd.

Lancashire County Council internal audit plan 2012/13: progress as at 14 December 2012

Control	Audit review	Audit scope	Comments	Assurance
Corporate controls				
Governance				
	Support to management, including input to the council's annual governance statement. Corporate performance monitoring. Implementation of member's decisions and decision-tracking. Staff acceptance of gifts and hospitality. Staff disclosures of business interests and their use by management. Members' allowances and expenses, and declarations of interests, gifts and hospitality.	RACE-based review. RACE-based review. RACE-based re-review – previously limited assurance. RACE-based re-review – previously limited assurance. Follow-up review.	Work is continuing with the Assistant County Secretary to consider the council's governance arrangements. Work has not yet begun. Since work relating to consideration of the legal implications of decisions before they are proposed and made is still being finalised, this work has now been deferred to 2013/14. A draft report has been issued to management. This work has been combined with that above relating to staff acceptance of gifts and hospitality. We have reviewed the action taken since we completed our audit work in October 2011. Action has been taken as agreed, although further work is planned to train new elected members in 2013 and to use plain English in the guidance.	Not applicable Limited Not applicable
Working in strategic partnership				
	Funds flow between LCC and One Connect Ltd.	RACE-based review.	We have completed our work and issued a final report; there are effective controls over the flow of funds between the county council and One Connect Ltd.	Substantial
Legislative compliance				
	Consideration of the legal implications of decisions. Testing within service areas of their compliance with service-specific legislation: Compliance testing of the Registration Service operated within the Adult and Community Services Directorate. Compliance testing of the Trading Standards Service within the Environment Directorate.	RACE-based review. Compliance testing. Compliance testing.	This work is almost complete and a draft report is being prepared. Our work has focussed on marriages solemnised under the Superintendent Registrar's certificate, and we have concluded that the Registration Service operates a robust system of control to effectively identify and interpret the legislation affecting it. A report is being drafted and discussed with management.	Full
Information governance				
	Overall corporate arrangements.	RACE-based re-review.	Information governance arrangements are still subject to further development and assurance cannot yet be provided over the controls in place. A summary of our findings was reported in September 2012.	Nil
	Overall corporate arrangements for data sharing with partners, supported by work in directorates. Follow-up: Overall corporate arrangements for data sharing with partners.	RACE-based review – completion of prior year's work. Follow-up review.	As already reported, this area will be re-reviewed once the council's overall corporate information governance arrangements have been resolved. This work will therefore be deferred to 2013/14.	Limited
Cross-service controls				
Business continuity and emergency planning				
	Overall corporate arrangements.	RACE-based review.	A draft report is being discussed with management.	
Partnerships/ accountable body				
	The council's accountable body role.	RACE-based re-review – previously limited assurance.	Changes are being made to a number of processes, with related organisational changes, within the County Treasurer's Directorate that will strengthen the council's arrangements supporting its accountable body role. However these arrangements are not yet complete and it is too soon to undertake a re-review.	
Transition from children's services to adult services.				
	Transition from children's services to adult services.	RACE-based re-review – previously limited assurance.	As already reported, the arrangements to support young people as they move from children's services to receiving services as young adults have been re-designed. This audit is therefore now scheduled to start at the end of the audit year.	
Transport				
	Accessible transport arrangements including internal re-charges. Safeguarding children's transport.	RACE-based re-review – some restricted audit work gave no assurance in 2011/12. RACE-based re-review – previously limited assurance.	This work is on-going. This work is on-going and is being undertaken in conjunction with the work on accessible transport under the new arrangements implemented within the Integrated Transport Unit.	

Control	Audit review	Audit scope	Comments	Assurance
Common controls				
Financial controls				
	Accounts payable. Accounts receivable. Budgetary monitoring and control and scheme of delegation. Cash and banking. Capital accounting.	Compliance testing (split start and end of year). Compliance testing (split start and end of year). RACE-based review.	This work has begun and will be completed in March 2013. This work has begun and will be completed early in 2013. This work is scheduled for late in the year as the new arrangements for budget-holders under the latest release of the Oracle financial system settle down. This work is scheduled to begin early in 2013.	
	Expenses.	Compliance testing. RACE-based review, to tie into work on directorates.	As already reported, this work may be affected by the second phase of development of the Oracle financial system which will introduce changes to controls over the council's fixed assets. It is linked with specific projects in each of the directorates, and the results of each piece of work will be considered as a whole as well as individually.	
	General ledger. Payroll.	Compliance & CAATs testing (split start and end of year). Compliance testing.	Testing has been completed and the findings are being discussed with Human Resources management.	
	Payroll codings to the general ledger	Compliance & CAATs testing (split start and end of year).	This work is scheduled to take place at the end of the year.	
	Payroll controls in LCCG. Follow-up: payroll controls in LCCG.	Compliance & CAATs testing (split start and end of year). Compliance testing.	The Internal Audit Service is supporting on-going data cleansing work and will undertake compliance testing later in the audit year.	
	Treasury management.	Compliance testing and follow-up work.	This work is on-going.	
	VAT.	RACE-based review.	This work will follow completion of the work noted above, and will therefore be deferred to 2013/14.	
	Oracle release 12 - ongoing implementation and further work on the controls established in phase 1 and phase 2.	Compliance testing.	We have begun work to follow up the action taken in response to the Audit Commission's report on this area.	Substantial
		RACE-based review.	Our work is complete and we have concluded that there are adequate controls, operating effectively to identify, account for and recover VAT on the council's purchases.	Not applicable
		RACE-based review.	Our work on this project is on-going and includes work on the new fixed assets and procurement modules.	
HR controls				
	Connect2HRP (previously 'Ask HR')	RACE-based review.	Our assessment of the effectiveness and adequacy of the controls designed to resolve HR and payroll queries is complete. There are examples of good practice in a number of areas including: the measures taken to achieve a consistent level of advice to customers; the management of resources to deal with calls and emails promptly, particularly at peak times; the identification, investigation and escalation of common payroll and HR issues; and the regular reporting of performance data to key stakeholders.	Substantial
	Hierarchies in the Oracle HR/ payroll system.	Compliance testing.	We are providing support to the project currently working to resolve the hierarchies in the HR/ payroll system, including reviewing the project testing programme. We will undertake any further compliance testing of this at the end of the year.	
	Leave system	Compliance testing.	This work has begun and will be progressed in January 2013.	
	Long term sickness absence	RACE-based review.	This work is on-going.	
	Oracle HR/ payroll system.	RACE-based review.	This work is scheduled to begin in January 2013.	
ICT controls				
	Data centre.	RACE-based re-review – limited assurance in 2011/12.	Work by management to address the issues raised during 2011/12 is on-going. Although it is not yet appropriate to re-review this area in full, we are working to understand the current position.	
	Help desk. Implementation of Lancashire Electronic Content System (LECS) and identity management.	RACE-based review. Advice and assistance, including attendance at corporate groups.	This work will take place early in 2013. LECS has been superseded by the council's plans to introduce a 'Resolution Centre' which is likely to be used to manage all the council's data and our support is not currently required on this project. However the council is considering the procurement and implementation of an identity management system. The Internal Audit Service has supported the preparation of the business case for this but it is unlikely that any further audit input will be required.	Not applicable

Control	Audit review	Audit scope	Comments	Assurance
	<p>Network access. Password standards. Security of mobile devices. Web applications.</p> <p>Web content management. Web usage.</p> <p>Vulnerability management.</p> <p>Database security.</p> <p>Follow-up: Database security.</p>	<p>RACE-based review. Compliance testing RACE-based review. RACE-based review.</p> <p>RACE-based review. RACE-based re-review – nil assurance 2011/12.</p> <p>RACE-based re-review – limited assurance in 2011/12.</p> <p>RACE-based review – completion of prior year's work.</p> <p>Follow-up review – limited assurance in 2012/13.</p>	<p>This work is continuing. A draft report is being prepared and discussed within the team. This work will take place early in 2013. Further discussion with management indicates that this work would be closely related to our work on web usage and has therefore been removed from the audit plan. Work is scheduled to begin in January 2013. New software has been implemented that resolves the issues we raised in 2011/12. Our work has been restricted to the corporate control over use of the internet rather than its use by operational staff, but we can now provide substantial assurance over these corporate controls. The ICT Services team is working towards accreditation to international standard ISO/IE27001, but does not plan to achieve this before 2013/14. It is therefore too early to re-review this area, but we are aware that progress is being made. Databases are administered by a skilled workforce supported by strong problem, incident and change management processes and the fundamental elements of an effective organisational structure are in place. Annual penetration testing is carried out on selected services and infrastructure and we understand that supported databases are covered by a disaster recovery contract. However there are weaknesses in the logical access controls applied to the key databases including Oracle accounts still enabled with default passwords and excessive access permissions. No defined access standards are in place to establish regular and systematic review of who has access, what they can access and how secure that access is. We have found no evidence that OCL has considered the risks and security requirements of the council's key databases within its operational framework or begun to address security standards and weaknesses accordingly. OCL will seek accreditation to ISO/IEC27001 during 2013/14 and user access management will be addressed then. Audit trails and logging are necessary to monitor compliance with security requirements and possible security breaches but, although auditing is active on each database, the function is not being used to monitor database security. Since the original review has only recently been completed and OCL have plans in place to amend control processes during 2013/14, this work will be deferred to next year's audit plan.</p>	<p>Substantial</p> <p>Limited</p>
Procurement				
	<p>Procurement Centre of Excellence – purchasing and tendering control compliance testing (including follow-up of previous audit work).</p>	<p>RACE-based review and follow-up work.</p>	<p>Work on purchasing and tendering has been combined into a single project that will be undertaken late in the audit year, following work throughout the year on procurement specifically relating to the Highways Service.</p>	
Estate management				
	<p>Property asset inventory control and usage – reactive repairs and planned maintenance. Follow-up: Property asset inventory control and usage – high level controls. Follow-up: Premises management framework.</p>	<p>RACE-based review. Follow-up review – substantial assurance in 2011/12. Follow-up review – substantial assurance in 2011/12.</p>	<p>This work is almost complete and a report is being drafted for discussion with management. We have followed up the work undertaken last year on the corporate premises management framework at the same time as the work reported above on reactive repairs to property and the planned maintenance programme. Since our original work has only recently been finalised, this follow-up work will be deferred to 2013/14.</p>	
Service specific controls				
Adult and Community Services (ACS)				
	<p>Support to management. Capital accounting (related to other central audit work and work in the directorates).</p>	<p>RACE-based review.</p>	<p>We have continued to support management in considering the procurement of certain historic social care contracts. It was reported in September 2012 that this work may be affected by the second phase of development of the Oracle financial system, which will introduce changes to controls over the council's fixed assets: this work will now be deferred to 2013/14.</p>	

Control	Audit review	Audit scope	Comments	Assurance
	Care decision-making panels.	RACE-based review.	A representative of the Internal Audit Service is supporting the working group and further audit work will begin later in 2012/13.	Substantial
	Care navigation system; individual selection of personal care providers.	RACE-based review.	This is closely related to our work on preferred providers of non-residential care. Since management action is still on-going in response to this audit, a further audit of the care navigation system will be more appropriate during 2013/14.	
	Data quality for performance management (related to central audit work on performance management).	RACE-based review.	Our work has been finalised and focussed specifically on monitoring the performance of the Library Service. A performance assessment regime has been established for the Library Service consisting of a balanced scorecard to determine service priorities and strategic measures, local performance indicators to measure the achievement of service objectives, and benchmarking against similar authorities. Performance monitoring is discussed at both strategic and local levels and there is a suite of performance measures, aligned to the Library Service business plan.	
	Direct payments.	RACE-based review.	Before a direct payment arrangement can be established it is important to ensure that service users are capable of managing direct payments themselves, or else have the mental capacity to consent to a representative managing the direct payment on their behalf. However in some cases there was no evidence available that this assessment had been made. Direct payments to service users are determined by an initial assessment of need, which is then regularly reviewed. Although these reviews take place, the assessments are not adequately approved. Service users may decide that, even if they have the capacity, they do not wish to manage their own payments and bank account and they therefore engage a third party's services to manage a bank account for them. Although we found no evidence of mismanagement in such arrangements, the council relationship to such service providers is not sufficiently clear. Once payments are being made to service users regular checks are necessary, in accordance with a risk assessment, to ensure that the funds provided are being used appropriately. However the risk model used to establish the frequency of checks does not take account of the size of the payments being made and therefore misses a key element of the risk involved. In practice these financial reviews are not undertaken in accordance with the risk assessment and related assessment of the necessary frequency of review, and overdue reviews are not adequately monitored.	
	Health and safety of lone workers.	RACE-based review – previously limited assurance.	As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates, and work has begun.	Limited
	Establishment visits (cash management).	Compliance testing – completion of prior year's work.	We have completed a number of unannounced visits to libraries, museums and county information centres to review cash handling procedures, focussing on the recording, secure holding and timely banking of cash received. Some establishments do not yet have documented procedures, and where procedural guidance is in place it is inconsistent although nonetheless effective.	
	Hospital discharge model and social care support.	RACE-based review.	After discussion with management, this work will be deferred into 2013/14.	Not applicable
	ISSIS replacement: advice and support re controls over configuration, security and implementation of replacement system.	Advice and support.	As previously reported, the Internal Audit Service is represented on the project board and work has begun. Input is being coordinated with work on the CYP project board.	
	Management of case referrals: compliance testing.	Compliance testing.	This work is in progress.	Substantial
	Non residential care system (NRCS): compliance testing.	Compliance testing.	We examined 25 new packages of domiciliary care approved during the period from May 2011 to April 2012 to confirm the operation of each of the key controls. In addition, we verified that, for five cases in the sample, the payments were correctly reflected in the Oracle Accounts Payable system, and that five NRCS income transactions were correctly recorded in the Oracle Accounts Receivable system.	
	Payment and monitoring system (PAMS): compliance testing.	Compliance testing.	We examined 25 new packages of domiciliary care approved during the period from May 2011 to April 2012 to confirm the operation of each of the key controls. In addition, we verified that, for five cases in the sample, the payments were correctly reflected in the Oracle Accounts Payable system.	Substantial

Control	Audit review	Audit scope	Comments	Assurance
	Preferred provider scheme.	RACE-based review – completion of prior year's work.	We have reviewed the preferred provider schemes for non-residential care providers across client service groups, focusing on the initial accreditation process and ongoing performance monitoring, including the removal of providers from the lists. At the time providers were initially accredited as 'preferred', the scheme was a useful way to improve quality standards by ensuring that providers were appropriately managed and staffed to support delivery of a service which complied with national minimum care standards. However a high proportion of providers were automatically preferred and the accreditation process was variable, depending upon the service user groups supported by providers. The standard domiciliary monitoring framework has not been consistently applied through contract monitoring over the past 12-18 months, largely as a result of the high number of providers currently on the preferred provider lists, and it is not therefore clear that all are meeting the required standards. This work will take place later in the year.	Limited
	Resource allocation within the model that allocates individual budgets. Follow-up: Fair access to care criteria (FACS).	RACE-based review. Follow-up review – substantial assurance in 2011/12.	As already reported, this work will take place later in the year. It will be coordinated with the work above on the allocation of individual budgets.	
	Follow-up: Prepayment card pilot Follow-up: Preferred provider scheme.	Follow-up review – substantial assurance in 2011/12. Follow-up review.	This work will be undertaken late in the year. The work on preferred providers was finalised in October 2012, and a re-review will be scheduled for 2013/14.	
	Follow-up: Vulnerable adults' domiciliary services and day centres.	Follow-up review – previously substantial assurance.	Good progress has been made by Domiciliary Services in implementing recommendations from the previous review of this area in August 2011. Domiciliary Service managers have undertaken ad-hoc finance and medication compliance audits, and work is on-going to agree and implement standardised documentation and protocols. Medication and finance policies have been reviewed and updated to reflect the additional controls required.	Not applicable
	Care grants and crisis loans	RACE-based review.	Additional work has been added to the audit plan to address the design and implementation of a local service for the replacement of the Social Fund currently provided by the Department for Work and Pensions. We will support the Project Board and provide assurance over key system developments including the identification and prioritisation of claimants, safeguards against error, fraud and abuse, and the integration of the service with other areas of discretionary financial assistance.	
Public health				
	Operational review in the shadow year (in two-phases).	RACE-based review.	We are working to understand the services and related contracts and costs that will be transferred to the county council and this work will continue going throughout the year.	
CYP				
	Support to management.	Support to management.	We have continued to assist management in their response to an official complaint relating to a child with disabilities.	
	Capital grant funding/ capital accounting.	RACE-based review.	It was reported in September 2012 that this work may be affected by the second phase of development of the Oracle financial system, which will introduce changes to controls over the council's fixed assets. This work will now be deferred to 2013/14.	
	Emergency payments to families.	RACE-based re-review – previously limited assurance.	We reported in November 2011 that controls were not operating effectively and had been applied inconsistently, and local judgement of appropriate expenditure was inconsistent across the county. Most of the actions agreed by management to address these issues remain incomplete.	Limited
	Financial, operational and safeguarding procedures within children's residential homes.	RACE-based review – completion of prior year's work.	We have now provided substantial assurance over the systems and procedures in place for the management and administration of children's residential establishments, in particular their management in accordance with the Adoption, Children's Homes and Fostering National Minimum Standards and Regulations that are published by the Department for Education.	Substantial

Control	Audit review	Audit scope	Comments	Assurance
	<p>Grant fund monitoring arrangements.</p> <p>Health and safety of lone workers.</p> <p>Troubled Families programme</p> <p>ISSIS replacement process: advice and support re controls over configuration, security and implementation of the replacement system. Independent Reviewing Officers (IROs)</p> <p>Management of children's social care referrals.</p> <p>Partnership working with the NHS to support children with mental health needs.</p> <p>Performance management framework.</p> <p>Provision for children with disabilities (direct payments).</p> <p>Pupil Referral Units and excluded pupil interventions.</p>	<p>RACE-based review.</p> <p>RACE-based review.</p> <p>RACE-based review.</p> <p>Advice and support re controls over configuration, security and implementation of replacement system.</p> <p>RACE-based review – completion of prior year's work.</p> <p>RACE-based re-review – previously limited assurance.</p> <p>RACE-based review.</p> <p>RACE-based review.</p> <p>RACE-based review – completion of prior year's work.</p> <p>Race-based review.</p>	<p>This work will be deferred until 2013/14. It will still be appropriate to assess the directorate's grant fund monitoring arrangements, but this work has been superseded during the current year by the need to provide assurance over the grant funding provided by the Department for Communities and Local Government under its Troubled Families programme.</p> <p>As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates, and work has begun.</p> <p>The Troubled Families programme was introduced earlier in the year and our work will be focussed on the directorate's operational response to this programme and its related payment-by-results scheme.</p> <p>The Internal Audit Service is represented on the project board and work is on-going. Input is being coordinated with work on the ACS project board.</p> <p>The IROs' role is to review children's social care cases and ensure that appropriate action is being taken for the well-being of the children concerned. Our work focussed on the risks that the IROs' caseloads and resources are not effectively managed, that the IROs do not comply with statutory requirements, and that their working practices are inefficient.</p> <p>IROs address the cases of children looked after, and child protection cases; management oversight of the two groups of IRO staff is variable.</p> <p>The IROs raise recommendations for action in relation to children's social care, and those recommendations that are high priority are 'starred'. However these starred recommendations are not fully logged and the log is not adequately monitored to ensure that actions are taken as required.</p> <p>The adverse findings of the High Court in June 2012 clearly have a bearing on any assessment of the risks and controls relating to the responsibilities of the IROs, since these provide a very clear insight into the cases of two boys who "suffered irreparable harm" over 12 years. The court found that the boys' legally established human rights had been breached.</p> <p>The directorate is aware of the issues around the work of the IROs and is acting to strengthen these arrangements. We will follow up this action during 2013/14.</p> <p>We plan to undertake a full re-review of this area before the end of the year and, as reported in September 2012 the two key issues have been addressed.</p> <p>This work has now recently started.</p> <p>This work has not yet started.</p> <p>Direct payments to service users are determined by an initial assessment of need within the directorate, which should be approved as appropriate and then regularly reviewed. However in some cases the appropriate approval has not been given (for example where a package of care exceeds a financial threshold). Reviews of agreed care packages do not take place in all cases or are delayed because the ISSIS system does not have the facility to capture the relevant dates and prompt the process.</p> <p>Once payments are being made to service users the process is controlled by ACS. Regular checks are necessary, in accordance with a risk assessment, to ensure that the funds provided are being used appropriately, but the risk model used to establish the frequency of checks does not take account of the size of the payments being made and therefore misses a key element of the risk involved. In practice these financial reviews are not undertaken in accordance with the risk assessment and related assessment of the necessary frequency of review, and overdue reviews are not adequately monitored.</p> <p>At the time of our audit work 66 finance review visits were overdue out of 336 cases. These included three high risk cases and four cases where the finance visit was overdue by over 300 days.</p> <p>This work has not yet started and may slip into 2013/14.</p>	<p>Limited</p> <p>Limited</p>

Control	Audit review	Audit scope	Comments	Assurance																																		
	<p>The Safeguarding Children's Board budget. School budget formula and pupil forecasting. Residential homes: review of the key risks of short stay breaks including costing.</p> <p>Young Persons Learning Agency (YPLA) grant certification. Follow-up of the Ofsted action plan and actions arising from the peer review.</p> <p>Follow-up: Financial and performance monitoring of schools. Follow-up: Personnel file documentation. Follow-up: SureStart children's centres.</p>	<p>RACE-based re-review – previously limited assurance. RACE-based review. RACE-based review.</p> <p>Compliance testing – grant certification.</p> <p>Follow-up review of Ofsted's report.</p> <p>Follow-up review – substantial assurance in 2011/12.</p> <p>Follow-up review. Follow-up review – limited assurance in 2011/12.</p>	<p>Work on this review has recently begun. Work on this review has begun and is scheduled to take place around the school census dates. We have only recently completed our earlier work on the financial, operational and safeguarding procedures within children's residential homes and provided substantial assurance over these. Work specifically on short stay breaks in residential homes has therefore been removed from our audit plan for the year. This work has begun and is in progress.</p> <p>Most of the actions arising from Ofsted's review of the council's children's services are being monitored by the Head of Safeguarding Inspection and Audit. However we have now completed our testing of the directorate's social care case file reviews. The Laming Report recommended that senior managers should randomly inspect case files but, in general, very few teams are completing and reporting the required number of case file audits and this is not effectively monitored by management. Peer review has not been implemented and there is no process to identify and share the issues arising from the audits that are undertaken.</p> <p>Actions were due by September but may not be evidenced until the spring term.</p> <p>This work has not yet been completed. Actions were due by September but may not be evidenced until the spring term.</p>	Limited																																		
Schools and sixth forms																																						
	<p>Support to LCC management.</p> <p>School reviews.</p> <p>Follow-up of school reviews.</p> <p>Thematic review - income.</p> <p>Thematic review - special schools. Thematic review - payroll services. Thematic review - schools with public sports facilities Follow-up of thematic reviews: procurement, unofficial school funds and data protection.</p>	<p>Whole-school reviews.</p> <p>Follow-up review.</p> <p>Thematic review</p> <p>Thematic review Thematic review Thematic review</p> <p>Follow up all 2011/12 thematic reviews.</p>	<p>The Internal Audit Service is working with other members of the County Treasurer's team to assess the council's responsibilities in relation to schools, the related assurance requirements, and the impact of the move of some schools to academy status. Work has been completed as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">School type</th> <th rowspan="2">Number of audits</th> <th colspan="4">Level of assurance</th> </tr> <tr> <th>Full</th> <th>Substantial</th> <th>Limited</th> <th>None</th> </tr> </thead> <tbody> <tr> <td>High school</td> <td>2</td> <td>0</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>Primary school</td> <td>13</td> <td>0</td> <td>8</td> <td>4</td> <td>1</td> </tr> <tr> <td>Nursery school</td> <td>3</td> <td>0</td> <td>2</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>18</td> <td>0</td> <td>12</td> <td>5</td> <td>1</td> </tr> </tbody> </table> <p>Visits to schools to follow up the action plans agreed last year will take place during the spring term. An Audit Matters newsletter was issued to all schools in September 2012. A number of schools do not bank cash on a regular basis, in some cases for a period of several months, and occasionally cash is taken home by staff in the evening. At a number of schools arrears owed by pupils are not actively monitored and arrears reach significant levels. There is often a lack of segregation of duties within the cash collection and banking process and, in some schools such segregation of duties may not be practical. However In such cases other controls should be applied, such as checks by an independent senior member of staff to ensure that the amounts banked agree to the supporting documentation. This work is due to begin in 2013/14.</p> <p>This work has begun.</p>	School type	Number of audits	Level of assurance				Full	Substantial	Limited	None	High school	2	0	2	0	0	Primary school	13	0	8	4	1	Nursery school	3	0	2	1	0	Total	18	0	12	5	1	
School type	Number of audits	Level of assurance																																				
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High school	2	0	2	0	0																																	
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Control	Audit review	Audit scope	Comments	Assurance
	Premises management framework - schools and sixth forms	RACE-based review – completion of prior year's work.	In 2011 Queen's Counsel's opinion was sought by the council to clarify the position regarding responsibility for management of the county's schools' premises. This stated that "LCC is at risk of liability arising out of injury caused by the condition of the premises in any of its schools." Where the council owns the premises and/ or employs the school's staff its responsibility is clear, but this responsibility arguably extends to other schools as well as community and voluntary-aided schools. The council has established a premises management framework to enable headteachers to ensure the safety of school premises, although schools have the option of using other arrangements instead. The council relies on individual schools to self-certify their adherence to its premises management framework annually. However the mechanism to enforce or verify schools' compliance with this or any other framework is not comprehensive and there is no evidence that more than half of all schools have arrangements in place to ensure that premises are compliant with health and safety requirements. For the forthcoming financial year all schools will be asked to demonstrate how they intend to achieve and maintain compliance and the Environment Directorate will undertake a programme of school visits to validate this.	Limited
Environment				
	Support to management.		We have discussed the integrated assurance plan/ risk management arrangements involved in the Pennine Reach project.	
	Analysis of overtime and additional payments.	Data analysis to support management.	This work has been added to the plan for the year to support management in understanding overtime and other additional payments made to groups of staff now within the directorate. We have extracted and analysed the available data and this is now being considered by management.	
	Budgetary control within the directorate.	RACE-based review.	This work is scheduled for late in the year as the new arrangements for budget-holders under the latest release of the Oracle financial system settle down.	
	Capital programme (of the combined Environment Directorate and former Property Group).	RACE-based review.	As already reported this work is linked with other work on the common financial systems and may be affected by the second phase of development of the Oracle financial system.	
	Carbon reduction commitment.	Compliance testing.	Audit fieldwork is complete and a report is being discussed with management.	
	Concessionary travel.	RACE-based review – completion of prior year's work.	In general, adequate and effective local systems and procedures have been established and applied in relation to NoWcards, the reimbursement of operators and invoicing Travel Concession Authorities (TCAs). However the national scheme to identify the use of lost or stolen NoWcards is not yet fully enabled and the risk therefore remains that cards lost or stolen cards may be misused. Concessionary passengers report discrepancies with their tickets/ journeys to the council but these are negligible. Overcharges are correctly deducted from the operators' reimbursement and operators are monitored a statement of improvement. To obtain assurance that their periodic claims for reimbursement are correct operators are required to obtain and provide certificates of accuracy but, although five of fourteen certificates for 2010/11 were received late and one certificate was inaccurate no payments to operators were suspended, which places the county council at risk.	Limited
	Concessionary travel.	RACE-based re-review – previously limited assurance.	As the review above has only recently been completed, this re-review will be deferred into 2013/14.	
	Corporate manslaughter - highways responsibilities.	RACE-based re-review – previously limited assurance.	This work has been combined with work on highways asset management, and a report is being drafted.	
	Flood risk management.	RACE-based review.	This work is nearing completion.	
	Health and safety of lone workers.	RACE-based re-review – previously limited assurance.	As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates, and work has begun.	
	Highways asset management.	RACE-based review.	This work has been combined with work on highways responsibilities in relation to corporate manslaughter, and a report is being drafted.	
	Highways purchasing and use of subcontractors.	RACE-based review – completion of prior year's work.	This work is being discussed with management in the Environment Directorate, LCCG and the Procurement Centre of Excellence, although an outline of our findings was reported to the Audit Committee in June 2012.	Limited

Control	Audit review	Audit scope	Comments	Assurance
	Highways purchasing and use of subcontractors. Lancashire Highways Service performance. PFI waste project - Area East waste transportation. PFI waste project - strategic and budget forecasting. Winter highways information management system. Follow-up: Closed landfill sites. Follow-up: Compliance with relevant legislation and LCC regulations. Follow-up: Development control s278. Grant audit: Citizen Rail. Grant audit: CIVINET. Grant audit: ENVIREO. Grant audit: Growth Point. Grant audit: Interreg IVB SusStations (NWE). Grant audit: Local Transport Capital	RACE-based re-review – previously limited assurance. RACE-based review. RACE-based review. RACE-based re-review – previously limited assurance. RACE-based re-review – previously limited assurance (although the previous opinion used different terms). Follow-up review – previously substantial assurance. Follow-up review. Follow-up review. Compliance testing – grant certification. Compliance testing – grant certification. Compliance testing – grant certification. Compliance testing – grant certification. Compliance testing – grant certification. Compliance testing – grant certification.	This work will be deferred into 2013/14 whilst the issues raised during 2011/12 are addressed by the Procurement Centre of Excellence. The scope of this work has been discussed with management but it is too soon after the establishment of the Service for this work to be helpful. Terms of reference have been drafted for this work and it will take place after the re-review of budget forecasting has been completed. This work has recently started. This work is under way. As previously reported, all the agreed actions have been completed by management. As noted above, work is on-going in relation to the Trading Standards service's compliance with relevant legislation. This work is complete and the action plan has been largely completed as agreed. This work is on-going; we are actively involved in supporting the preparation of an appropriate claim. One audit is complete, but we will also be required to certify the closure of this funding stream. This work is not due yet. This work has been completed. This work is on-going. We have certified the Department for Transport's grant to the council relating to integrated transport and capital maintenance of highways. This work was unplanned but has been completed for the end of September 2012.	Not applicable
Lancashire County Commercial Group				
	Support to management. Bus service operators grant. Compliance with relevant legislation and LCC regulations: Working Time Directive. Catering income procedures in schools. Food stock and consumption, ordering, provision, invoicing controls. Health and safety of lone workers. Vehicle asset inventory control and usage.	Compliance testing – grant certification. Compliance testing. RACE-based re-review – previously limited assurance. RACE-based review. RACE-based re-review – previously limited assurance. RACE-based re-review – previously limited assurance.	We have continued to provide ad hoc advice. As already reported, the first claim has been certified, but another claim will be made later in the year. The work planned in relation to compliance with the European Working Time Directive has been postponed at the request of the Director of Human Resource and Payroll Service. Our fieldwork is almost complete. This work is being undertaken in conjunction with that on catering income procedures and is almost complete. As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates, and work has begun. This work has not yet begun but it is unlikely to be helpful whilst discussions are on-going regarding the transfer of the service to BT plc.	
Customer service centre				
	Care Connect Service. Emergency Duty Team. Pension helpdesk.	RACE-based review. Support to management. RACE-based review.	This work has been deferred from the current year, but we are undertaking work on case referral management within ACS. This work has been added to the plan at management's request; we have provided support to management to understand the structure and costs of the Emergency Duty Team in readiness for its transfer into Care Connect. This work has been deferred into 2013/14 by agreement with the County Treasurer.	
Economic development				
	Enterprise zones. Growing Places outcomes (the grant element of the Lancashire Enterprise Partnership). Revised Rosebud Fund.	RACE-based review. RACE-based review. RACE-based review.	After discussion with management, this work has been removed from the audit plan for 2012/13. This work has not yet begun. After discussion with management, this work has been removed from the audit plan.	

Control	Audit review	Audit scope	Comments	Assurance
	Superfast broadband project, involving the assistant chief executive, LCDL's grant specialist team and the economic development team. Grant audit: Regenerate's Statement of Grant Usage. Grant audit: Intensive Business Start-up.	RACE-based review. Compliance testing – grant certification. Compliance testing – grant certification.	We have worked with the specialist grants team to consider what procedures are required to support the council's claims for grant funding, and will meet the Director of Economic Development shortly to discuss his assurance needs. This work is no longer required. We have completed work begun in 2011/12 to certify this grant funding claim.	
Counter fraud service				
Counter fraud				
	Bribery Act. Cash handling. School income testing. Prevention of bribery - streetworks. Follow-up: Prevention of bribery - streetworks.	RACE-based review. Compliance testing directed by data analysis. Compliance testing directed by data analysis. RACE-based review – completion of prior year's work. Follow-up review – subject to assurance level of original work.	We are considering the scope of this work, and work has not yet begun. This audit has been replaced by testing of expenses, and by testing of cash handling in county establishments. Our review of expenses has highlighted a number of issues and we are discussing these with Human Resources. Work for the current year has not yet begun. Work has almost been completed and a report is being drafted. Since the original work has been subject to some delay, follow-up will not be appropriate during the current year.	
National Fraud Initiative				
	National Fraud Initiative testing.		We have begun work to prepare data for submission.	
Reactive work				
	Responsive work to support management.	Individual investigations.	We are working to support management with a number of on-going investigations and disciplinary procedures.	
Risk management				
	Preparation of the corporate risk register. Other support to management.		Work on this will be coordinated with the preparation of the audit plan for 2013/14. This work will take place in the second half of the year.	

Audit and Governance Committee
Meeting to be held on 14 January 2013

Electoral Division affected: All

External Audit - Annual Audit Letter 2011/12
Appendix A refers.

Contact for further information:
Fiona Blatcher, 0161 234 6393, Grant Thornton,
fiona.c.blatcher@uk.gt.com

Executive Summary

The report sets out the external auditor's Annual Audit Letter for 2011/12.

Recommendation

The committee are asked to consider the external auditor's Annual Audit Letter for 2011/12, as set out at Appendix 'A'.

Background and Advice

The external auditor's Annual Audit Letter 2011/12 summarises for the county council the findings of the annual audit for 2011/12. The audit is made up of two elements as follows:

- the audit of financial statements;
- the assessment of arrangements to achieve value for money in the use of resources

The letter has been considered by Cabinet at its meeting on 2 October 2012 and is available to view via the county council's website.

The Council's external auditor, Karen Murray, will attend the meeting to present the Annual Audit Letter and respond to questions.

Consultations

The report was agreed with the council's chief executive and county treasurer.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified in relation to the proposals contained within this report.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
Annual governance report	September 2012	Fiona Blatcher, 0161 234 6393, Grant Thornton, fiona.c.blatcher@uk.gt.com

Reason for inclusion in Part II, if appropriate

N/A

Annual Audit Letter

Lancashire County Council

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit. My audit comprises two elements:

- **my audit of your financial statements; and**
- **my assessment of your arrangements to secure value for money in your use of resources.**

Financial statements

My audit of the Council's financial statements, including those of the pension fund, is complete and I issued an unqualified audit report on 27 September 2012.

I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and mainly relate to disclosure issues.

This has been another challenging year for the finance team with the introduction of a new ledger and the new partnership arrangement with One Connect Limited, (OCL), supporting the delivery of significant financial savings in-year and ongoing re-structuring of the team. The pension fund team have also been dealing with significant changes in the management of the fund and the underlying processes and systems. Within this context, the preparation of materially correct statements, which included bringing onto the balance sheet the new waste PFI assets and heritage assets for the first time, is a significant achievement.

Value for money (VFM)

I provided an unqualified VFM conclusion on 27 September 2012.

The Council has demonstrated a strong financial performance during 2011/12, exceeding extremely challenging delivery targets for the year, whilst showing an overall improvement in performance across its services. It is well placed to deal with the financial and operational challenges ahead. Good progress has been made in strengthening governance arrangements to support treasury management, and in monitoring and managing both the contract with OCL and the financial and operational challenges presented by the waste PFI contract.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements on 27 September 2012.

The overall quality of the accounts was again good reflecting the commitment of the Council's officers to meet the requirements of the Code of Practice of Local Authority Accounting. There were no material errors within the accounts. A number of relatively minor amendments have been agreed to improve the accuracy, clarity and internal consistency of the disclosure notes within the financial statements. All errors identified during the course of the audit have been amended for. None of the amendments have affected the reported surplus or general county fund balance or the underlying position of the Pension Fund.

Weaknesses in control

In my annual governance report on the pension fund, presented to members of the Council's Audit and Governance Committee on 26 September 2012, I referred to the potential risk of misclassification of monies between the Council's accounts and those of the Pension Fund. I am satisfied that there is unlikely to be a material error affecting either set of accounts. However, there is a risk of non-material error between the two sets of accounts. Because of difficulties in being able to fully reconcile the pension fund cash balance. The un-reconciled balance at 31 March 2012 stood at £1.2m. An action plan has been agreed to ensure this issue is addressed during 2012/13 and work is already underway to reconcile the balance.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below..

Table 1: **Value for money conclusion criteria and key messages**

Criteria: Financial resilience - The organisation has proper arrangements in place to secure financial resilience

Focus for 2011/12:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Key messages

As reported last year, the Council faced a significant financial challenge following the government's local government spending review. The Council's response to this had been impressive, with a three year budget agreed in February 2011 for 2011/12 to 2013/14. This included plans to save £179m over that period. The development of this budget followed significant work which began some years before to achieve a more cost effective Council whilst still providing the desired level of services. This involved making some radical changes to service delivery, especially around back office services, which required time to develop and implement. The Council's financial planning has continued to progress since then to both deliver on existing plans whilst also responding to, and planning for, new financial risks. At the time of agreeing the 2011/12 budget detailed plans were in place to achieve the full savings needed over the three years subject to a shortfall of £7.5m. Additionally there were also, (and still are), a variety of unknowns and cost pressures which could impact on the deliverability of the budget.

Criteria: Financial resilience - The organisation has proper arrangements in place to secure financial resilience

During the last 12 months the Council has:

- achieved efficiency savings ahead of those planned (£10m);
- achieved additional efficiency savings which have now been built into future years budgets to off-set additional cost pressures (£10m); and
- agreed detailed plans for the £7.4m savings needed to balance the budget for 2013/14.

This strong performance, taken together with exceptional one-off gains arising from management of the Council's bond portfolio, has enabled the Council to agree a programme of one-off investments in specific areas to help address the Council's priorities around economic regeneration, employment, respite care and residential and day care facilities. A total of £59m has been moved into a new strategic investment reserve at year end to fund these plans which will be delivered over the next five years.

The Council still faces significant cost and funding pressures going forwards. The Council is fully aware of these and is taking action to reduce the impact where possible. In addition the Council is continuing to implement a range of initiatives aimed at further reducing costs and improving efficiency in future years. The general fund reserve has reduced slightly from £41.9m at 1/4/11 to £36.5m at 31/3/12, but the Council considers this to be sufficient as a contingency to off-set future spending and funding pressures in the short term.

The Council has continued to implement its strategy to reduce the risk exposure of its borrowings and lendings. In doing so it has also achieved significant financial benefits for the Council. This has included the achievement of exceptional one-off gains of £55.7m arising from management of the Council's bond portfolio. The governance arrangements to support the more complex treasury management function have been strengthened over the last 12 months. In particular:

- the updated Treasury Management policy framework adopted by the Council in February 2012 is much clearer about its strategy in respect of reducing risks and within this environment, its policy around borrowing and investments;
- the Council is better able to explain and justify its borrowing needs and borrowing is more closely controlled against much tighter limits;
- the monthly Treasury Management meetings with the County Treasurer have been formalised and significant decisions are more clearly documented, explained and supported within the context of the agreed strategy;
- reporting to members is clearer around the impact of general market conditions on the Council's own portfolio and strategy and includes clearer reporting on the impact of decisions on the levels of investment and borrowing and against limits and performance targets;
- additional capacity within the Treasury Management team has been obtained through recent recruitment exercises; and
- members have received additional training in investments and there is a programme of future training covering, for example borrowing and more complex financial instruments.

Work is still ongoing to further strengthen the governance arrangements including:

- acquisition of a new Treasury Management IT system which is expected to improve the production of management information especially around the risk profile of the portfolios;

Criteria: Financial resilience - The organisation has proper arrangements in place to secure financial resilience

- updating of treasury management practice notes; and
- staff continue to pursue programmes of professional treasury management training although the ability to do so has been restricted due to workload/capacity issues.

Criteria. Securing economy efficiency and effectiveness - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings:

As well as delivering significant financial savings the Council is continuing to perform well against its performance targets. Over 80% of targets have been met in the year, and where targets have not been met, significant improvements have still been achieved. Successes during the year have included a significant reduction in serious road casualties of 226 (25.9%) and increasing the percentage of pupils achieving 5 or more A* - C grades at GCSE level by 4% (56% to 60.1%).

The arrangement with OCL is delivering on its high level objectives. In overall terms, the cost to the council of services provided has reduced as expected. The annual contract figure agreed of £37.3m compares with the cost of seconded staff of £41.5m which has been billed to OCL. A further £11.9m has been paid for agreed service developments such as the implementation of the new HR/payroll system and ledger system. An additional amount of £0.5m has been paid for work requested by Lancashire County Council which is recognised to be outside the agreed contract. Procurement savings achieved through contract negotiations by OCL on the Council's behalf are reported by OCL to be £3.2m.

OCL are largely meeting agreed service targets and two significant service developments have been delivered. As with any significant change, there have been issues in implementation. The contract is being managed robustly and the two parties are working closely together at a management team level to address issues as they arise. Baseline performance levels and targets have been agreed during the year and are now reported against on a monthly basis together with reporting of how any specific issues under each service are being dealt with. Given the significant level of agreed improvement achievements and high level of savings to be delivered by OCL it will be important to ensure a continued close level of management of this arrangement.

The environment team have identified and agreed efficiency savings which are sufficient to offset the current cost pressures created by the waste

management contract. During 2011/12 it became increasingly apparent that the waste contract was not delivering as originally envisaged. Since December 2011 the Council has been working closely with the contractor, Global Renewables Lancashire Ltd, (GRLL), to identify and implement changes which will improve the value for money achieved by the contract and reduce the ongoing financial risks to the Council. A memorandum of understanding and change to the contract have recently been agreed which are intended to incentivise diversion from landfill, thereby reducing the financial pressures on the landfill budget. There remain significant challenges in delivery of the expected performance and financial impact of the contract going forwards. The Council together with GRLL, have achieved a more stable footing to proceed from and are continuing to explore ways of reducing the financial risks of the contract.

Closing remarks

I have agreed this letter with the Chief Executive and the County Treasurer. I will present this letter at the Cabinet on 11 October 2012. Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date Issued
Annual governance report – Lancashire County Council	September 2012
Annual governance report – Lancashire County Pension Fund	September 2012

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Karen Murray
District Auditor
October 2012

Appendix 1 – Glossary

Annual Governance Statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Agenda Item 8

Audit and Governance Committee
Meeting to be held on 14 January 2013

Electoral Division affected: All

County Council and Pension Fund External Audit Fees 2012-13
(Appendix A refers)

Contact for further information:
Fiona Blatcher, 0161 234 6393, Grant Thornton,
fiona.c.blatcher@uk.gt.com

Executive Summary

This report provides the proposed fees for the external audit of Lancashire County Council and Lancashire Pension Fund for 2012/13.

Recommendation

The committee is asked to note the external auditor's fee letters for the audit of the County Council and the Pension Fund for the year ending 31st March 2013.

Background and Advice

Attached at Appendix A is the fees letter covering the external auditor's planned audit work for 2012/13. The letter sets out the main elements of the proposed audit work for 2012/13 and where appropriate, highlights any specific risks which will be reviewed as part of this work.

The fees for the main audit of the County Council and the pension fund have been set at the scale fees set by the Audit Commission. These represent a reduction of 40% compared to the audit fees for 2011/12.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Consultations

The fees have been agreed with the County Treasurer

Implications:

N/A

Risk management

N/A

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
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Audit Commission's statement of responsibilities of auditors and of audited bodies		
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Fiona Blatcher Grant Thornton 0161 234 6393

Audit Commission Act 1998

Codes of Audit Practice

Audit Commission Work programme and scale of fees 2012/13

Reason for inclusion in Part II, if appropriate

N/A



Grant Thornton

An instinct for growth™

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16/12/2012

Dear Gill

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £150,660 which compares to the audit fee of £251,100 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning has identified the following areas where we will need to complete additional work in order for us to reach our conclusions:

- waste management; and
- treasury management.

We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £3,700.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £34,169. The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee		£
December 2012		75,330
January 2013		37,665
March 2013		37,665
Grant Certification		
June 2013		3,700
Total		154,360
Pension Fund audit		
September 2013		34,169

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2012 – January 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in August 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2012 – January 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to Sept 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	Jan to Sept 2013	Report to those charged with governance	As above
Financial resilience	Jan to Sept 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2012/13 remain unchanged:

	Name	Phone Number	E-mail
Engagement Lead	Karen Murray	0161 953 6900	karen.l.murray@uk.gt.com
Engagement Manager	Fiona Blatcher	0161 234 6393	fiona.c.blatcher@uk.gt.com
Audit Executive (main audit)	Colin Smith	0161 234 6357	colin.p.smith@uk.gt.com
Audit Executive (pension fund)	Ian Pinches	0161 234 6359	ian.m.pinches@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard our Public Sector Assurance of Public Sector Assurance. (sarah.howard@uk.gt.com).

Yours sincerely



Karen Murray
For Grant Thornton UK LLP