

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Tuesday, 30th June, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	A Schofield
D Clifford	V Taylor
C Dereli	D Westley
J Gibson	D Whipp

County Councillors J Gibson, D Westley and D Whipp replaced County Councillors C Pritchard, G Driver and B Winlow respectively at this meeting.

Officers in attendance

Ian Young – Director of Governance, Finance and Public Services
Damon Lawrenson – Interim Director of Financial Resources
Abigail Leech – Head of Service Corporate Finance
Ruth Lowry – Head of Service Internal Audit
Karen Murray – Director, Grant Thornton
Caroline Stead – Grant Thornton
Chris Mather - Democratic Services Manager
Roy Jones – Legal and Democratic Services

The Committee agreed to alter the agenda running order with item 6 (The Council's Annual Governance Statement 2014/15) being taken after item 8 (Internal Audit Service annual report to Lancashire County Council for 2014/15).

1. Apologies

None.

2. Constitution: Chair and Deputy Chair; Membership; Terms of Reference

Resolved: That,

- i. The appointment of County Councillors T Brown and D Clifford as Chair and Deputy Chair respectively of the Audit and Governance Committee for 2015/16 be noted.

- ii. The membership of the Audit and Governance Committee for 2015/16 be noted.
- iii. The Terms of Reference of the Audit and Governance Committee be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

4. Minutes of the Meeting held on 13 April 2015

Resolved: That the Minutes of the meeting held on 13 April 2015 be confirmed and signed by the Chair.

5. Update on Treasury Management Activity

The Committee considered a review of Treasury Management activities in 2014/15. Management activities were regulated by the CIPFA Code of Practice and it was best practice to review treasury management activities on a regular basis.

The review included:

- A review of the economic conditions during 2014/15;
- Borrowing activity;
- Investment activity; and
- Actual results measured against 2014/15 Prudential indicators and Treasury Management Indicators

The following summary of treasury management activities in 2014/15 was presented:

- The council re-financed £573m of short term borrowing as part of the treasury strategy to take advantage of very low interest rates.
- Total borrowing at 31 March 2015 was £1.036bn, an increase of £220m from the previous year. This was entirely due to the refinancing of the former Waste PFI contract.
- Overall the average interest rate paid on borrowing was 2.05% per annum.
- The total return on the investment portfolios for the 2014/15 financial year was 9.32% on an average investment balance of £864.961m.
- In total, the capital financing charges showed a surplus in-year of £69m.
- Credit risk was controlled through only dealing with very high quality investment counterparties. The average credit rating throughout the year has been AA, well above the target A+ rating.
- Liquidity was a priority for the council to ensure day to day obligations can be met. The council held £107m as cash and cash equivalents on 31 March 2015 along with a further £361m in bonds which were available for sale at current market prices should further liquidity be required.

- All Treasury Management activities in year complied with the CIPFA Code of Practice and none of the Prudential Indicators had been breached during the financial year 2014/15.

Resolved: That the review of treasury management activities in 2014/15 be noted.

6. The Council's Code of Corporate Governance

The Committee considered a draft revised Code of Corporate Governance for the County Council.

Members were reminded that the existing Code had not been reviewed since its adoption by the County Council in 2008 and that the Council's Annual Governance Statement for 2013/14 included a commitment to review the Code during 2014/15.

An initial draft of a revised Code had been presented to the Committee in April 2015 and a final version of the draft Code was now presented at Appendix 'A'. It was noted that the revised Code included an updated Action Plan and sources of evidence to provide clarity about how the Council used the principles of the Code in practice.

The Committee was informed that the revised Code of Corporate Governance would need to be agreed by the Committee and recommended to Full Council for approval. Once adopted it was proposed that the Code be reviewed on an annual basis with an update on actions being presented to the Committee in early 2016.

Resolved:

- i. That the draft revised Code of Corporate Governance, as set out at Appendix 'A' be agreed and recommended to the Full Council for approval.
- ii. That the Full Council be recommended to agree to the Code of Corporate Governance being reviewed on an annual basis.

7. Internal Audit Service annual report to Lancashire County Council for 2014/15

The Committee considered the Internal Audit annual report for 2014/15.

The report summarised the work of the Internal Audit Service during 2014/15 and the key themes arising in relation to internal control, governance and risk management across the council.

The Committee was informed that the Head of Internal Audit could provide no overall assurance for 2014/15. The level of assurance provided had gradually deteriorated since 2010 and in light of the exceptional circumstances of the last

two years, which were expected to continue into 2015/16, the Internal Audit Service had been unable to complete a risk-based programme of work in 2014/15 to support an opinion on the council's overall framework of governance, risk management and control.

It was noted that at the Management Team's request internal audit work during 2014/15 had been directed towards re-assessing key areas of control weaknesses and following up the actions agreed by management to improve controls across a number of systems and services identified in earlier years' reviews. A senior member of the team had also been seconded out of the Internal Audit Service from September 2014 onwards to support management in assessing the actions taken in key risk areas.

This work having been undertaken, the Head of Internal Audit was able to provide substantial assurance that, with only one exception, appropriate efforts had been made to rectify the controls over all areas of high and moderate risk. Substantial assurance had also been provided that the controls over two high risk financial systems – general ledger and treasury management – as well as the payroll and central accounts payable systems, were adequately designed and operating effectively.

Council officers and the External Auditor responded to questions raised by the Committee in relation to the gradual deterioration in the level of assurance provided by the Head of Internal Audit, the targeted work on behalf of the Council's Management Team and the effects and implications of the Council's transformation programme and general downsizing, as well as the support and training that would be made available to the new Heads of Service.

Resolved: That the Internal Audit annual report to the authority for 2014/15, as set out at Appendix 'A' to the report now presented, be noted.

8. The Council's Annual Governance Statement 2014/15

The Committee considered a draft revised version of the Annual Governance Statement (AGS) for 2014/15.

An initial draft was presented to the Committee in March 2015. The Committee was informed that officers had now revised the draft AGS to incorporate the opinions expressed in the Internal Auditor's annual report, the Council's response to the emerging governance issues and other relevant issues. The revised AGS was presented at Appendix 'A'.

In particular, the Committee's attention was drawn to the following:

- Once embedded it was hoped that the new Income and Debt Management Policy would result in a substantial assurance being given;

- Improvements in the Council's Information Governance arrangements had resulted in the Council achieving 94% compliance with the NHS toolkit;
- It was important that a systematic approach to identifying strategic risks and opportunities was embedded across the Council. Grant Thornton had facilitated a workshop to assist in this process. The workshop had identified that whilst risk management happened "in practice", the lack of a clear and systematic corporate approach was a weakness;
- A Risk and Opportunity map was being developed and work was in hand to set the right governance structures, to assign clear responsibilities and roles, to agree the corporate approach and to provide appropriate training.
- Going forward it was proposed to present a quarterly risk update to Management Team, as well as monitoring reports to the Cabinet Committee for Performance Improvement and importantly to this Committee. Once a proposal for a corporate approach had been finalised, a report would be presented to the Committee for consultation;
- Prior to the next meeting of the Committee a self-assessment exercise would be undertaken involving Committee Members and training arranged accordingly.

Resolved:

- i. That the draft of the Annual Governance Statement for 2014/15, as set out at Appendix 'A' now presented, be approved for inclusion in the draft Statement of Accounts.
- ii. It be noted that the Annual Governance Statement will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts at the Committee's meeting on 28 September 2015.

9. External audit update report

The Committee considered an External Audit update report including progress to date with the 2014/15 audit of accounts, Value for Money (VfM) conclusion and other work. The report also provided additional information on emerging issues and developments.

It was noted that further work needed to be undertaken and discussed with management prior to the final VFM conclusion.

Resolved: That the External Audit update report be noted.

10. Response of Chair of Audit Committee to Grant Thornton request for information to support its compliance with International Standards on Auditing

The Committee considered a response to Grant Thornton's request for information to support its compliance with international standards on auditing and quality control.

The Chair of the Audit Committee was asked to provide information in respect of Lancashire County Council relating to fraud and internal control.

A response to the commission had been prepared for consideration by the Committee and was set out at Appendix 'A' to the report.

Resolved: That the response to Grant Thornton's request for information to support its compliance with international standards on auditing and quality control, as set out at Appendix A to the report now presented, be approved and signed by the Chair of the Committee.

11. External Audit - Lancashire County Pension Fund Audit Plan 2014-15

The Committee considered a report on the External Audit Plan for the audit of the Pension Fund for 2014/15.

The Audit Plan set out the main risk areas which the audit would focus on and how the audit team plans to obtain the necessary assurances, including:

- The two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;
- The risk of incorrect valuations on Level 3 investments, which by their nature required a significant degree of judgement to reach an appropriate valuation at year end; and
- Other key risks areas around member data, investments, contributions and benefits payable.

The Committee noted that the fee for the audit of the Pension Fund had been set at £35,906 and that the fee was the same as that charged in 2013/14.

The Committee also noted that the Plan had been reported to Council's Pension Fund Committee on 27 March 2015 and that the Committee had raised no comments.

The Committee was informed that the Pension Fund Committee at its meeting on 2 July 2015 would be considering an update on the creation of an Asset and Liability Management Partnership with the London Pension Fund Authority. A decision on whether to proceed with the development a detailed business case would be determined at that meeting. It was confirmed that External Audit had

been in regular discussions with council officers on this matter and that these would continue should the Pension Fund Committee agree to proceed to the next stage.

Resolved: That the External Audit Plans for the audit of the County Pension Fund for 2014/15, and the fees therein, be agreed.

12. Urgent Business

None.

13. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Monday 28th September 2015 at 2:00pm at County Hall, Preston.

14. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following item of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

15. Whistleblowing, Counter- Fraud and Special Investigations Annual Report 2014/15

(Not for Publication – Exempt information as defined in Paragraphs 1, 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

The Committee considered the Internal Audit Service annual whistleblowing, special investigations and counter-fraud report for 2014/15.

Resolved: That the Internal Audit Service annual whistleblowing, special investigations and counter-fraud report for 2014/15 be noted.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston