

Lancashire County Council

Audit and Governance Committee

Tuesday, 30th June, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item
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|------------|--|-----------------|
| 1. | Apologies | |
| 2. | Constitution: Chair and Deputy Chair; Membership; Terms of Reference | (Pages 1 - 4) |
| 3. | 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. | |
| 4. | Minutes of the Meeting held on 13 April 2015
To be confirmed, and signed by the chair. | (Pages 5 - 12) |
| 5. | Update on Treasury Management Activity | (Pages 13 - 32) |
| 6. | The Council's Annual Governance Statement 2014/15
Report to follow. | |
| 7. | The Council's Code of Corporate Governance | (Pages 33 - 56) |
| 8. | Internal Audit Service annual report to Lancashire County Council for 2014/15
Report to follow. | |
| 9. | External audit update report
Report to follow. | |
| 10. | Response of Chair of Audit Committee to Grant Thornton request for information to support its compliance with International Standards on Auditing | (Pages 57 - 62) |

11. External Audit - Lancashire County Pension Fund Audit Plan 2014-15 (Pages 63 - 80)

12. 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.

13. Date of Next Meeting

The next meeting of the Committee will be held on Monday 28 September 2015 at 2.00pm at County Hall, Preston.

14. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items 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, as indicated against the heading to the item.

Part II (Not open to Press and Public)

15. Whistleblowing, Counter- Fraud and Special Investigations Annual Report 2014/15 (Pages 81 - 92)

(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).

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Agenda Item 2

Audit and Governance Committee

Meeting to be held on 30 June 2015

Electoral Division affected: All

Audit and Governance Committee

Constitution: Membership; Chair and Deputy Chair; Terms of Reference
(Appendix 'A' refers)

Contact for further information:

Chris Mather, 01772 533559, Legal and Democratic Services

chris.mather@lancashire.gov.uk

Executive Summary and Recommendation

The Committee is asked to note:

- i. the new Membership of the Committee following the County Council's Annual Meeting;
- ii. the appointment of Chair and Deputy Chair of the Committee; and
- iii. the Terms of Reference of the Committee.

Background and Advice

The County Council at its annual meeting on 21 May 2015 approved the constitution of the committee on the basis of 4 members of the Labour Group, 4 members of the Conservative Group and 1 Liberal Democrat Group member. The following members were appointed by their respective groups:

County Councillor:

K Brown	G Driver
T Brown	C Pritchard
D Clifford	A Schofield
C Dereli	V Taylor
B Winlow	

Councillors T Brown and D Clifford have been appointed as Chair and Deputy Chair of the Committee.

A copy of the Committee's Terms of Reference is attached at Appendix 'A'.

Consultations

N/A

Risk Management

N/A

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

Paper	Date	Contact/Service/Tel
Full Council agenda	21 May 2015	Chris Mather, Democratic Services 01772 533559

Reason for inclusion in Part II, if appropriate

N/A

Audit and Governance Committee

Purpose

The Audit and Governance Committee provides independent oversight of the adequacy of the council's governance, risk management and internal control framework, and oversees the financial reporting process.

Membership

The members of the Audit Committee shall comprise nine councillors.

Terms of Reference

Governance

1. To monitor the operation of the council's corporate governance, risk management and internal control arrangements.
2. To monitor the effectiveness of the council's strategies to counter fraud and corruption.
3. To monitor compliance with the council's local corporate governance code.
4. To promote and maintain high standards of conduct by councillors and co-opted members, to ensure that the highest ethical standards are maintained across all areas of the council's services.
5. To review and approve the council's annual governance statement.
6. To conduct an annual review of the effectiveness of the system of internal audit.

Audit

7. To approve, but not direct, the annual internal audit plan.
8. To consider periodic reports of internal audit activity and outcomes.
9. To consider the head of internal audit's annual report and opinion.
10. To consider the external auditor's annual plan.
11. To consider periodic reports on external auditor's work.
12. To consider the external auditor's annual audit letter.

Financial statements

13. To consider and approve the audited financial statements of the county council and its group subsidiaries and associates.
14. To consider and approve the audited financial statements of Lancashire County Pension Fund.

Treasury management

15. To review the council's treasury management strategy and policies.
16. To consider periodic reports of treasury management activity.

Meetings

17. The Audit Committee will meet at least four times a year

Agenda Item 4

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 13th April, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Clare Pritchard (Chair)

County Councillors

T Brown	G Driver
D Clifford	A Schofield
K Brown	V Taylor
C Dereli	B Winlow

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
Ian Rushworth – Audit Manager
Debbie Bonser – Information Governance Manager
Karen Murray – Director, Grant Thornton
Caroline Stead – Grant Thornton
Garth Harbison – Committee Support Officer

1. Apologies

None received.

2. Chair and Deputy Chair of the Committee

Resolved: That the appointment of County Councillor C Pritchard and County Councillor T Brown as Chair and Deputy Chair of the Committee respectively be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

4. Minutes of the Meeting held on 26 January 2015

Regarding Resolution 2 of Item 7, CIPFA Code of Practice – Managing the Risk of Fraud and Corruption, the Committee was informed that the review of the Council's anti-fraud policy was in the process of being completed.

Resolved: That the Minutes of the meeting held on 26 January 2015 be confirmed and signed by the Chair.

5. The Council's Code of Corporate Governance and Annual Governance Statement 2014/15

Ian Young, Director for Governance, Finance and Public Services, presented a report on the Council's draft Code of Corporate Governance and draft Annual Governance Statement 2014/15 which the Committee were invited to comment on.

The Committee was informed that that the County Council had approved the current Code of Corporate Governance in 2008 and it was therefore due for review, a commitment made in the Annual Governance Statement for 2014/15.

The draft revised Code drew on CIPFA guidance which defined the following six core principles which should underpin a local authority's governance framework:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
3. Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risks
5. Developing the capacity and capability of members and officers to be effective
6. Engaging with local people and other stakeholders to ensure robust accountability

The draft revised Code included an Action Plan and the Committee was informed that this would be updated when the Code was presented for approval at its meeting in June. Any comments on the draft Code which Members may have should be provided to the Director of Governance, Finance and Public Services.

The Committee were also asked to consider and comment on the draft Annual Governance Statement (AGS) for 2014/15 which would be presented for approval at the Committee's meeting in June.

The Committee was informed that there was still further work to be done with the AGS which would also need to reflect the Chief Internal Auditor's Annual Report for the year ended 31 March 2015 which would include her opinion on the Council's internal controls which had been subject to audit during the year.

In relation to Emerging Governance Issues, Members commented on the importance of ensuring that an effective risk management system was embedded in the Council and were informed that Management Team had made arrangements for a risk workshop facilitated by Grant Thornton and that this work would inform the creation of a risk register. Once created this would be the subject of regular updates both to Management Team and Members, including the Audit and Governance Committee.

Resolved: That the Committee:

1. Noted the draft revised Code of Corporate Governance for the County Council and that any comments should be made to the Director of Governance, Finance and Public Services;
2. Noted that a final version of the draft Code would be brought to the next meeting of the Committee in June for approval with a recommendation that once adopted the Code will be reviewed on an annual basis;
3. Noted that a revised Annual Governance Statement for 2014/15 would be presented to the Committee at its meeting in June and that any comments on the draft AGS should be made to the Director of Governance, Finance and Public Services

6. Internal Audit Service Progress Report

The Committee considered the Internal Audit Service Progress Report for the period to mid-March 2015. The final report for 2014/15 would be presented to the Committee at their meeting in June 2015.

Since September 2014 internal audit work had been strongly focussed on following up agreed remedial actions and on re-auditing areas with known control weaknesses as these were addressed by the Council's senior management teams. The Management Team was keen to rectify the control weaknesses reported in 2013/14 and to ensure that controls over areas of high and moderate risk are adequately designed and effective in operation.

In relation to the use of highways contractors where only limited assurance had been given the Committee was informed that controls in this area would be audited again in May. Members expressed concerns over the lack of evidence that procurement exercises had taken place as required where corporate contracts were not already in place. The Committee was advised that actions had

been agreed to address the issues, for example training for staff in the highways depots, and more effective oversight by managers. Members indicated that if the issue was not addressed then the relevant managers should attend the Committee to explain why Financial and Procurement Regulations were not being complied with.

The Committee was also informed that in relation to debt management and recovery a new Income and Debt Management Policy had recently been agreed and arrangements were being put in place to implement the required changes from the end of June 2015.

In relation to counter fraud activity, the Committee were informed that during April 2015 e-learning would be provided for targeted staff working in finance, procurement and contract management posts to raise awareness of areas susceptible to fraud, as well as the whistle-blowing lines available to them.

Resolved: That the Committee note the Internal Audit Service Progress report for the period to mid-March 2015

7. Information Governance Arrangements - Update

Debbie Bonser, Information Governance Manager, presented to the Committee a progress report on Information Governance arrangements within the County Council.

The Committee had previously requested regular updates on progress in developing robust arrangements to manage the County Council's responsibilities to properly maintain the confidentiality and security of information. Since the last report in March 2014, significant progress had been made to create a robust information governance function within the Council.

The Information Governance Team now consisted of ten members of staff all dedicated to:

- Protecting the confidentiality and security of the Council's information
- Giving public access to official information via Freedom of Information requests and access to one's own personal information via Data Protection Subject Access requests

It was also reported that in March 2015 the Information Commissioners Office (ICO) had undertaken a voluntary audit of the new information governance arrangements in place. As a result of the audit, the ICO would not be taking any further action on the information security breaches previously suffered within the Council.

From December 2014 to March 2015, the Council's Internal Audit Service had also carried out an audit of the new information governance arrangements, looking at a controls relating to resources, security breaches, roles and responsibilities, access controls, training, information sharing, records management, policies and an overarching framework.

Internal Audit had concluded that the Council's information governance arrangements now offered substantial assurance.

Resolved: That the Committee note the report

8. External Audit - Lancashire County Council Audit Plan

The Chair welcomed Karen Murray, Director for Grant Thornton, to the meeting. Karen presented a report on the Lancashire County Council External Audit Plan for 2014/15.

The Audit Plan set out the nature and scope of work that the Authority's external auditor would carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 and the Code of Audit Practice for Local Government.

This Audit Plan was specific to the financial year 2014/15 and set out in broad terms the programme of work required to give a financial opinion on whether the financial statements:

- Gave a true and fair view of the financial position of the County council as at 31 March 2015 and of its expenditure and income for the year then ended;
- Had been prepared in accordance with proper accounting practice;
- Gave a Value for Money conclusion

There were two significant risks identified in the Audit Plan that External Audit would focus its efforts on. These were:

- The revenue cycle included fraudulent transactions
- Management over-ride of controls

Other risks identified in the Audit Plan were:

- Operating expenses
- Employee remuneration

- Accounting for local authority maintained schools
- Waste PFI
- City Deal

The Committee was informed that External Audit had undertaken a risk assessment to identify areas of risks to the Value for Money conclusion. Four areas focussed on were:

- Action taken by management in response to the issues raised in the 2013/14 annual governance statement and the County Council's arrangements to prepare the statement for this year
- Review of the overall governance framework
- LCC's progress in delivering savings and the associated transformation programme included in the 2014/15 budget
- The robustness of the 2015/16 budget and plans to 2017/18 which identified savings of £146.2 million in the three years period.

Members were informed that the audit would be completed by the end of September 2015.

Resolved: That the Committee note the External Audit Plan for the audit of the County Council for 2014/15

9. External Audit - Lancashire County Council Update Report

Karen Murray, Director for Grant Thornton, presented an update report including progress to date with the 2014/15 audit of accounts, Value for Money (VfM) conclusion and other work.

The outcome of External Audit's work would be reported to the Audit and Governance Committee throughout the year. The report also provided a summary of emerging national issues and developments .

Resolved: That the Committee note the update report.

10. Urgent Business

There were no items of urgent business.

11. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Tuesday 30th June 2015 at 2:00pm at County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston

Audit and Governance Committee

Meeting to be held on 30 June 2015

Electoral Division affected: None

Update on Treasury Management Activity

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

The report set out at Appendix ' 'is a review of the County Council's treasury management activities in 2014/15. Management activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

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

Recommendation

The Committee is asked to note the review of treasury management activities for 2014/15.

Background and Advice

As part of the County Council's governance arrangements for its treasury management activities, the Audit and Governance Committee is charged with oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Interim Director of Financial Resources and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity during 2014/15 and sets this activity against the economic background including risk management strategies to protect the capital value of the County Council's reserves and balances.

Consultations

Arlingclose provides advice on treasury management.

This item has the following implications, as indicated:

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity. Risks associated with these activities in 2014/15 are referred to in the report.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Treasury Management Policy and Strategy 2014/15	Feb 2014	Andy Ormerod 01772 534740
CIPFA TM Code of Practice	2011	Andy Ormerod 01772 534740

Review of Treasury Management 2014/15

1. Introduction

The County Council's treasury management activity is undertaken in accordance with CIPFA's Code of Practice on Treasury Management ("the Code"). This recommends that members are informed of treasury management activities at least twice a year. This report provides a summary of the activities undertaken in 2014/15.

2. Executive Summary

- During 2014/15 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 is 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 is 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 are available for sale at current market prices should further liquidity be required.
- All Treasury Management activities in year comply with the CIPFA Code of Practice and none of the Prudential Indicators have been breached during the financial year 2014/15.

3. Economic Summary 2014/15

Gross Domestic Product (GDP) growth of 3% in 2014 was indicative of a more positive outlook for the UK economy as a result of a buoyant services sector, supplemented by positive contributions from the production and construction sectors.

Annual Consumer Price Index (CPI) inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to its lowest level since March 2009) and a steep drop in wholesale energy prices; extra momentum came from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but to increase around the end of 2015 as the lower prices dropped out of the annual rate calculation. The UK labour market also continued to improve with January 2015 showing the rate of unemployment falling to 5.7% from 7.2% a year earlier.

The Bank of England's Monetary Policy Committee (MPC) maintained interest rates at 0.5% and asset purchases (Quantitative Easing) at £375bn. The minutes of the MPC meetings reiterated the Committee's stance that the economic outlook for the UK economy meant that increases in the Bank Rate would be gradual and limited.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament and English MPs in turn demanding separate laws for England) lingers on. A closely contested general election campaign led to the markets bracing for a hung parliament.

On the continent, the European Central Bank (ECB) lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was lowered from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the Central Bank at its January meeting in an effort to steer the euro area away from deflation and stimulate economies. This involves buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy performed strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough to weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

Against this economic backdrop, from July gilt yields were driven lower by geopolitical risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big fall in the price of oil and its transmission

though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

4. Local Context and the Treasury Management Strategy 2014/15

The Full Council approved the revised 2014/15 treasury management strategy at its meeting on 20th February 2014. The Council's stated investment priorities were:

- (a) Security of capital and;
- (b) Liquidity of its investments.

The LCC policy, which has been in place for a number of years, is a deliberate "low credit risk" investment policy, replacing bank deposits with bonds issued by governments, government agencies, government guaranteed bodies, supranational bodies and covered or collateralized corporate bonds. LCCs position is therefore substantially insulated from the effects of an individual or systemic banking crisis.

This strategy worked well during 2014/15. Reforms of banking legislation will leave local authorities as one of the few categories of organisation without any protection from losses. The control of credit risk will become increasingly important from 2015/16 onwards.

Evidence of the low credit risk portfolio compared to the other clients of our investment advisors Arlingclose can be seen in the results of the Arlingclose benchmarking included in the appendices to this report. These graphs show that Lancashire County Council is rated as low risk – high return compared to other county authorities and against other Arlingclose clients.

The Council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. During the 2014/15 financial year continued low interest rates and the economic and political uncertainties described in the economic summary above, increased the value of low risk secure assets such as those held by the county council. This led to a better than estimated investment performance during the year and a surplus of income over expenditure on the capital financing budget.

The Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans.

The Interim Director of Financial Resources can report that all treasury management activity undertaken during the financial year complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

5. Treasury Management Activities in 2014/15

5.1 Borrowing Activity 2014/15

The revised 2014/15 borrowing requirement was estimated at £549.109m after taking into account the updated Capital Programme and the refinancing of existing borrowing. The table below shows the 2014/15 revised borrowing requirement along with the actual position as at 31 March 2015.

	2014/15 Revised £m	2014/15 Actual £m
Capital Programme Expenditure	205.903	178.016
<i>Financed by:</i>		
Capital Receipts	8.171	11.405
Grants and Contributions	187.450	150.797
Revenue Contributions	8.999	15.814
Borrowing	1.283	0
<i>Add Maturing Debt to be replaced:</i>		
Short Term Market Borrowing	579.950	573.000
Less Transferred Debt	1.967	1.967
Less Statutory Charge to Revenue	30.157	30.157
Total Borrowing Requirement	549.109	540.876

The revised capital programme estimated that £1.283m of new borrowing would be required to finance the capital programme. However lower than anticipated capital expenditure meant this borrowing was not required.

5.2 Analysis of Borrowing Outstanding

The following table sets out the structure of the County Council's treasury borrowing as at 31 March 2015:

	Debt as at 31-Mar-14		Borrowing	Repayments	Debt as at 31-Mar-15	
	£m	%	£m	£m	£m	%
Fixed Rate Funding						
Public Works Loan Board	213.10	26.22	-	-	213.10	20.58
*LOBO	50.00	6.15	-	-	52.23	5.04
Local Bonds	0.02	-	-	0.02	0.00	0.00
Market Borrowing	330.95	40.73	703.80	461.75	573.00	55.33
	594.07		703.80	461.77	838.33	80.96
Variable Rate Funding						
Public Works Loan Board	125.75	15.48	-	-	125.75	12.14
Shared Investment Scheme	92.77	11.42	571.73	593.04	71.46	6.09
	218.52		571.73	593.04	197.21	19.04
Loan Debt Administered by the County Council	812.59	100.00	1,259.79	1,184.81	1,035.54	100.00

*Lender option borrower option

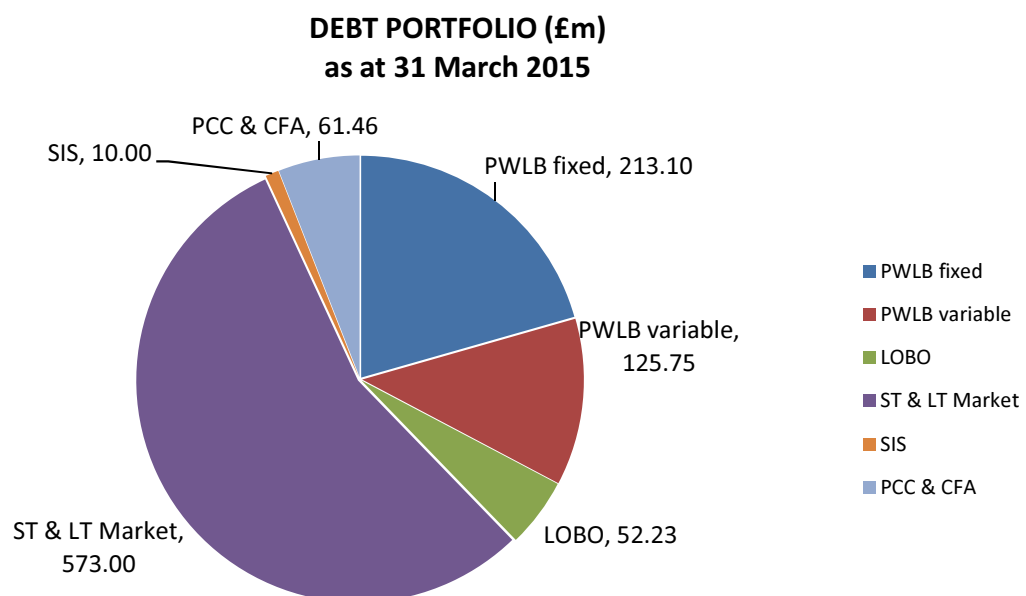
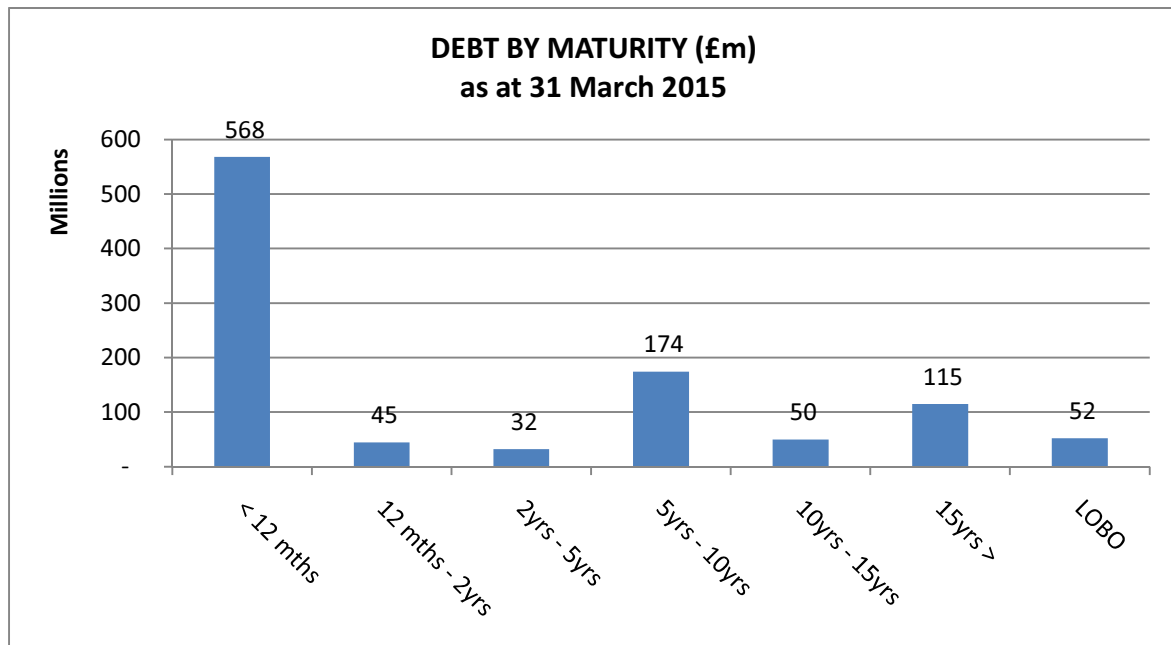
The total loan debt administered by the county council at 31 March 2015 of £1.036bn represents mainly borrowings over the years to finance the acquisition of the county council's fixed assets, which are currently valued at £2.669bn. The total borrowing increase of £220m over the year is entirely due to the refinancing of the former Waste PFI contract in July 2014 and therefore the increased borrowing is offset by a reduction in the council's long term liabilities.

With short-term interest rates having remained much lower than long-term rates, it was more cost effective to borrow short-term loans from the market, mainly from other local authorities. By doing so, the Council was able to keep borrowing costs low and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next year as official interest rates remain low, it is unlikely to be sustained in the medium-term.

The Interim Director of Financial Resources will, in conjunction with Arlingclose, continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise and adapt its strategy accordingly.

Overall the average rate of interest paid in 2014/15 on the debt administered by the County Council was 2.05% per annum compared with an average rate of 2.48% in 2013/14, 2.45% in 2012/13 and 2.11% in 2011/12

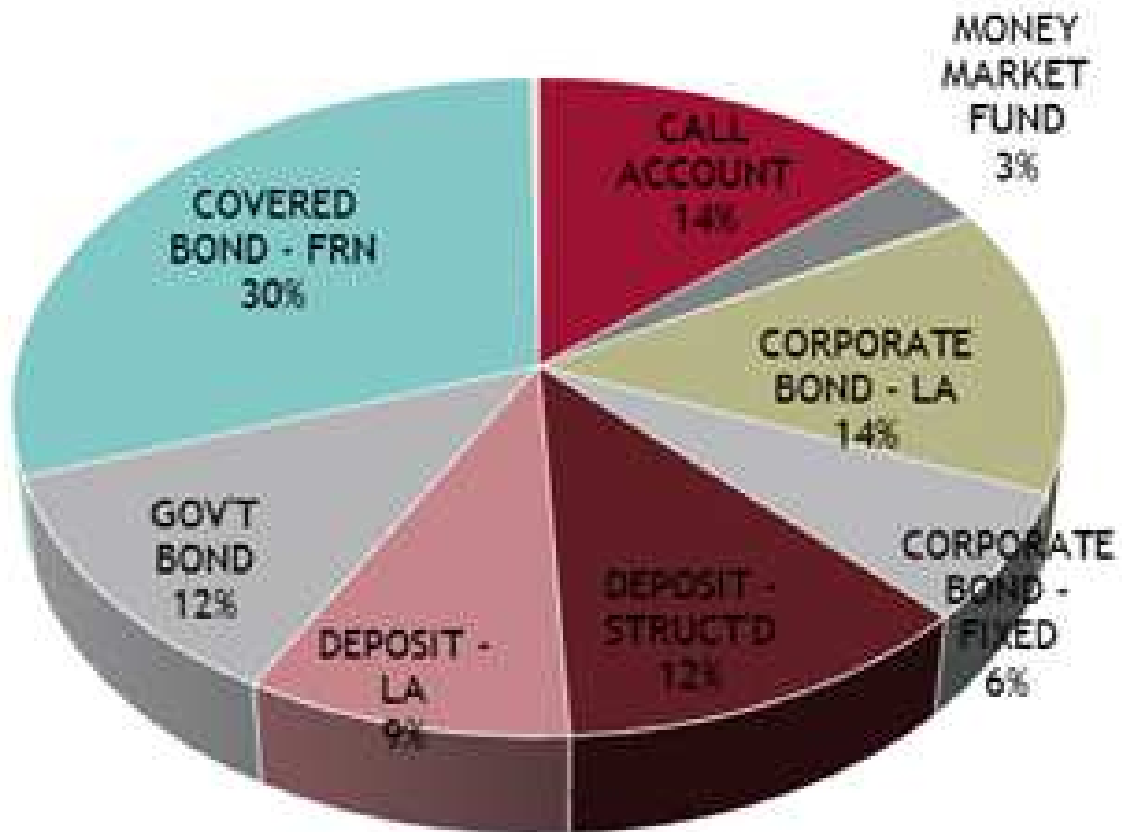
The charts below show the maturity and portfolio profiles of the County Council's debt as at 31 March 2015.



NOTE: PCC & CFA – Lancashire Police & Crime Commissioner and Combined Fire Authority.

5.3 Investment Activity

The total amount of investments (excluding fair value adjustment) held by Lancashire County Council at 31 March 2015 is £636.57m including £107.25m of cash and cash equivalents. The chart below shows the asset classes and the proportion of investments held in each class.

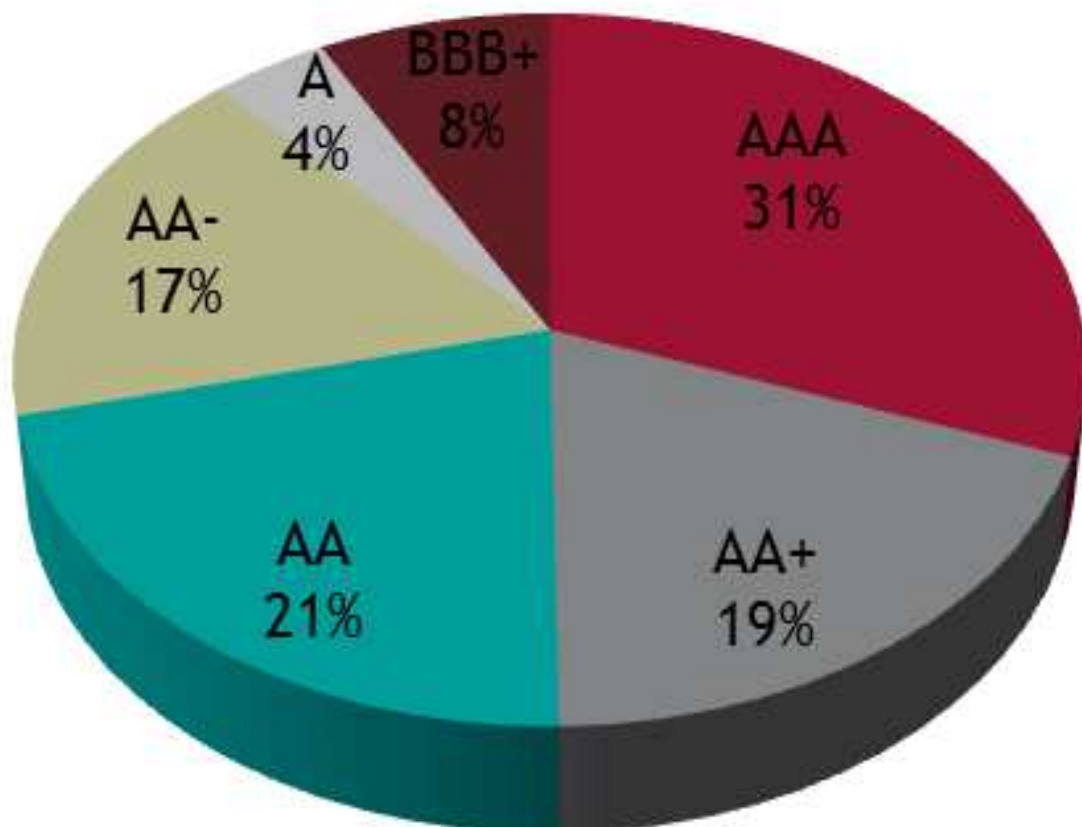


NOTE: FRN – Floating Rate Note.

The portfolio is developed in line with risk management, credit rating and maturity profiles as discussed below.

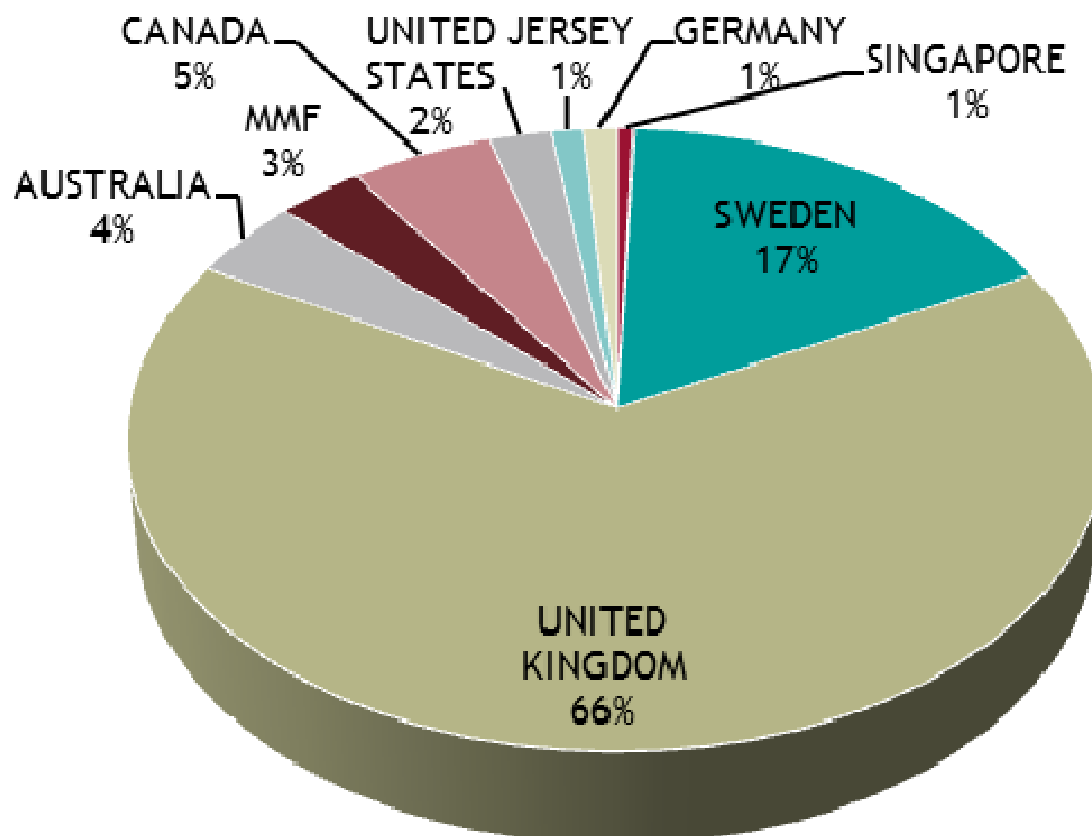
5.3.1 Total Investments analysed by credit rating

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. This defined "high credit quality" organisations as those having a minimum long-term credit rating of A+. In practice the Council continued to monitor the credit quality of its counter parties and the average credit rating in 2014/15 was AA which is higher than the A+. Details are shown in the chart below.



As part of the risk management policy, the Council has been moving away from unsecured bank deposits as an asset class and apart from on call balances they no longer form an allowable investment class under the 2015/16 treasury policy.

Sovereign credit risk is monitored by reference to the country in which investment counterparties are domiciled. The chart below shows the investments analysed by country.



NOTE: MMF – Money Market Fund – which is invested in various countries.

5.3.2 Investments by Maturity

The table below shows a maturity analysis of the portfolio as at 31 March 2015, alongside the average interest rate earned over the 2014/15 financial year.

Maturity Range	Amount as at 31 March 2015 £m	Average Rate 2014/15 %
Call, Money Market Funds & Under 1yr	181.71	1.43
Bank Deposit 1-2 Years	10.00	1.00
Bank & Local Authority Deposits 3-5 Years	36.50	1.44
Bank Deposit 5 Years +	10.00	2.95
Local Authority Bonds	36.70	4.05
UK Government and Supranational* Bonds	361.66	12.23
Total	636.57	9.32

* Supranational – bodies such as the World Bank, European Development Bank.

5.4 Liquidity Management

In keeping with the Department of Community & Local Government's Guidance on Investments, the Council maintained a minimum level of primary liquidity of £20m through the use of Money Market Funds and Call Accounts. The Council also has bond portfolios which are available for sale, at current market prices, if needed as "secondary" liquidity. From June 2015 the only assets held by the County Council which would be unprotected if a bank defaulted will be overnight deposits on call.

The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed.

5.5 Yield

The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

Income of £83.931m was earned on investments as a result of continuing low interest rates and concern over deflation and geo-political unrest in the Middle East and Ukraine. Overall the investment portfolios returned an average rate of 9.32% in 2014/15.

6. Impact of the Treasury Management Strategy on the County Council's revenue budget

The table below shows that the net position is £69.583m better than the budget. This is a result of additional income being received from realising market value increases in bonds and gains from the UK Treasury redemption of war loan bonds of which the Council was a holder. These gains are considered to be extraordinary and therefore will be a one-off gain.

Financing Charges 2014/15– End of Year Position

	Budget £m	Year End Position £m	Variance £m
Statutory Charge to Revenue	34.298	30.157	-4.141
Interest paid	22.475	22.033	-0.442
Investment interest received	-18.931	-83.931	-65.000
Total Net Financing charges	37.842	-31.741	-69.583

7. Treasury Management and Prudential Indicators 2014/15

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 as at 31 March 2015 compared to the indicators set in the treasury management strategy for 2014/15 is set out below.

		2014/15 Revised Limit £m	2014/15 Actual £m
<u>Prudential Indicators</u>			
1.	Adoption of CIPFA Treasury Management 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	1,544	1,036
	Other long term liabilities (PFI schemes)	206	176
	TOTAL	1,750	1,212

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	1,494	1,036
Other long term liabilities (PFI schemes)	156	176
TOTAL	1,650	1,212

4. **Capital Financing Requirement** 1,007 1,005

Treasury Management Indicators

5. **Upper limit for fixed rate debt** 37.6 8.7
6. **Upper limit for variable rate debt** 5.0 -1.8
7. **Upper limit for investments over 364 days** See below

Limits on the level of long term investments helps to control liquidity, although the majority of investments are held in available for sale securities.

	Upper Limit £m	Actual £m
Authorised limit		
Total invested over 364 days	900	514

8. **Maturity structure of debt**

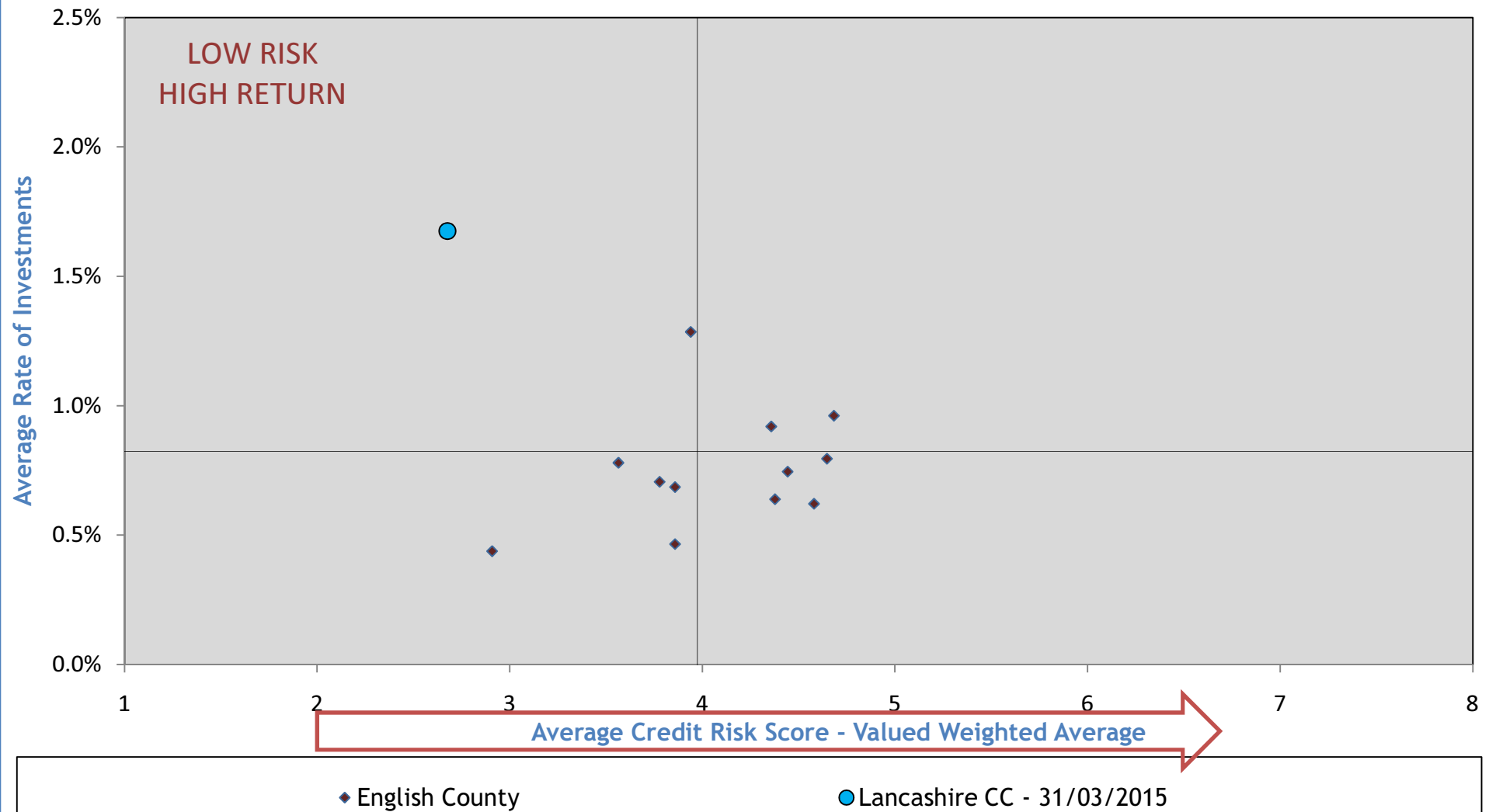
	Lower Limit %	Upper Limit %	Actual %
Under 12 months	-	75	59.9
12 months and within 2 years	-	75	3.1
2 years and within 5 years	-	75	2.8
5 years and within 10 years	-	75	16.3
10 years and above	25	100	11.1

The Council confirms that it has complied with its Prudential Indicators for 2014/15, which were approved on 20th February 2014 as part of the Council's Treasury Management Strategy Statement.

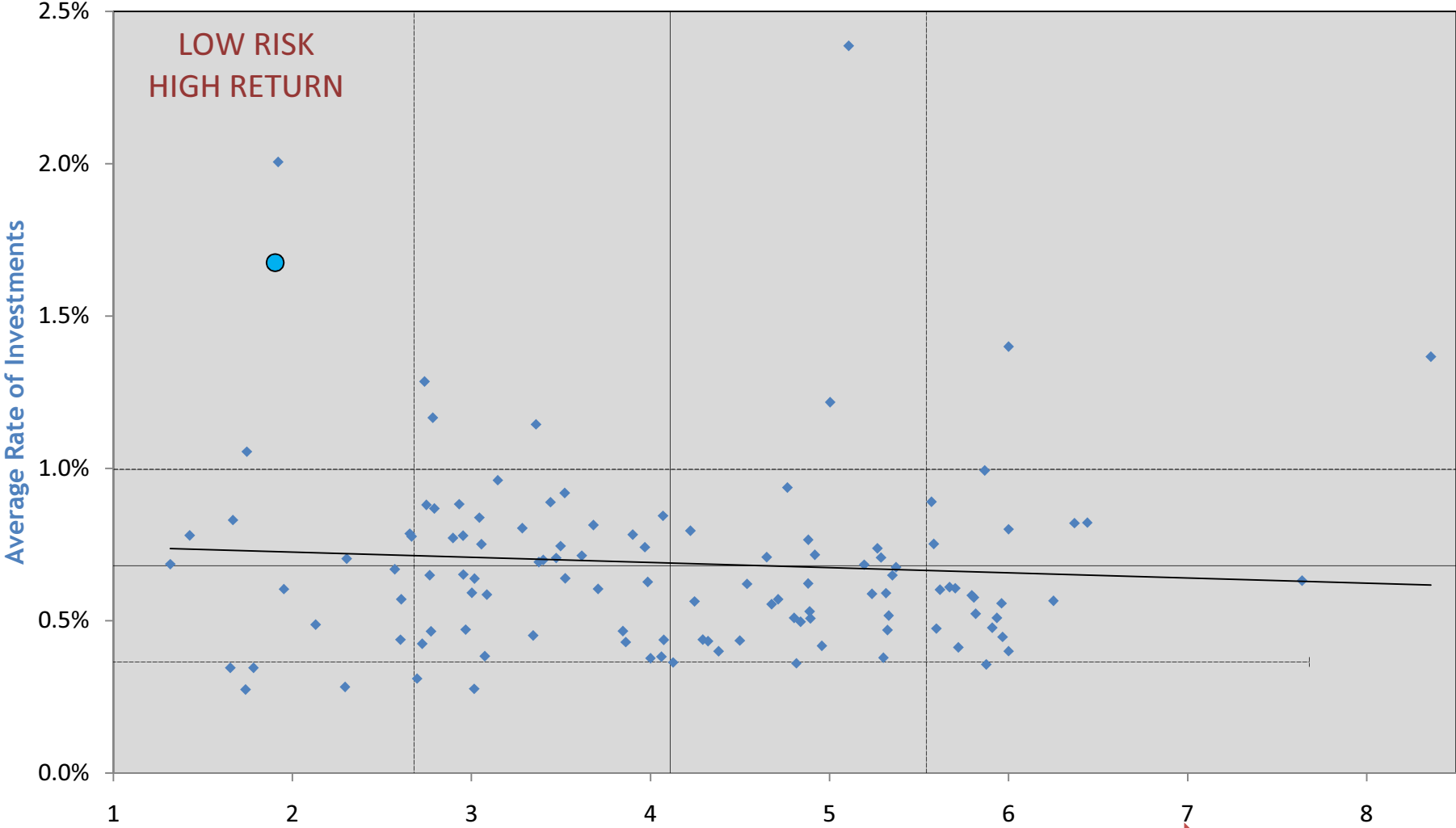
The Council also confirms that during 2014/15 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

Appendices

Average Rate vs Credit Risk (value-weighted) - Client Type



Average Rate vs Credit Risk (time-weighted)



Average Credit Risk Score - Time Weighted Average

◆ Benchmarking

● Lancashire CC - 31/03/2015

Audit and Governance Committee

Meeting to be held on 30 June 2015

Electoral Division affected: All

The Council's Code of Corporate Governance

(Appendix 'A' refers)

Contact for further information:

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Paul Bond, Head of Service Legal and Democratic Services (01772) 534676

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Executive Summary

The Committee at its meeting in April considered a draft revised Code of Corporate Governance for the County Council.

The Committee decided to note the draft revised Code of Corporate Governance and that a final version of the draft Code would be brought to the next meeting of the Committee in June for approval with a recommendation that once adopted the Code will be reviewed on an annual basis.

A draft revised version of the Code of Corporate Governance is presented for the Committee's consideration at Appendix 'A'.

Recommendation

The Committee is asked to consider the further draft revised Code of Corporate Governance for recommendation for approval by the Cabinet and Full Council, and recommend that once adopted the Code be reviewed by the County Council every year.

Background and Advice

The County Council has previously approved and adopted a Code of Corporate Governance. The Code was adopted in January 2008 and has not been reviewed since. A commitment in the Annual Governance Statement for 2013/14 was to review the Code during 2014/15.

CIPFA and the Society of Local Authority of Chief Executives (SOLACE) have provided best practice guidance on establishing a local Code of Corporate Governance: Delivering Good Governance in Local Government Framework document. The Code should articulate the expected standards, principles and values by which Lancashire County Council Officers and Members will operate.

There should be clear links between the principles of the Code, and the governance framework of strategies, policies and procedures which underpin the Code.

The Committee in April considered an initial draft of a revised Code and noted that it should be consistent with the principles of the CIPFA/SOLACE Framework which defines six core principles, each supported by sub-principles that should underpin the governance framework of a local authority. The revised Code is in a new format including sources of evidence providing clarity for Members, Officers and stakeholders about how the organisation uses the principles of the Code in practice.

The draft revised Code included an Action Plan and the Committee was informed that this would be updated when the Code was presented for final approval at its meeting in June. The Committee noted the draft revised Code of Corporate Governance for the County Council and asked that any comments should be made to the Director of Governance, Finance and Public Services.

The Committee also noted that a final version of the draft Code would be brought to this Committee meeting for approval with a recommendation that once adopted the Code will be reviewed on an annual basis.

A draft revised Code including an updated Action Plan is set out at Appendix 'A' for the Committee's consideration.

Once approved by the Committee the Code will be submitted to Cabinet and Full Council for approval. The Code will then be widely communicated to members, officers and stakeholders.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a local Code of Corporate Governance and publish an AGS means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Legal Implications

The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government (2007).

Financial Implications

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

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

Paper	Date	Contact/Service/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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Code of Corporate Governance

What is Corporate Governance?

Corporate governance is about the systems, processes and values by which Councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

Lancashire County Council is committed to the principles of effective corporate governance and has therefore adopted a Code of Corporate Governance which follows the latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled “Delivering Good Governance in Local Government”

The guidance defines the six core principles, each supported by sub-principles that should underpin the governance framework of a local authority.

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risks
- Developing the capacity and capability of members and officers to be effective

- Engaging with local people and other stakeholders to ensure robust public accountability.

What are the benefits of having a Code of Corporate Governance?

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. It enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and the management of risk.

Lancashire County Council has a robust governance framework in place. The documents and arrangements which comprise the framework demonstrate that the Council continually seeks to ensure it is and remains, well governed, through integration of with the core principles of the CIPFA/SOLACE framework into all aspects of the Council’s conduct and operation.

The Monitoring Officer is responsible for ensuring the Code is reviewed annually, and the outcome of the review, along with adoption of any revision to the Code is reported to the Audit and Governance Committee for approval.

The production of the Annual Governance Statement, in compliance with the Accounts and Audit Regulations 2011, is presented to the Audit and Governance Committee annually in conjunction with the Statement of Accounts.

Action Plan

Attached at Annex 1 are the governance framework processes that have been identified for action.

Suggested revised format for the Local Code of Corporate Governance (Principle 1)

Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and users	Develop and promote the authority's purpose and long term vision	<ul style="list-style-type: none"> • Corporate Strategy • Lancashire Health & Wellbeing strategy • Community Safety Agreement 2014-16 • Director of Public Health Annual report • Children & Young People's Plan 2014-17 • Lancashire Strategic Economic Plan & Lancashire Growth Plan • Medium Term Financial Strategy • Money Matters Budget Reports
	Review on a regular basis the authority's priorities and its implications for the authority's governance arrangements	<ul style="list-style-type: none"> • Quarterly Quality of Service reporting • Annual Governance Statement production • Annual budget and service offers/plans
	Communicate the authority's activities and achievements, its financial position and performance	<ul style="list-style-type: none"> • Statement of Accounts • Annual Governance Statement

		<ul style="list-style-type: none"> • Quarterly performance reporting to Cabinet Committee on Performance Improvement • Quarterly Quality of Service Reports • Council Tax Leaflet • County Council public website
1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning	Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	<ul style="list-style-type: none"> • Service/Commissioning Plans • Service Standards • Performance Management Framework • Community engagement and research work • Joint Strategic Needs Assessment • Strategic assessment of Crime & Anti-social Behaviour • Complaints Review
	Put in place effective arrangements to identify and deal with failure in service delivery	<ul style="list-style-type: none"> • Business Continuity Plans • Project management arrangements • Quality of Service Reports & Recovery Plans • Risk management plans • Contracts; specifications etc • Complaints Procedure & Review

1.3 Ensuring that the authority makes best use of resources, that tax payers and service users receive excellent value for money	Work towards improving value for money through exploring innovative ways of working including the potential for joint working and shared services	<ul style="list-style-type: none"> • Public Service Integration Plans • Commissioning Plans • Procurement Strategy • Service offers/plans
	Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use	<ul style="list-style-type: none"> • Project Management arrangements • Quarterly performance reporting • Calendar of committee meetings
	Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary	<ul style="list-style-type: none"> • Medium Term Financial Strategy • Quarterly performance reporting • Annual Statement of Accounts • External inspection of accounts • Internal audit reporting • Reports to Audit and Governance Committee, Cabinet and or Overview & Scrutiny

Suggested revised format for the Local Code of Corporate Governance (Principle 2)

Principle 2: Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
2.1 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard	<p>Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.</p> <p>Make the Chief Executive or equivalent responsible and accountable to the authority for all aspects of operational management.</p>	<ul style="list-style-type: none"> • Constitution • Scheme of delegation • Standing orders • Code of Conduct for members • Code of Conduct for Officers • Financial regulations

	<p>Ensure that the authority's governance arrangements allow the Director of Financial Resources direct access to the CEO and to other leadership team members.</p> <p>Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.</p> <p>Make a senior officer (the Director of Finance Resources as Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records, and for maintaining an effective system of internal financial control</p> <p>Make a senior officer (the Director of Governance, Finance and Public Services as Monitoring Officer) responsible to the authority for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with</p>	<ul style="list-style-type: none"> • Financial arrangements • Financial roles and responsibilities • Decision of the Council • Protocol on County Councillor/Officer relations
2.2 Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function	<p>Set out a clear statement of the respective roles and responsibilities of the Cabinet and the Cabinet members individually and the authority's approach towards putting this into practice.</p> <p>Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.</p> <p>Ensure that the Director of Financial Resources reports to the Management Team</p>	<ul style="list-style-type: none"> • Constitution • Scheme of Delegation • Members area on Intranet • Section 151 responsibilities

<p>2.3 Ensuring the relationship between the authority, its partners and the public are clear so that each knows what to expect of the other</p>	<p>Develop protocols to ensure effective communication between members and officers in their respective roles.</p> <p>Set out terms and conditions for remuneration of members and officers and an effective structure for managing the process, including an effective independent remuneration panel (for members).</p> <p>Ensure that effective mechanisms exist to monitor service delivery.</p> <p>Ensure that the organisations vision, strategic plans, priorities and targets are developed through robust processes, and in consultation with the local community and other stakeholders, and that they are clearly articulated and disseminated.</p> <p>Establish a medium term business planning process to deliver strategic objectives including:</p> <ul style="list-style-type: none"> • A medium term financial strategy to ensure sustainable finances. • A robust annual budget that ensures financial balance. • A monitoring process that enables scrutiny of delivery and supports appropriate mitigation for estimates that may vary in year. <p>Ensure that these are subject to regular review to confirm the continuing relevance of assumptions used.</p> <p>When working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and the authority.</p> <p>When working in partnership ensure that there is clarity about the legal status of the partnership.</p>	<ul style="list-style-type: none"> • Protocol on County Councillor/Officer relations • Members allowances and expenses • Annual Pay Policy • Code of Conduct (staff & Member) • Monitoring of Quarterly Quality of Service reports • Current Consultations • Budget Consultation • Agreed Joint Strategies and Plans • Forums and Youth Council • Shared Services Agreements • Partnership Protocol
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	Ensure that, when working in partnership, all parties understand and make clear the extent of the authority to bind their organisation to partner decisions.	
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Suggested revised format for the Local Code of Corporate Governance (Principle 3)

Principle 3: Good governance means promoting values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
3.1 Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	<p>Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect</p> <p>Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and</p>	<ul style="list-style-type: none"> • Constitution • Code of Conduct (Staff & Member) • Performance Development Appraisal • Financial Regulations

	<p>protocols.</p> <p>Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.</p>	<ul style="list-style-type: none"> • Standing Orders • Register of Gifts and Hospitality • Declaration of Interests register • Contract Procedure Rules • Equal Opportunities • Equality & Cohesion • Professional Qualifications and memberships
3.2 Ensuring that organisational values are put into practice and are effective	<p>Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners.</p> <p>Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.</p> <p>Develop and maintain an effective mechanism for dealing with standards issues.</p> <p>Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority.</p> <p>In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively.</p>	<ul style="list-style-type: none"> • County Council's Values • Constitution • Code of Conduct • Conduct Committee • Performance Development Appraisal • Learning & Development • Memorandums of Understanding • Decision Making Practices • Data Transparency Arrangements • Partnership Protocol

Suggested revised format for the Local Code of Corporate Governance (Principle 4)

Principle 4: Good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny	<p>Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible.</p> <p>Ensure an effective internal audit function is resourced and maintained.</p> <p>Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.</p>	<ul style="list-style-type: none"> • Overview and scrutiny Committees • Internal Audit • Codes of Conduct • Decision Making procedures • Audit and Governance Committee • External Audit • Complaints

	<p>Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.</p> <p>Develop and maintain an effective audit committee (the Audit and Governance Committee) which is independent of the executive and scrutiny functions.</p> <p>Ensure that the authority's governance arrangements allow the Director of Financial Resources direct access to the Audit and Governance Committee and External Audit.</p> <p>Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.</p>	<p>Frameworks</p> <ul style="list-style-type: none"> Local Government Ombudsman
4.2 Having good quality information, advice and support to ensure services are delivered effectively and are what the community wants/needs	<p>Ensure those making decisions, whether for the authority or partnership, are provided with information which is fit for purpose – clear, timely, relevant, accurate and complete, and gives clear explanations of issues and implications on both a financial and non-financial basis.</p> <p>Ensure information provided on the financial performance of the organisation to budget managers and senior officers is well presented, timely, complete and accurate.</p> <p>Ensure that timely professional advice on matters that have legal or financial implications is available and recorded in advance of decision making and used appropriately.</p> <p>Ensure the authority's governance arrangements allow the Director of Financial resources to bring influence to bear on all material decisions.</p>	<ul style="list-style-type: none"> Members Induction and Training Forward Plan Lancashire Profile JSNA Report Templates Financial Regulations

	Ensure that advice is provided on the levels of reserves and balances in line with good practice guidance.	
4.3 Ensuring that an effective risk management system is in place	<p>Ensure that risk management is embedded into the culture of the authority; with members and managers at all levels recognising that risk management is part of their job.</p> <p>Ensure the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports.</p> <p>Ensure that effective arrangements for whistle-blowing are in place to which officers, staff and all those in contracting with or appointed by the authority have access.</p>	<ul style="list-style-type: none"> • Management Teams • Quality of Service Reports • Service Plans • Business Continuity Planning • Annual Governance Statement inc assurance statements • Audit and Governance Committee • Anti-fraud Policy & Strategy • Information Governance Strategy and Policy • Whistleblowing Policy & Procedure
4.4 Using their legal powers to the full benefit of the citizens and communities in their area	<p>Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities.</p> <p>Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on authorities by public law.</p> <p>Observe all specific legislative requirements placed upon them, as well as the requirement of general law, and in particular to integrate the key principles of good administrative law -</p>	<ul style="list-style-type: none"> • Constitution • Report Templates • Legal Services work programme

	rationality, legality and natural justice – into their procedures and decision making processes.	
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Suggested revised format for the Local Code of Corporate Governance (Principle 5)

Principle 5: Good governance means developing the capacity and capability of members and officers to be effective:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
5.1 Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles	<p>Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.</p> <p>Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority.</p>	<ul style="list-style-type: none"> • Staff Induction • Member Induction & Training • Committee Specific Training • Learning and Development programmes – both mandatory and voluntary • CPD Training

		<ul style="list-style-type: none"> • Specific Service Area training e.g. Public Health
5.2 Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group	<p>Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.</p> <p>Ensure that councillors' roles and responsibilities for monitoring performance are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.</p> <p>Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.</p>	<ul style="list-style-type: none"> • Performance Development Appraisal • Member and Staff Training and Induction • CPD training • Performance Management Framework
5.3 Encouraging new talent for membership of the authority so that best use can be made in individuals' skills and resources in balancing continuity and renewal	<p>Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority.</p> <p>Ensure that career structures are in place for members and officers to encourage participation and development.</p>	<ul style="list-style-type: none"> • Encourage engagement through a variety of methods e.g. consultations; Petitions; Forums etc

Suggested revised format for the Local Code of Corporate Governance (Principle 6)

Principle 6: Good governance means engaging with local people and other stakeholders to ensure robust public accountability:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
6.1 Exercising leadership through a robust scrutiny function which effectively engages local people & all local institutional stakeholders including partnerships, and develops constructive and accountability relationships	<p>Make clear to all staff and the community to whom they are accountable and for what.</p> <p>Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required.</p> <p>Produce an annual report on the activity of the scrutiny function and promote a regular dialogue between executive and scrutiny functions.</p>	<ul style="list-style-type: none"> • Constitution • Corporate Strategy • Overview & Scrutiny Committees • O&S reports to Cabinet and Full Council

<p>6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning</p>	<p>Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements and ensure that they operate effectively.</p> <p>Hold meetings in public unless there are good reasons for confidentiality.</p> <p>Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that sections of the community have different priorities and establish explicit processes for dealing with these competing demands.</p> <p>On an annual basis, publish information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period.</p> <p>Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnership, subject only to those specific circumstances where it is proper and appropriate to do so.</p>	<ul style="list-style-type: none"> • Consultations • Budget consultation • Petitions • Community Engagement including Living in Lancashire Panel & Toolkit • Constitution • Standing orders • Statement of Accounts • Pay Policy Statement • Website • Facebook • Twitter • You Tube • Service User Forums • Statement of Accounts • Publication of information as set out in Transparency Code • Freedom of Information • Complaints Frameworks
<p>6.3 Making the best use of human resources by taking an active and planned approach to meet responsibility to staff</p>	<p>Ensure that staff are fully informed and have an opportunity to feedback with comments and suggestions.</p>	<ul style="list-style-type: none"> • Team Talk • Regular Staff Meetings • Staff Conferences • Intranet – Staff Notices • Email • Management Team Feedback

		<ul style="list-style-type: none"> • Joint Staff Consultative Committee • Staff Groups/Forums
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Annex 1

Code of Corporate Governance Action Plan

Key Action	Responsible Officer
1. Clearly setting out the purpose of the County Council, outcomes for the community and creating and implementing a vision for Lancashire through a new Corporate Strategy	Director of Corporate Commissioning
2. Develop service/commissioning plans that reflect new service offers and priorities in the corporate strategy	Director of Corporate Commissioning
3. Develop appropriate service standards	Director of Corporate Commissioning
4. Update partnership protocol	Director of Public Health & Wellbeing

5. Develop consistent approach to risk management and produce a corporate risk register	Management Team
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Audit and Governance Committee

Meeting to be held on 30 June 2015

Electoral Division affected: All

Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing

(Appendices 'A' and 'B' refer)

Contact for further information:

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Executive Summary

This reports sets out the proposed response of the Audit and Governance Committee to Grant Thornton's request for information to support its compliance with International Standards on Auditing.

Recommendation

The Committee is asked to:

1. Consider and approve the response to Grant Thornton, as presented at Appendix 'A'.
2. Authorise the chair of the Committee to sign the response on behalf of the committee.

Background and advice

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The chair of the Audit and Governance Committee has been asked to provide information in respect of Lancashire County Council relating to fraud and internal control.

A response has been prepared for consideration by the committee and is attached at Appendix 'A'. The letter from Grant Thornton is attached at Appendix 'B'.

Consultations

N/A

Implications

This item has the following implications, as indicated:

Risk management

This letter will provide supporting evidence to Grant Thornton in determining its opinion on the financial statements of the County Council for 2014/15.

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

Paper	Date	Contact/ Service/ Ext
Letter from Grant Thornton	16 June 2015	

Reason for inclusion in Part II, if appropriate:

N/A

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16 June 2015

Dear County Councillor Brown

Lancashire County Council and Lancashire County Pension Fund Financial Statements for the year end 31 March 2015
Understanding how the Audit and Governance Committee gains assurance from management

To comply with International Auditing Standards, each year we need to confirm our understanding of how the Audit and Governance Committee gains assurance over specific management processes and arrangements.

I would be grateful, therefore, if you could write to me with your responses to the following questions.

- 1 How does the Audit and Governance Committee oversee management's processes identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.

A response by 22 June would be much appreciated, which we can then include on the agenda of the meeting of the Audit and Governance Committee on 29 June, but please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Caroline Stead
Senior Manager
For Grant Thornton UK LLP

Caroline Stead
 Senior Manager
 Grant Thornton UK LLP
 4 Hardman Square
 Spinningfields
 Manchester M3 3EB

Phone:
 Fax:
 Email:

 Your ref:
 Our ref:
 Date: 30 June 2015

Dear Ms Stead

Response of the Chair of the Audit and Governance Committee to Grant Thornton's request for information to support its compliance with International Standards on Auditing

The Audit and Governance Committee and I have considered your request for information to enable you to comply with International Standards on Auditing in respect of Lancashire County Council's and the Lancashire Pension Fund's financial statements for the year ended 31 March 2015. The committee has approved the following response.

1. Your requirements

- 1.1 Grant Thornton is obliged to comply with International Auditing Standards. In particular each year it is required to confirm their understanding of how the Audit and Governance Committee gains assurance over specific management processes and arrangements.

2. How does the Audit and Governance Committee oversee management's processes identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks?

- 2.1 The Audit and Governance Committee takes seriously its role in reviewing Lancashire County Council's and Lancashire Pension Fund internal control effectiveness, including financial control arrangements and compliance with the law. It values its independence of both the executive and scrutiny functions and its direct reporting line to the council. It is also charged with oversight of the overall arrangements by which the risk of fraud is managed.
- 2.2 The Audit and Governance Committee receives information about instances of financial impropriety and fraud as well as breaches of control within the Internal Audit Service's regular progress reports and annual report.
- 2.3 A counter fraud policy statement, strategy and work-plan, and a whistle-blowing policy are in place and are periodically communicated to the council's staff. The Audit and Governance Committee receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.

3. Do you have knowledge of any actual, suspected or alleged frauds?

- 3.1 Other than the instances recorded in the 'Whistleblowing, special investigations and counter-fraud' report the Audit and Governance Committee is unaware of any further actual, suspected or alleged frauds.

Yours sincerely

CC Terry Brown
Audit and Governance Committee Chair

Audit and Governance Committee

Meeting to be held on 30 June 2015

Electoral Division affected: All

External Audit

Lancashire County Pension Fund Annual Audit Plan 2014/15

(Appendix 'A' refers)

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2014/15 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of the Pension Fund as at 31 March 2015 and of its expenditure and income for the year then ended; and
 - have been prepared in accordance with proper accounting practice.

The Audit Plan, setting out the process that underpin the audit is at Appendix 'A'.

Recommendation

The Committee is asked to agree the External Audit plan for the audit of the Lancashire County Pension Fund for 2014/15, and the fees therein.

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund. The plan sets out the main risk areas which the audit will focus on, 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 require 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 fee for the audit of the pension fund has been set at £34,169, which is the scale fee set by the Audit Commission. A fee of £1,737 is set to cover the IAS19 assurance work which is subject to separate approval from the Public Sector Audit Appointments Limited. Please note the total audit fee is the same as that charged in 2013/14.

(Note: The scale fee set previously by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the Interim Director of Financial Resources.

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Service/Tel
N/A		

The Audit Plan for Lancashire County Pension Fund

Year ended 31 March 2015

March 2015

Karen Murray

Director

T 0161 234 6364

E karen.l.murray@uk.gt.com

Gareth Kelly

Senior Manager

T 0141 223 0891

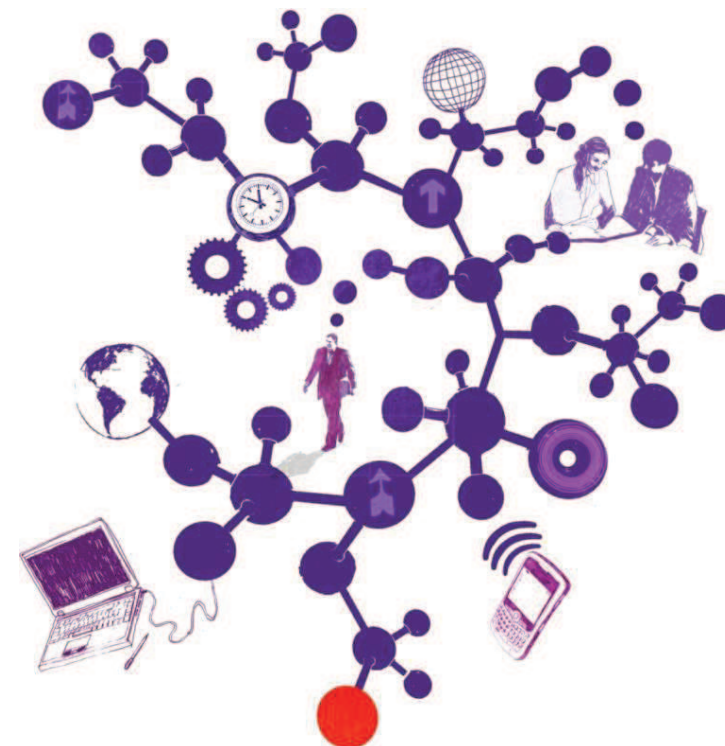
E gareth.kelly@uk.gt.com

Ian Pinches

[Executive]

T 0161 234 6359

E ian.m.pinches@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

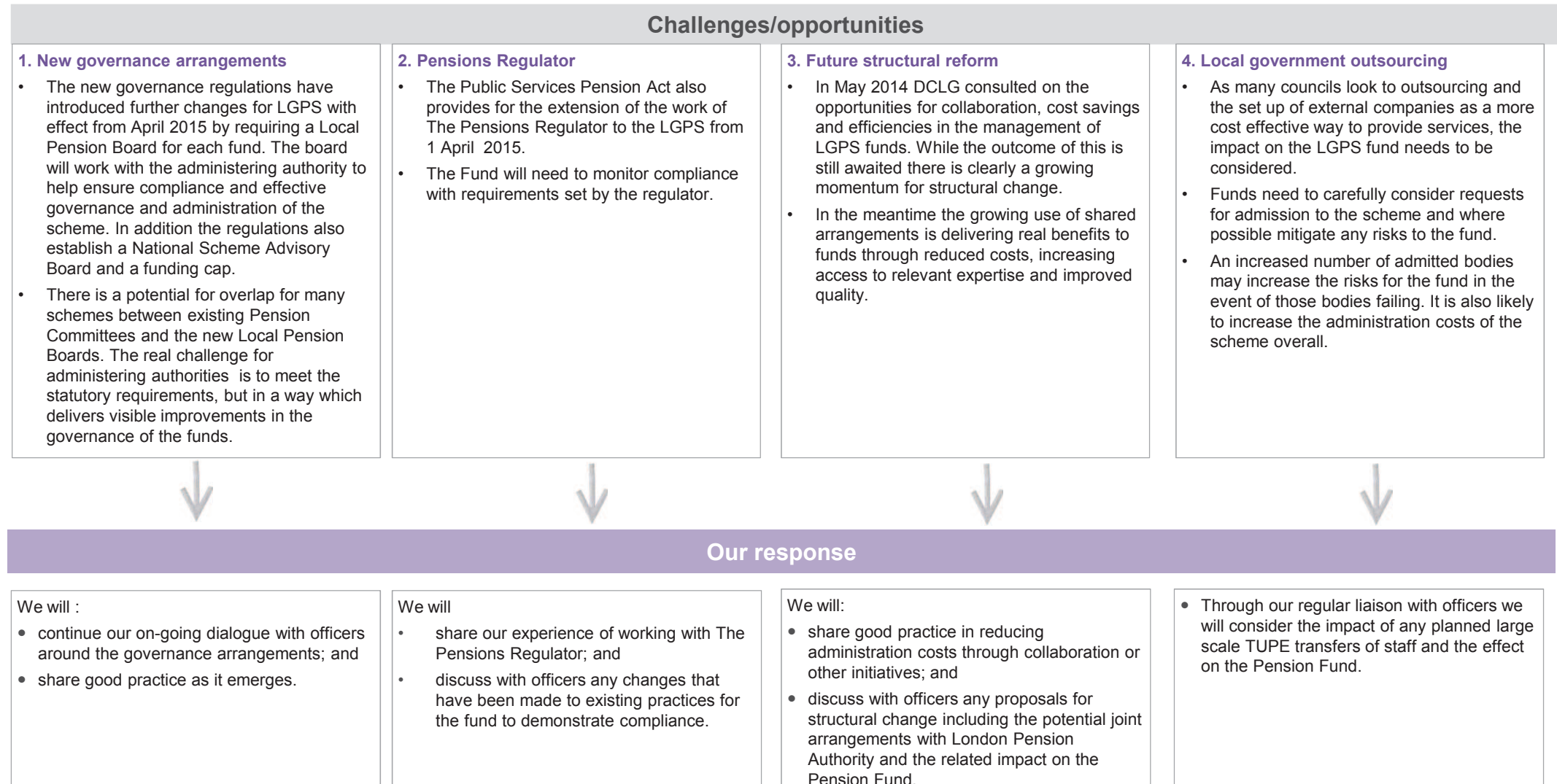
Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Results of interim work
7. Key dates
8. Fees and independence
9. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014 <ul style="list-style-type: none">During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.	2. Financial Reporting <ul style="list-style-type: none">There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015. However the Pension Fund needs to ensure on-going compliance with the Code	3. Financial Pressures <ul style="list-style-type: none">Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.	4. Accounting for Fund management costs <ul style="list-style-type: none">The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
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Our response

We will <ul style="list-style-type: none">consider changes made to the pensions administration control environment in response to LGPS data requirements.review the key control changes to benefits and contributions as a result of the changes from the introduction of LGPS 2014.	<ul style="list-style-type: none">We will ensure that the Pension Fund financial statements comply with the requirements of the Code.	We will <ul style="list-style-type: none">monitor any changes to the Pension Fund investment strategy through our regular meetings with management; andconsider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.	<ul style="list-style-type: none">We will discuss with officers any planned changes to the financial statements in response to this guidance.
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Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

* Understanding the environment and the entity

* Understanding the business

* Understanding management's focus

* Evaluating the year's results

Inherent risks

Significant risks

Other risks

Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Devise audit strategy (planned control reliance?)

Yes

- Test controls
- Substantive analytical review
- Tests of detail

IDEA

Report output to teams

No

- Test of detail
- Substantive analytical review

Analyse data using relevant parameters

General audit procedures

Financial statements

Conclude and report

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Voyager



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Pension Fund , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the split of responsibilities between the Pension Fund, its Fund Managers and the Custodian, provides a clear separation of duties reducing the risks relating to investment income• Management of the Fund do not have a financial interest in the entity, do not receive performance related pay, and do not give personal guarantees to the entity's debts .
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p>Work completed to date:</p> <p>We have carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the valuation of these investments.</p> <p>Further work planned:</p> <ul style="list-style-type: none">• For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period• To review the nature and basis of estimated values

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<ul style="list-style-type: none">• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances• Complete a predictive analytical review for different types of investments• For direct property investments rationalise income against a list of properties for expected rental income.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<ul style="list-style-type: none">• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<ul style="list-style-type: none">• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances• Test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation• For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.

Other risks identified continued

Other risks	Description	Audit Approach
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <p>We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over recorded contributions.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over occurrence, completeness and accuracy of contributions, Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <p>We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over benefit payments.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over completeness, accuracy and occurrence of benefit payments, We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <p>We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over the accuracy of member data.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over annual/monthly reconciliations and verifications with individual members Sample testing of changes to member data made during the year to source documentation.

Results of interim audit work

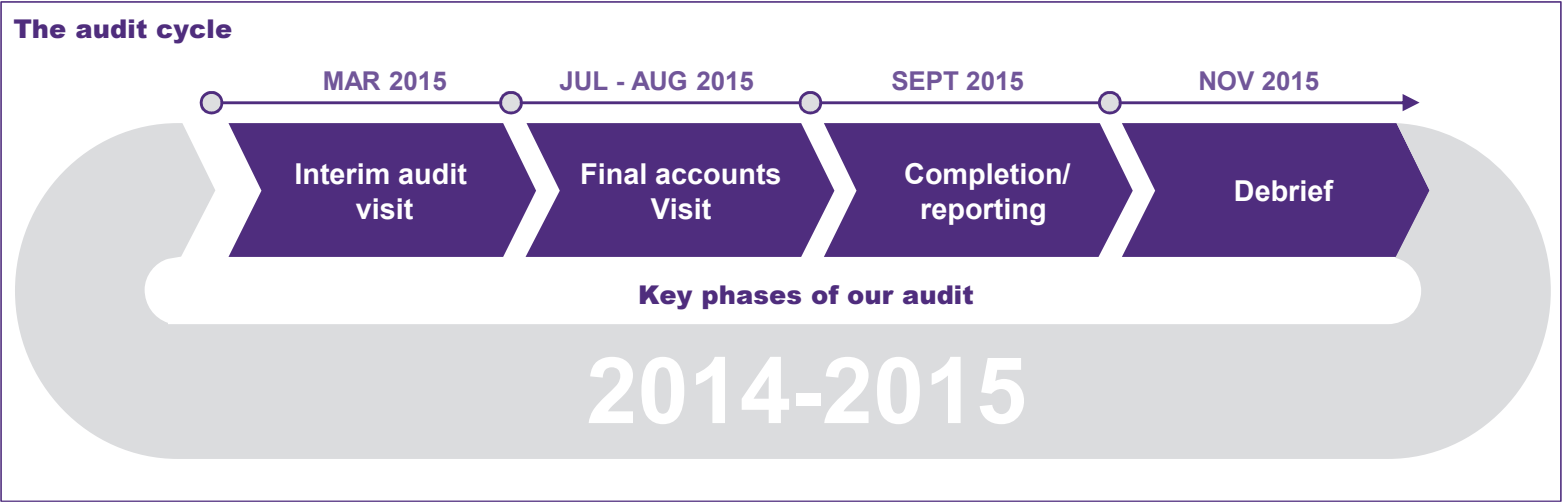
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Internal Audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p>	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	Our information systems specialists are in the process of completing their work, including a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	Once our work has been completed, we will agree the findings with you in due course.
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	<p>Our review of journal policies and procedures has not identified any issues.</p> <p>We will carry out additional work including testing on journals transactions for the full year, by extracting 'unusual' entries for further review.</p>

Key dates



Date	Activity
February 2015	Planning
March 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
July – August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Finance Staff
September 2015	Report audit findings to those charged with governance (Audit and Assurance Committee)
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Pension Fund Scale Fee	34,169
IAS 19 Assurances	1,737
Total fees (excluding VAT)	35,906

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the in-charge member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Agenda Item 15

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2, 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2, 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

