

**Lancashire County Council
Audit and Governance Committee**

Monday 26 September 2012

Minutes

Present:

County Councillors

S Chapman (Chair)

K Brown

M Welsh

H Henshaw

D Westley

M Younis

Officers in attendance

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

George Graham – deputy county treasurer

Steve Freeman - accountancy and financial planning manager

Ruth Lowry – head of internal audit

Karen Murray - district auditor, Audit Commission

Fiona Blatcher – senior audit manager, Audit Commission

Roy Jones - assistant county secretary

Cath Rawcliffe – committee support officer

1. Apologies

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

2. Disclosure of Pecuniary Interests

None were disclosed.

3. Minutes of the Meeting held on 25 June 2012

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

4. Management of vehicle assets – Progress report

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

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

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

Resolved: That the report be noted.

5. Update on Treasury Management Activity

A presentation was made to the committee by George Graham, deputy county treasurer on a review of the county council's treasury management activities during the current financial year to the end of August and included:

- A review of the economic conditions during 2012/13
- An assessment of the appropriateness of treasury strategy to the current and predicted economic environment
- Borrowing to finance capital expenditure
- Investment of cash balances
- Comparison of current borrowing levels with 2012/13 prudential indicators.

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

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

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

6. Internal Audit Service progress report

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

The report summarised the main issues emerging from the internal audit work completed to date. The report also set out the work performed against the annual audit plan for the year and the assurance assessment provided where work had

been completed, including work to assess progress against management's agreed action plans.

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

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

Resolved: That:

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

7. Review of Internal Audit

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

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

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

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

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

8. Annual Governance Reports 2011-12

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

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

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

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

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

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

Resolved: That:

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

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

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2011/12, as presented by George Graham, deputy county treasurer.

Regulations governing the process and delegated authority from the county council required that the chair of the committee sign off the accounts once they were approved by the committee.

The Statement of Accounts included the fund account and the statement of net assets and had been prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

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

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

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

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

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

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

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

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

Regulations governing the process and delegated authority from the county council required the chair of the committee to sign off the accounts once they were approved by the committee.

The committee was informed that the Statement of Accounts had been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

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

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

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

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

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

11. Urgent Business

There were no items of urgent business.

12. Date of Next Meeting

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

I M Fisher
County secretary and solicitor

County Hall
Preston