

## **Lancashire County Council**

### **Audit and Governance Committee**

**Minutes of the Meeting held on Monday, 24th June, 2013 at 2.00 pm in The Diamond Jubilee Room (Formerly Cabinet Room 'B') - County Hall, Preston**

#### **Present:**

County Councillor Clare Pritchard (Chair)

#### **County Councillors**

T Brown	A Schofield
K Brown	V Taylor
D Clifford	D Westley
C Dereli	

#### **Officers in Attendance**

George Graham – deputy county treasurer  
Mike Jensen – chief investment officer  
Ruth Lowry – chief internal auditor  
Karen Murray – director, Grant Thornton  
Fiona Blatcher – associate director, Grant Thornton  
Ian Rushworth – audit manager  
Roy Jones - assistant county secretary  
Cath Rawcliffe – committee support officer

#### **1. Apologies**

None received.

#### **2. Appointment of Chair and Deputy Chair**

The committee was informed that the County Council had appointed County Councillor Clare Pritchard and County Councillor Terry Brown as Chair and Deputy Chair respectively of the committee for the ensuing year.

**Resolved:-** That the appointment of County Councillor C Pritchard and County Councillor T Brown as Chair and Deputy Chair respectively of the Committee for 2013/14 be noted.

#### **3. Constitution, Membership and Terms of Reference**

A report was presented on the constitution, membership and terms of reference of the committee.

It was reported that the membership of the committee for 2013/14 was as follows:

County Councillor:

K Brown	C Pritchard
T Brown	A Schofield
D Clifford	V Taylor
C Dereli	D Westley
(1 vacancy)	

**Resolved:-** That the constitution, membership and terms of reference of the committee be noted.

**4. Disclosure of Pecuniary and Non-Pecuniary Interests**

None declared.

**5. Minutes of the Meeting held on 25 March 2013**

**Resolved:** That the minutes of the meeting held on 25 March 2013 be confirmed and signed by the chair.

**6. Audit and Governance Committee - working practices**

Roy Jones, Assistant County Secretary, presented a report which sought to clarify the operational practices of the Audit and Governance Committee.

The Committee was informed that the note of proposed working practice would supplement its terms of reference and cover the following issues:

- Access to the external and internal auditors by members of the committee in private
- External and internal auditor's attendance at Audit and Governance Committee meetings
- The delegation of attendance at meetings by members to substitutes
- The quorum of the meeting
- Access by the Committee to independent professional advice
- Self assessment by the committee of its effectiveness within the Council's corporate governance framework

Following discussion it was agreed that group secretaries be reminded of the requirement for those councillors who replace members on the committee to have received appropriate training before doing so.

**Resolved:** That the note of proposed working practice, as now presented, be endorsed and that political group secretaries be reminded of the requirement for replacement members to have received appropriate training on the committee before their attendance at a meeting.

## **7. Review of Treasury Management 2012/13**

A presentation was made to the committee by Mike Jensen, chief investment officer accompanied by George Graham, deputy county treasurer.

The report outlined the treasury management activities of the county council throughout 2012/13 and included:

- A review of the economic conditions during 2012/13 and the impact on the county council's borrowing and lending activities.
- Borrowing to finance capital expenditure.
- Investment of cash balances
- Monitoring of prudential indicators for 2012/13
- An update on the recovery of the investment in Landsbanki hf.

Officers responded to a number of queries raised by the committee in relation to the recovery of the investment in the Icelandic Bank Landsbanki, the council's fixed term deposits, its credit rating and capital spending in 2013/14.

**Resolved:** - That the review of treasury management activities in 2012/13 as shown at appendix A to the report now presented, be noted.

## **8. External Audit - update report June 2013**

Karen Murray, director, Grant Thornton, presented an update of the audit work undertaken by the Grant Thornton against the 2012/13 Audit Plan for the Council and Pension Fund.

It was noted that progress was on track and there were no issues or new audit risks to report. The report included a summary of emerging national issues and developments which were felt to be relevant to the council and included a number of challenge questions in respect of the emerging issues.

**Resolved:-** That the report be noted.

## **9. Response of the Audit and Governance Committee chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing**

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

The Chair of the Audit Committee was asked to provide information in respect of both Lancashire County Council and the Lancashire Pension Fund relating to:

- fraud and internal control;

- laws and regulations;
- litigation and claims; and
- assurance that the council was a 'going concern'.

A response to the commission had been prepared for consideration by the committee and was set out at Appendix A to the report. The Chair of the committee was requested to sign the response on behalf of the committee.

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

## **10. Internal/external audit protocol**

A report was presented on the internal/external audit protocol which set out how the council's Internal Audit Service and Grant Thornton as its external auditor work together and established a framework for coordination, cooperation and exchange of information.

**Resolved:** That the internal/external protocol be noted.

## **11. Internal Audit Service Charter**

Ruth Lowry, Chief Internal Auditor, presented a report on an Internal Audit Service Charter.

The Charter had been drawn up in accordance with the Public Sector Internal Audit Standards and included:

- The responsibilities and objectives of the Chief Internal Auditor
- The statutory regime and related requirements
- Reporting lines and relationships
- Independence and accountability
- Internal audit resources
- Quality assurance
- Non audit work
- Investigations and counter-fraud services
- Risk management
- The experience and qualifications of the Chief Internal Auditor
- The Internal Audit Service business plan
- Performance measures and service standards

**Resolved:** That the Internal Audit Service Charter as set out at Appendix A to the report presented be approved.

## **12. Internal Audit Service Progress Report**

The Chief Internal Auditor presented the internal audit progress report which summarised the work undertaken by the council's Internal Audit Service under the internal audit plan for the period to 31 May 2013.

The report supplemented the internal audit annual report also presented to the committee at the meeting.

Members were concerned that the committee was able to give its full support to the council in ensuring that internal controls were adequate and effective, and it was agreed that where this was necessary, the chair and deputy chair would write to the appropriate executive director drawing attention to the committee's concerns where the Internal Audit Service was unable to provide any assurance.

It was unclear whether the previous chair of the committee had written, as agreed, to the chief executive regarding the committee's concerns over information governance. If he had not, then it was agreed that the current chair would do so.

**Resolved:** That:

- i) The internal audit progress report for the period 31 May, 2013 be noted.
- ii) Where necessary, the chair and deputy chair of the committee will write to the appropriate executive director drawing attention to the committee's concerns over internal control.
- iii) If the previous committee chair has not written to the Chief Executive regarding the committee's concerns in relation to information governance then the current chair will do so.

## **13. Internal Audit annual report to Lancashire County Council for 2012/13**

The committee considered the Internal Audit annual report for 2012/13, as presented by Ruth Lowry, Chief Internal Auditor.

The report summarised the work of the Internal Audit Service during 2012/13 and the key themes arising in relation to internal control, governance and risk management across the council.

The opinion given in the report confirmed that there was generally a sound system of internal control, adequately designed to meet the council's objectives, and that controls were generally being applied consistently.

The committee noted that there were some weaknesses in the design and inconsistent application of controls that put the achievement of the council's objectives at risk. These included the risks around information governance which was identified as being the single most significant control issue facing the council.

Following discussion it was agreed that prior to the next meeting in September, a briefing session would be provided to the committee by the appropriate officers on the progress being made to improve the council's arrangements to ensure good information governance.

**Resolved:**

- i) That the internal audit annual report to the authority for 2012/13 as set out at Appendix A to the report now presented be noted.
- ii) That prior to the next meeting in September, a briefing session be provided to the committee by appropriate officers on the progress being made to improve the council's arrangements to ensure good information governance.

#### **14. Annual Governance Statement**

A report on the Annual Governance Statement (AGS) was presented by Roy Jones, assistant county secretary and solicitor. The statement was prepared in compliance with the Accounts and Audit Regulations 2011, which requires a review to be conducted of the governance arrangements in the authority.

This had been achieved by means of obtaining statements of assurance from executive directors as to the effectiveness of the governance arrangements for which they are responsible and by reference to the annual report of the head of internal audit.

The Statement outlined areas where there was a programme for improvement in the coming year and a number of changes that had been agreed for several aspects of the governance regime for 2012/13. These include those areas outlined in the annual report of the chief internal auditor in respect of information governance.

It was noted that the Annual Governance Statement was to be signed by the leader and the chief executive for the year in question, and the committee was asked to approve it.

**Resolved:** That the Annual Governance Statement for 2012/13 as now presented at Appendix A to the report, be approved.

#### **15. Internal Audit Plan for 2013/14**

A report was presented on the outline annual internal audit plan for Lancashire County Council for 2013/14.

It was noted that the Internal Audit Service planned to provide a total resource input to the county council of approximately 2,670 audit days, including an allocation of 400 days for investigations. It was anticipated that approximately

700 days would also be provided to external organisations within Lancashire including the pension fund, the Police and Crime Commissioner and a number of the district councils.

Appendix 'A' to the report provided a list of the work to be undertaken under the annual audit plan for 2013/14.

**Resolved:** That the internal audit plan for 2013/14 be approved.

## **16. Urgent Business**

There were no items of urgent business.

## **17. Date of Next Meeting**

**Resolved:** It was noted that the next meeting of the committee would be held on Wednesday 25 September 2013 at 2.00 p.m. at the County Hall, Preston.

## **18. Exclusion of Press and Public**

**Resolved:** That the press and members of the public 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 paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

## **19. Counter fraud and special investigations annual report 2012/13**

(Exempt information as defined in Paragraphs 1, 2 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

Ian Rushworth, Audit Manager, presented a report on a summary of the work performed by the Internal Audit Service during 2012/13 to support management in preventing, detecting and investigating fraud and corruption.

It was noted that no single issue had been identified that would have a material impact on the county council's overall control environment.

A copy of the annual report was presented at Appendix 'A'.

In response to questions raised by the Members in relation to excess mileage claims, the Chief Internal Auditor informed the committee that management intended to make all practical efforts to ensure that any overpayments would be recovered.

**Resolved:** That the 2012/13 counter fraud and special investigations report as now presented, be noted.

I M Fisher  
County Secretary and Solicitor

County Hall  
Preston