

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 29th September, 2014 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

D Clifford	R Newman-Thompson
K Brown	A Schofield
G Driver	V Taylor
C Pritchard	B Winlow

County Councillor R Newman-Thompson replaced County Councillor C Dereli on the Committee.

Standing Order 19(1)

County Councillors D Borrow and J Hanson attended the meeting under Standing Order 19(1).

Officers in attendance

Gill Kilpatrick – county treasurer
George Graham – deputy county treasurer
Abigail Leech - head of financial accounting and taxation
Mike Jensen – chief investment officer
Ruth Lowry – chief internal auditor
Karen Murray – director, Grant Thornton
Len Cross – manager, Grant Thornton
Ian Young – county secretary and solicitor
Roy Jones - assistant county secretary
Cath Rawcliffe – committee support officer

Announcement

The committee was advised that a number of the committee reports on the agenda referred to matters of a confidential nature. It was important therefore, that Members had regard to this when raising questions on the items.

1. Apologies

None received.

2. Chair and Deputy Chair of the Committee

Resolved: That the appointment of County Councillor T Brown and County Councillor D Clifford as Chair and Deputy Chair of the committee respectively for the remainder of the municipal year 2014/15 be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

4. Minutes of the Meeting held on 30 June 2014

Resolved: That the Minutes of the meeting held on 30 June 2014 be confirmed and signed by the Chair.

5. Internal Audit annual report to Lancashire County Council for 2013/14

The committee considered the Internal Audit annual report for 2013/14, as presented by Ruth Lowry, chief internal auditor.

The report summarised the work of the Internal Audit Service during 2013/14 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 only limited assurance could be given overall that the council operated generally sound systems of internal control.

The committee noted that there were some weaknesses in the council's systems' design and inconsistent application of controls which put the achievement of its objectives at risk and, in particular, significant weaknesses in the council's governance were revealed during the year.

The chief internal auditor commented that after a number of years in which management and staff resources had been reduced, services restructured, and operating process redesigned, it was unsurprising that the council's control framework now required more focussed management attention. A number of high profile issues had also impacted on the audit plan during the course of the year. These included the suspension and departure of the former Chief Executives of both the council and One Connect Limited (OCL) and a number of other matters relating to the Council's strategic partnership with BT PLC which had resulted in the return of many key services to the Council.

The committee was advised that the report had built on the matters reported in previous years which remained relevant, and matters which had been subject to discussions throughout 2013/14.

The assurance given in previous years was discussed. The chief internal auditor pointed to a gradual deterioration over recent years of the level of assurance she

has been able to provide, and to the previously even spread between substantial full assurance and limited/ nil assurance. That balance had now tipped and only limited/ nil assurance had been provided over the majority of control systems for 2013/14.

Members were reminded that feedback and assurances had been received from the executive directors for Children and Young People and Adult Services Health and Wellbeing in March 2014 on some of these areas.

Officers responded to questions raised by the committee in relation to the action being taken to raise the level of assurance awarded to a number of service areas. Officers also responded to questions raised in relation to the payments made to the former Chief Executive Officer of OCL.

Resolved: That the internal audit annual report to the authority for 2013/14 as set out at Appendix A to the report now presented be noted.

6. Annual Governance Statement 2013/14

Ian Young, county secretary and solicitor presented the Annual Governance Statement (AGS) for 2013/14, for inclusion in the County Council's Statement of Accounts for 2013/14, to be considered by the Committee at item 9 of the agenda.

The AGS had been carefully considered by the Management Team, recognising that the chief internal auditor had provided limited assurance overall that there was generally a sound system of internal control.

The committee noted that the council had over the past twelve months, experienced exceptional challenges which had absorbed and diverted a considerable amount of senior leadership time, circumstances which had impacted upon a number of the issues relevant to the adequacy and effectiveness of the council's control environment highlighted by the chief internal auditor's annual report.

It was noted that all outstanding actions would now form part of the chief internal auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance would achieve at least a substantial assurance assessment in the chief internal auditor's report for the year ending 31 March 2015.

Discussion was had on the issues that had emerged over recent months resulting in the fundamental re-negotiation of the council's strategic partnership with BT and the consequent return of many key services to the council including procurement.

In response to concerns raised by the Members, officers advised that the AGS for 2014/15 would be presented to the committee in June 2015 in accordance with the advice issued by the external auditor.

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 2013/14 as now presented at Appendix A to the report be approved for inclusion in the County Council's Statement of Accounts for 2013/14.

7. Approval of the County Council's and County Pension Fund's Letter of Representation 2013/14

A report was presented on the County Council's Management Representation Letter at Appendix A and that for the Lancashire County Pension Fund at Appendix B to the report.

The committee was informed that the Management Representation Letters should be made available to the external auditors (as part of the audit evidence) before the audit report was issued.

It was noted that the Management Representation Letters would be signed on behalf of the Lancashire County Council and the Lancashire County Pension Fund by the County Treasurer and the Chair of the Audit and Governance Committee and the committee was asked to approve them.

Resolved: That the management representation letters as shown at Appendices A and B to the report now presented be approved.

8. External Audit Lancashire County Council - Audit Findings Report 2013/14

A report was presented on the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Council, their proposed opinion on those accounts, and conclusion on the council's value for money arrangements.

In commenting on the county council's accounts, Karen Murray, external auditor, informed the committee that the draft accounts were, overall, prepared to a good standard. However, a number of misstatements and misclassifications had been identified within the accounts and these had been discussed with the County Treasurer and members of her team and the accounts amended.

The report also included the value for money conclusion. The opinion given in the report confirmed that the council did not have proper arrangements in place to secure value for money. This took account of the balance between those areas where the council's arrangements were demonstrably strong, and those areas of corporate and financial governance where the council had recently identified a number of fundamental weaknesses in its arrangements. It was acknowledged

that the issues had emerged during the year but that they related to arrangements, decisions and actions taken in previous years.

The committee also noted that the external auditor was unable to formally conclude the audit and issue an audit certificate until they had completed their consideration of matters brought to their attention by the Council in 2013. However they were satisfied that these matters did not have a material effect on the financial statements or a significant impact on their value for money conclusion.

Resolved: That:

- i) The external audit findings report covering the audit of the County Council for year ended 31 March 2014 be noted.
- ii) The adjustments to the financial statements and other issues raised by the external auditor as set out in the report presented, be noted.

9. Approval of the County Council's Statement of Accounts 2013/14

The committee was asked to approve the county council's Statement of Accounts for 2013/14, 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).

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 8 of the agenda were reflected within the statement.

It was reported that a member of the public had contacted the Council seeking to inspect the records underpinning the accounts and there was potential for a formal objection to the accounts to be made. This would be dealt with by the external auditor.

The committee was taken through the main components and key issues of the statement.

In response to questions raised by the Members in relation to the senior officers' disclosure note, officers advised that the council had followed Local Government Association guidance in 2012/13 and had notified the relevant senior officers of their inclusion in the disclosure note. The county treasurer agreed to investigate

whether such notifications had been issued for 2013/14 following the meeting and inform all members of the committee accordingly.

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

Resolved: That the Lancashire County Council Statement of Accounts for 2013/14 be approved and signed by the chair of the committee.

10. External Audit Lancashire County Pension Fund - Audit Findings Report 2013/14

A report was presented on the audit findings in relation to the accounts of the Lancashire County Pension Fund.

In commenting on the Lancashire County Pension Fund account, Karen Murray, external auditor, informed the committee that the audit work had not identified any material adjustments affecting the Fund's reported financial position. However, a number of adjustments had been identified to improve the presentation of the financial statements.

It was reported that the pension fund's financial statements gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities.

Resolved: That:

- i) The external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2014 be noted.
- ii) The adjustments to the financial statements and other issues raised by the external auditor as set out in the report presented, be noted.

11. Approval of the Lancashire County Pension Fund's Statement of Accounts 2013/14

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2013/14, 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 had been prepared in accordance with International Financial Reporting Standards and initial consultation with the external auditors,

Grant Thornton and included details of the Fund account, the Statement of Net Assets, investment policy and performance and the actuarial valuation.

The Statement also included details of the transfer of the National Probation Service and Community Rehabilitation Companies to the Greater Manchester Pension Fund and the current position with regard to the Fund's outstanding deposit with the Icelandic Bank Landsbanki Is.

Resolved: That the Lancashire County Pension Fund's Statement of Accounts for 2013/14 be approved and signed by the chair of the committee.

12. Update on Treasury Management Activity

A presentation was made to the committee by Mike Jensen, chief investment officer 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 2014/15
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment
- Borrowing activity
- Investment activity
- Actual results measured against 2014/15 prudential indicators and treasury management indicators
- Investment in Landsbanki update

Officers responded to questions raised by the Members in relation to the investment in the Icelandic Bank, Landsbanki Is. The committee was assured that the bank would be required to pay interest on the council's deposit and that the developments in the bank's winding up process would be closely monitored by the county treasurer.

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

Resolved: That the review of treasury management activities for the period 1 April to 31 August 2014 shown at appendix A to the report now presented, be noted.

13. Public Interest Disclosure Act 1998 (Whistleblowing Act) Summary 2013/14

Ruth Lowry, chief internal auditor presented a report on the complaints dealt with arising from the council's Whistleblowing Policy in the previous 12 months.

Since the last report in 2013, the internal audit service had received 21 complaints under this policy. Details of the complaints were shown at Appendix A to the report.

The committee noted that 12 of the 21 whistleblowing concerns had a financial implications.

Resolved: That the report be noted.

14. Urgent Business

There were no items of urgent business.

15. Date of Next Meeting

Resolved: That the next meeting of the committee be held on Monday 26 January 2014 at 2.00pm at County Hall, Preston

I Young
County Secretary and Solicitor

County Hall
Preston