

## **Lancashire County Council**

### **Audit and Governance Committee**

**Minutes of the Meeting held on Monday, 26th January, 2015 at 2.00 pm in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston**

#### **Present:**

County Councillor Terry Brown (Chair)

#### **County Councillors**

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

#### **Officers in attendance**

George Graham – Deputy County Treasurer  
Mike Jensen – Chief Investment Officer  
Ruth Lowry – Chief Internal Auditor  
Ian Rushworth – Audit Manager  
Beryl Rhodes – Head of Finance (Commercial and Central)  
Karen Murray – Director, Grant Thornton  
Ian Young – County Secretary and Solicitor  
Roy Jones - Assistant County Secretary  
Garth Harbison – Committee Support Officer

#### **1. Apologies**

None received.

#### **2. Disclosure of Pecuniary and Non-Pecuniary Interests**

None declared.

#### **3. Minutes of the Meeting on 29 September 2014**

The County Secretary & Solicitor clarified that in relation Item 6, which related to the Annual Governance Statement 2013/14, he had accepted at the meeting on 29 September 2014 that a sentence in paragraph 3.4 of the Statement was open to different interpretations.

Whilst no amendment was moved at the meeting, and as the Annual Governance Statement had been signed and was made public immediately after the meeting, so that the document could not now be amended retrospectively, the Minutes

should reflect the fact that the Audit and Governance Committee had not received all of the reports that had gone to Cabinet concerning the failure to deliver services to a satisfactory standard and to achieve procurement savings, the only reports to the Audit and Governance Committee in this regard related to information governance issues.

**Resolved:** That the Minutes of the meeting held on 29 September 2014 be confirmed and signed by the Chair.

#### **4. Accounts of Lancashire County Developments Limited 2013/14**

The Chair welcomed Beryl Rhodes, Head of Finance (Commercial and Central) to the meeting, who presented a report which set out the financial statements of Lancashire County Developments Limited (LCDL) for 2013 / 14. LCDL was legally required to have its financial records audited annually and the appointed auditors were Grant Thornton Chartered Accountants.

The Committee noted there was a drop in profit for at the end of the 2014 financial year compared to the last financial year. It was noted that this drop in profit included the residual impact of the fire at St. Mary's Catholic Technology College, Leyland.

It was noted that the public liability claim referred to in the financial statements, the Committee was informed that this had now been settled and the financial statements would be amended accordingly.

Key points in the financial statement for 2013/14 were:

1. The LCDL Group pre-tax profit was £1,065,669 for the period.
2. The major reasons for this profit were a £200k reduction in provisions for investments and a lower than anticipated expenditure on economic development projects. The reduction in investment provision resulted mainly from change in the profile of the investments being made.
3. The company's property portfolio was revalued at 31<sup>st</sup> March and this gave rise to an increase in value from £25.9m to £31.4 million. This reflected the completion of the new building at Leyland following the fire and a small rise in existing buildings on all sites.
4. The balance sheet net worth of the LCDL Group of companies totalled £39,629,889 as at 31<sup>st</sup> March 2014.

The Audit Findings Report stated:

1. There were no material findings and no misstatements reported.

2. The Auditors continued to require updates on the Contingent liability position with regard to Public Liability claims following the fire at Leyland.

**Resolved:** That the 2013/14 Statement of Accounts for Lancashire County Development Ltd, as now presented, be noted.

## **5. Update on Treasury Management Activity**

Mike Jensen, Chief Investment Officer, presented an update report on a review of Treasury Management activities in 2014/15 which presented a very positive picture for Treasury Management. Management activities were regulated by the CIPFA Code of Practice and it was best practice to review treasury management activities on a regular basis.

This review 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
- An update on the Council's investment in Landsbanki Is.

The Committee was informed of changes to legislation which brought into law 'bail-in' arrangements.

It was noted that current market conditions continued to enabled the County Council to take advantage of short term market borrowing

**Resolved:** That the Committee note the review of treasury management activities in 2014/15 for the period 1 September to 30 November 2014.

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

Ruth Lowry, Chief Internal Auditor, presented the Internal Audit Progress Report. The report highlighted a number of key areas of work undertaken by the Internal Audit Service during the period to 31 December 2014.

It was noted that the provisional audit plan for the year was considered by the Audit and Governance Committee in June 2014 and the Internal Audit team began that work as the previous year's work was completed. The Committee considered the annual audit report for 2013/14 in September 2014, and the

Management Team was committed to rectify the control weaknesses identified in that report and to ensure that the council's internal controls were adequately designed and operating effectively, and sought the Internal Audit Service's cooperation and support.

Members enquired why the follow-up work had not begun earlier and were informed that this was only possible once management had implemented the controls improvements. An Audit Manager had been specifically seconded out of the team to work more directly with managers to ensure that appropriate control frameworks were implemented. Internal audit work would follow when the work was complete, to consider whether appropriate action had been taken to rectify the control weaknesses identified. Work began in January 2015 to address the corporate information governance arrangements, central procurement, initial assessment for direct payments in ASHW and the case file audit process within CYP.

**Resolved:** That the Committee note the Internal Audit Service Progress Report for the nine months to 31 December 2014.

## **7. CIPFA Code of Practice - Managing the Risk of Fraud and Corruption**

Ian Rushworth, Audit Manager, presented a report on CIPFA Code of Practice – Managing Risk of Fraud and Corruption.

The County Council had a responsibility to ensure it had effective counter fraud arrangements in place and CIPFA had recently issued a voluntary code of practice entitled 'Managing the Risk of Fraud and Corruption' to support organisations in delivering this.

The code consisted of the following five key principles of counter fraud good practice:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;
- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

The code built on existing CIPFA guidance, 'Managing the Risk of Fraud', and other counter fraud best practice advice such as the 'Protecting the Public Purse' reports issued by the Audit Commission.

For each of the five principles the new code included details of the specific elements that organisations should have in place. The Council's current arrangements had been assessed against each of these elements. LCC already had adequate and effective counter fraud arrangements in place and as such was compliant with the vast majority of the code. Three areas for recommendation had been identified which could be strengthened by these arrangements:

1. The code recommended that a statement was included in the annual governance report stating that the organisation had adopted a response appropriate to the fraud and corruption risks it faced. LCC's annual governance report for 2013/14 referred to the council's whistleblowing and counter fraud arrangements, however, consideration would be given to expanding this and include a reference to the CIPFA Code of Practice in future annual governance reports.
2. LCC had an anti-fraud policy and strategy which was developed several years ago. Whilst these documents were relevant they needed to be refreshed to reflect current arrangements. These would be reviewed by the end of March 2015.
3. To increase Fraud awareness across the County Council it was proposed that staff in key roles completed a fraud awareness e-Learning course. A course had been developed by the National Fraud Authority and Deloitte and made available free of charge to local authorities. It was intended that this would be rolled out in April 2015 and made mandatory to the following groups of staff.
  - Budget holders;
  - Staff within County Treasurers Directorate; and
  - Staff within procurement, legal services, Your Pensions Service and payroll.

**Resolved:** The Committee note the report and approve that:

1. A statement is included in the annual governance statement that LCC had adopted a response appropriate to the fraud and corruption risks it faces and a reference is made to the CIPFA Code of Practice;
2. LCC review its anti-fraud policy and strategy by the end of March 2015;
3. LCC staff in key roles complete a fraud awareness e-learning course.

## **8. External Audit - Lancashire County Council Update Report**

Karen Murray, Director for Grant Thornton, presented the External Audit Update Report to the Committee. The report included 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 additional information on sector developments to the Members of the Audit and Governance Committee as those charged with governance for the County Council.

The Committee was informed that the scope of External Audit's work to inform the 2014/15 VfM conclusion comprised considering the County Council had appropriate arrangements in place for:

- Securing financial resilience; and
- For challenging how it secured economy, efficiency and effectiveness

It was reported that intelligence was being gathered by External Audit at this stage and there were no conclusions yet on VfM.

**Resolved:** The Audit and Governance Committee note the report.

## **9. External Audit - Lancashire County Council Annual Audit Letter**

Karen Murray, Director for Grant Thornton, presented the report on the External Audit's Annual Audit Letter. The Annual Audit Letter summarised the outcome of External Audit's work in 2013/14. It included the key messages in relation to the financial statements audit and audit opinion, and Value for Money conclusion.

The Annual Audit Letter was intended to communicate key messages to the County Council and external stakeholders, including members of the public. External Audit's annual work programme, which included nationally prescribed and locally determined work, had been undertaken in accordance with the Audit Plan that External Audit issued in June 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing and other guidance issued by the Audit. The Annual Audit Letter had been reported to Cabinet in December 2014.

In relation to VfM the County Council had identified a number of fundamental weaknesses in its arrangements in relation to:

- Two procurement processes;
- The relationship with, and operation of, the County Council's strategic partnership and associated joint venture company; and

- Salary payments made to the then Chief Executive of the County Council's joint venture company.

Members raised questions on these issues and it was noted further comment could not be made at this stage.

**Resolved:** That the External Auditor's Annual Audit Letter as now presented be noted.

#### **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 Monday 30<sup>th</sup> March 2015 at 2:00pm at County Hall, Preston.

I Young  
County Secretary and Solicitor

County Hall  
Preston