

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday 25th April 2022 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

N Aziz	J Couperthwaite
R Bailey	J Shedwick
J Berry	R Swarbrick

1. Apologies

The Chair welcomed everyone to the meeting.

Apologies were received from County Councillor Usman Arif.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 31 January 2022

Resolved: That the minutes of the Audit, Risk and Governance Committee meeting held on 31 January 2022 be confirmed as an accurate record.

4. Internal Audit Annual Report 2021/22

Andy Dalecki, Head of Internal Audit presented the Internal Audit Annual Report for 2021/22. It was highlighted that the report provided moderate assurance over the council's control framework.

Of the 31 audits completed during the year, only 2 had provided limited assurance. In addition to the audits completed, follow-up audit work and the success of management's actions to respond to the auditors' recommendations helped to inform the overall opinion. A larger piece of work had commenced to review outstanding actions for the period 2018-2020, the outcomes of which would be reported to the committee.

The Internal Audit Service was looking at ways to improve capacity and efficiency, for example through a minor restructure and the introduction of 'lean auditing'. A new report format had also been introduced to improve communication with services.

In response to questions from members, it was highlighted that:

- 'Moderate assurance' was a good assurance level, indicated there were no key risks to the county council, and was normal compared with recent years. Nonetheless, the Internal Audit Service worked with services to make improvements and provide support during follow-up work.
- The 31 completed audits gave sufficient coverage to provide an audit opinion across the council. As disruption to the service caused by Covid-19 continued to reduce, it was hoped that a greater number of audits would be completed during 2022-23.
- The auditors did not rely on a fixed threshold to determine the appropriate assurance level based on their audit findings. Rather, the severity of the identified risks and recommendations informed the auditor's opinion. Work between audit managers was ongoing to achieve consistency across the service.
- To check that management actions were implemented, follow-up audits were carried out. The results of follow-up audits would be reported back to the committee during the year through the usual audit progress reports. Generally, most audit recommendations were implemented within a few months.

Members sought reassurance on the relationship between the Internal Audit Service and the council's Overview and Scrutiny Committees and highlighted the importance of sharing the auditors' findings with scrutiny when appropriate. Further to the audit of schools in financial difficulties, it was requested that energy provision in schools be reviewed by either the Internal Audit Service or the Education and Children's Services Scrutiny Committee in the future.

It was noted that the scrutiny work programmes were agreed annually and required careful planning to ensure scrutiny's time was spent effectively. Recent audit findings would contribute to the scrutiny work planning process for 2022-23 and internal auditors were willing to present at scrutiny meetings in the future.

The executive summaries, provided at Appendices 'D' to 'P' to the report, were commended.

Resolved: That the Internal Audit Annual Report 2021/22, as presented, be noted.

5. Internal Audit Annual Plan 2022/23

Andy Dalecki, Head of Internal Audit presented the Internal Audit Annual Plan for 2022/23 and supporting Internal Audit Strategy.

It was highlighted that the outcomes of this work plan would inform the Head of Internal Audit's overall opinion for the following year. As in previous years, any changes to the plan would be shared with the committee.

In addition to the audits listed on the plan, the Internal Audit Service also carried out grant certification work, as needed, and maintained the council's response to fraud and corruption. Although the plan was challenging, changes in the Internal Audit Service and buy-in from other services would aid its delivery.

In response to questions from members, the following information was provided:

- The auditors worked and shared information with other audit services across the North West, which helped to benchmark services and costs where needed. National networking and guidance from professional bodies, such as the Chartered Institute of Public Finance and Accountancy, also informed their opinions.
- In the first instance and during an audit, auditors discuss the identified risks with the relevant service (the auditee). Once the audit report is produced, this is also shared with the service for comment. By the time the audit results are shared with the Audit, Risk and Governance Committee, the service would already be informed of the auditor's recommendations and working towards improvements.
- The Internal Audit Service worked with the council's directorates to identify the biggest risks to services and therefore which audits to prioritise. The main source of information on significant risks facing the county council was the Corporate Risk and Opportunity Register, which was reported to the Audit, Risk and Governance Committee separately.

Members praised the Internal Audit Service's work for the Lancashire Combined Fire Authority and highlighted the good working relationship between the two.

Resolved: That the Internal Audit Plan 2022/23, as presented, be approved.

6. External Audit: Lancashire County Council Audit Plan 2021/22

Stuart Basnett, Senior Audit Manager, Grant Thornton UK presented the external auditors' 2021/22 Audit Plan for Lancashire County Council. It was highlighted that:

- The external auditors would audit the group accounts, which covered the county council and Lancashire County Developments Limited (LCDL). This year, the valuation of investment properties by LCDL had been identified as a separate risk because Grant Thornton had to take assurance from the company's own auditors, Beaver and Struthers. Grant Thornton had

requested a number of audit tasks be completed to respond to this risk, as set out in the report.

- Other risks included management override of controls (standard to all audits) and valuation assumptions of the pension fund net liability, which had been a focus for several years due the pension fund's value.
- The audit of the council's valuation of land and buildings would be focussed this year on assets where the valuation movements were not in line with expectations. Grant Thornton worked with their own, and the council's, expert valuers to inform their opinion.
- Materiality had been set at 1.45% of the council's gross expenditure, which marked a 0.2% increase compared with the previous year's audit. The auditors' triviality threshold was also increased.
- A further potential for significant risk to the council's Value for Money arrangements related to the governance arrangements in place for large capital projects with partners where the county council was the accountable body. This was due to the scale of these projects and their possible impact on the council's finances. Grant Thornton would undertake a specific piece of work in this area, the results of which would be reported in the Auditor's Annual Report.
- Audit work was due to start in early July, following publication of the council's draft statement of accounts. The national deadline for statutory accounts to be signed off was 30 November 2022.

In response to questions from members, the following information was provided:

- To assess governance arrangements over large projects, the auditors looked to a range of good practice, but also how the projects were planned, set-up, delivered and managing their own risks. At this stage, the auditors were not suggesting there were problems with the council's governance arrangements, only that this area presented a possible risk and therefore should be reviewed.
- The auditors reviewed the council's valuation of properties every year, but this did not involve a review of every asset. Grant Thornton would look to other sources of information to determine key risks, for example this year their work would focus on changes to valuations that were not in line with expectations.
- The auditors were aware of work on the County Deal because, although the project's final arrangements were not yet confirmed, it was possible that Lancashire County Council could become its accountable body. Where

elements of the scheme might change, the auditors were interested to review how the county council would manage and respond to those changes.

Members queried why the audit fees paid by the county council had increased by circa 62% since 2018. It was noted that the audit fees were set in agreement with Public Sector Audit Appointment Limited (PSAA) and that, since the contract was first agreed in 2018, there had been significant increases to auditors' workloads, particularly following changes to the Code of Audit Practice in 2020. The committee requested further information on how the increases in audit fees correlated to the additional requirements placed on auditors since 2018, to be shared with members after the meeting.

Resolved: That the Lancashire County Council Audit Plan for 2021/22 be noted.

7. External Audit: Lancashire County Pension Fund Audit Plan 2021/22

Stuart Basnett, Senior Audit Manager, Grant Thornton presented the external auditors' 2021/22 Audit Plan for Lancashire County Pension Fund. It was highlighted that:

- The auditors' overriding approach to the pension fund was the same as for the county council, though a unique identified risk was the valuation of Level 3 investments. These valuations tended to represent significant estimates by management and therefore posed a risk to the pension fund.
- The conflict between Russia and Ukraine had, to date, had a minimal impact on the audit of the pension fund, though the conflict had caused wider uncertainty in global markets.
- As for the county council's audit plan, materiality had increased and thus so had the triviality threshold.

In response to a question about the valuation of Level 3 investments, members were informed that the majority of Level 3 assets were held by Local Pensions Partnership Investment Limited (LPPI) and were valued by its management team, comprised of industry experts. LPPI was audited separately by Grant Thornton's commercial team, who reported to the council's external auditors on whether those valuations were reasonable.

The committee requested further information on how increases to the pension fund's audit fees correlated to the additional requirements placed on auditors since 2018, to be shared with members after the meeting.

Resolved: That the Lancashire County Pension Fund Audit Plan for 2021/22 be noted.

8. The County Council's Accounts Payable Policy

Khadija Saeed, Head of Corporate Finance presented the council's new Accounts Payable Policy for approval.

It was highlighted that the policy largely set out the council's current practice, which was a continuation of the processes used under One Connect Limited. Having a clear, stated policy would allow for better control of processes, performance management, and for more detailed procedures and expectations for services within the council.

It was noted that additional information, such as the average value of invoices in each service, would be provided after the meeting as requested.

In response to questions from members, it was clarified that:

- Officers were acutely aware of the general increase in bank-to-bank payment fraud and the increased risks of cyber-crime. Having an Accounts Payable Policy allowed some ability to set general internal controls to mitigate this. However, more detailed internal processes following the agreement of the policy would allow more specific controls to be put in place in this area. The council already operated a control process for new and changed bank account details. These processes were kept under review on an on-going basis and would continue to be strengthened wherever possible.
- The Internal Audit Service planned to review accounts payable activities on an annual basis and played an important role in assessing the level of compliance with internal controls such as these.

Resolved: That the county council's Accounts Payable Policy, as presented, be approved.

9. Corporate Risk and Opportunity Register - Quarter 4 Update

Paul Bond, Head of Legal, Governance and Registrars presented the updated Corporate Risk and Opportunity Register and Summary Risk Register. It was highlighted that there was a positive direction of travel across all risks identified on the register.

It was noted that risks to the council relating to Local Pensions Partnership Limited were monitored as part of the Resources directorate's approach to risk management.

Resolved: That the updated Corporate Risk and Opportunity Register and updated Summary Risk Profile, as presented, be noted.

10. The Council's Annual Governance Statement 2021/22 and Code of Corporate Governance 2022/23

Paul Bond, Head of Legal, Governance and Registrars presented the council's draft Annual Governance Statement for 2021/22 and the updated Code of Corporate Governance for 2022/23.

As for the previous year, the Annual Governance Statement was split into two parts: one relating to the council's overall governance arrangements, and the other relating specifically to the impact of the Covid-19 pandemic. Therefore, there were two separate conclusions. The Code of Corporate Governance had been updated with further evidence to show how the council complied with the seven principles set out in the code.

The committee was asked to disregard the second recommendation set out in the report: *to note that the Pension Fund Governance Statement, as approved by the Pension Fund Committee, will form part of the council's Annual Governance Statement.* It was noted that the Pension Fund would produce a governance compliance statement instead, some of which would be included in the council's Annual Governance Statement. The relevant narrative would be shared with committee members after the meeting, and ahead of the final Annual Governance Statement being presented to the committee for approval with the council's statement of accounts.

Resolved: That

- i) The draft Annual Governance Statement for 2021/22, as presented, be approved for inclusion in the draft Statement of Accounts for 2021/22;
- ii) The signing of the Annual Governance Statement by the Chief Executive and Director of Resources (Section 151 Officer) and the Leader of the Council, following final approval of the Statement of Accounts, be noted; and
- iii) The updated Code of Corporate Governance for 2022/23, as presented, be recommended to Full Council for approval.

11. Code of Conduct - Review

Josh Mynott, Democratic and Member Services Manager presented a report which outlined the outcome of a review of Code of Conduct undertaken by the Political Governance Working Group.

It was highlighted that Lancashire County Council did not have an issue with councillors' conduct or receive many complaints.

The Political Governance Working Group had not recommended adopting the Local Government Association's (LGA's) suggested code of conduct; however,

the Working Group did suggest increasing the threshold at which members must declare gifts and hospitality received in their role as councillors from £25 to £50. It was noted that the thresholds at other authorities ranged from £25 to £100.

In response to questions, members were advised that:

- The Political Governance Working Group had been established by Full Council, met on an ad hoc basis, and comprised cross-party, senior councillors.
- The number of declarations for gifts and hospitality by Lancashire County Councillors was low. The exact number could be provided after the meeting.
- The recommendation to increase the threshold for declarations of gifts and hospitality received had been a unanimous decision of the Political Governance Working Group.

Members highlighted that there was probably some under-reporting and expressed concerns about increasing the threshold from £25 to £50, including:

- Increasing the county council threshold might influence the thresholds agreed by district councils.
- In the interest of transparency, county councillors should not be receiving any gifts without disclosing them.

It was therefore proposed that Full Council be recommended to keep the threshold at which councillors must declare gifts and hospitality offered or received in their role of councillors the same. On being put to the vote, the proposition was **lost** (3 for, 4 against).

The committee then considered the original recommendation, as set out in the report. On being put to the vote, the recommendation was **carried** (4 for, 3 against) and it was therefore:

Resolved: That

- i) The county council's existing Members' and Co-opted Members' Code of Conduct be retained; and
- ii) Full Council be recommended to approve that the threshold at which councillors must declare gifts and hospitality offered or received in their role as councillors be increased from £25 to £50.

12. Urgent Business

None.

13. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 25 July 2022 at 2.00 pm, at County Hall, Preston.

It was requested that a report to update the committee on the outcomes of management's responses to the external auditor's recommendations, included in the Auditor's Annual Report 2020-21, be prepared for the next meeting.

14. 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 appropriate paragraph of Part I of Schedule 12A to the Local Government Act 1972.

It was considered that in all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

15. Update on the Overpayment of Salaries

(Not for Publication - Exempt information as defined in Paragraph 3 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 interest in disclosing the information)

Neil Kissock, Director of Finance presented a private and confidential report which provided an update on an issue regarding the overpayment of salaries, as requested by the committee at its meeting held 31 January 2022.

It was noted that information on the amount of remaining debt covered by repayment plans would be provided after the meeting.

The committee agreed that it was interested to see further progress following the introduction of Oracle Fusion, and that it would like to receive 6-monthly updates.

Resolved: That

- i) The update report on the overpayment of salaries be noted; and
- ii) Further update reports on the overpayment of salaries be provided to the Audit, Risk and Governance Committee on a 6-monthly basis.

The Chair thanked members of the committee and officers for their attendance.

L Sales
Director of Corporate Services

County Hall
Preston