

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday 26 April 2021 at 2.00 pm

Teams Virtual Meeting

Present:

County Councillor Alan Schofield (Chair)

County Councillors

J Berry
E Nash
J Rear

J Shedwick
A Vincent

1. Apologies

Apologies were received from County Councillor Malik.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 25 January 2021

Resolved: That the minutes of the Audit, Risk and Governance Committee meeting held on 25 January 2021 be confirmed as an accurate record.

Josh Mynott, Democratic and Member Services Manager advised the committee that its decisions regarding the Code of Conduct had been implemented, but that further work had been delayed until the publication of additional national guidance, due in May 2021. Following this, any proposals by the Political Governance Working Group to change the Code of Conduct would be brought to the Audit, Risk and Governance Committee for review before recommendation to Full Council.

4. Internal Audit Annual Report 2020/21

Ruth Lowry, Head of Internal Audit presented the Internal Audit Annual Report, which provided an overall opinion on the council's frameworks of governance, risk management and control for the year 2020/21.

The following points were highlighted:

- The 2020/21 Annual Report differed from previous years' reports as very little internal audit work had been carried out over the last year due to the pandemic.
- The opinion set out in the report provided moderate assurance that the county council was adequately governed, risk managed, and had effective controls in place to manage its risks. Despite the lack of dedicated audit work over the last year, there had been sufficient evidence from a wide range of other sources to support the opinion. However, it would only be appropriate to rely on this approach for one year.
- Internal Audit staff had been deployed in other roles across the county council during its response to the pandemic, as detailed at Appendix B to the report, and the Head of Internal Audit was grateful for their hard work.
- Any internal audit work which had been undertaken over the last year, both for the county council and for external clients, had complied with the Internal Audit Service's quality assurance and improvement programme.

Resolved: That the Internal Audit Annual Report 2020/21, as presented, be noted.

5. Internal Audit Annual Plan 2021/22

Ruth Lowry, Head of Internal Audit presented a report outlining the Internal Audit Plan for 2021/22 and the work proposed to support the internal audit process, including the evidence that would be collected over the year.

It was noted that Appendix B provided an overview of the individual audits proposed at this stage, which could be subject to change over the course of the year.

The committee's attention was drawn to the recently published Liverpool City Council Best Value Inspection report and the need to reflect on Lancashire County Council's coverage of procurement, though there was currently no cause for concern.

In response to a question about the council's perceived increase in child poverty due to the pandemic, it was clarified that the Internal Audit Service would look into the promotion and uptake of food vouchers across the county as part of its audit of education and children's services.

Members thanked the Head of Internal Audit for the service's continued work for outside clients, for the clear way in which the service's plan for 2021/22 was set out, and for the approach adopted to internal audit work over the last year.

Resolved: That the Internal Audit Annual Plan 2021/22, as presented, be approved.

6. External Audit - The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20

Paul Dossett, Partner at Grant Thornton UK, presented the external auditor's Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund, which summarised the outcome of the work of the external auditors in 2019/20.

The following points were highlighted:

- The Lancashire County Council and Lancashire County Pension Fund 2019/20 audits had been signed-off on 5 March 2021.
- The Annual Audit Letter reflected the fact that the external auditors had given an unqualified opinion of the accounts and an unqualified Value for Money conclusion.
- The 2019/20 external audit was now complete, but as in previous years the certificate could not be issued due to the ongoing police investigation, Operation Sheridan.

Resolved: That the Annual Audit Letter for 2019/20, as presented, be noted.

7. External Audit - Audit Progress Report and Sector Update 2020/21

Paul Dossett, Partner at Grant Thornton UK, presented a report to update the committee on the proposed timescales for the external audit for 2020/21 and to provide additional information on sector developments.

It was highlighted that, although the 2019/20 audit had only been signed off in March 2021, planning was already underway for the 2020/21 audit. The report reflected progress with the audit process so far and included sector updates from Grant Thornton, the National Audit Office, and others.

The committee's attention was drawn to Grant Thornton's report on 'Lessons from recent Public Interest Reports,' which reflected on issues such as member conduct within local authorities.

Resolved: That the Audit Progress Report and Sector Update at April 2021, as presented, be noted.

8. External Audit - Lancashire County Council Audit Plan 2020/21

Stuart Basnett, Audit Manager at Grant Thornton UK, presented the Lancashire County Council Audit Plan for the year ending 31 March 2021, which detailed the planned scope and timing of the council's statutory audit.

The following points were highlighted:

- As standard, the significant risks identified for 2021 included management override of controls, the valuation of land and buildings, the valuation of the Pension Fund net liability, and the ISA 240 improper expenditure recognition.
- For 2021 there had been an amendment to auditing standard ISA 540, relating to accounting estimates. Management had received an enquiry document which covered this, and which would be discussed under item 11 of the meeting agenda.
- Grant Thornton would liaise with the Pension Fund auditor, as well as provide their own audit tests to provide assurance and assess the reasonableness of their assumptions.
- For 2021, Grant Thornton had rebutted the presumption of fraud in income, due to the limited opportunity to manipulate revenues. Although a number of audit tests would be carried out to assess risks relating to expenditure.
- The determined materiality level for 2021 was 1.25%, which remained unchanged from previous years' audits and this year equated to £28.134m. The clearly trivial threshold was slightly increased, set at £1.405m.
- In line with the National Audit Office's updated code of practice, Grant Thornton were now required to review, assess and report on the council's arrangements in more detail. As a result, the external auditors' annual report would include additional commentary.

Following a question, it was clarified that 'the group' included the county council and Lancashire County Developments Limited, which had its own auditing arrangements. Part of Grant Thornton's approach was to review the work of the auditors of Lancashire County Development Limited and instructions of the audit tests which Grant Thornton would like them to perform had been sent, to give assurance over the wider group audit.

Resolved: That the Lancashire County Council Audit Plan for 2020/21, as presented, be noted.

9. External Audit - Lancashire County Pension Fund Audit Plan 2020/21

Andy Ayre, Audit Manager at Grant Thornton UK, presented the Lancashire County Pension Fund Audit Plan for the year ending 31 March 2021.

It was highlighted that the Pension Fund's audit would cover two significant risks: management override of controls and the valuation of Level 3 investments. As the nature of Level 3 investments made them harder to value, time would be spent challenging the valuations to ensure they were fair and reasonable. Materiality had been determined at 1% of the Pension Fund's net assets, which equated to £92m, and the clearly trivial threshold had been set to £4.6m.

The committee thanked the external auditors for the clarity of both audit plans presented and for their clear explanation of the audit process.

Resolved: That the Lancashire County Pension Fund Audit Plan for 2020/21, as presented, be noted.

10. The Council's Annual Governance Statement 2020/21 and Code of Corporate Governance 2021/22

Paul Bond, Head of Legal and Democratic Services presented a report outlining the county council's draft Annual Governance Statement for 2020/21 and the updated Code of Corporate Governance for 2021/22.

The following points were highlighted:

- As with the previous year, the Annual Governance Statement included a separate section on the county council's response to the pandemic, with its own conclusion.
- The Code of Corporate Governance had been updated for 2021/22 and would be presented to Full Council for approval at either its May or July meeting.
- The Pension Fund Annual Governance Statement would be included in the council's 2020/21 Statement of Accounts with the Annual Governance Statement.

Resolved: That

- i) The draft Annual Governance Statement for 2020/21, as presented, be approved for inclusion in the draft Statement of Accounts for 2020/21;

- ii) The inclusion of the Pension Fund Governance Statement, as approved by the Pension Fund Committee, in the Annual Governance Statement for 2020/21 and its publication in the draft Statement of Accounts for 2020/21 be noted;
- iii) The signing of the Annual Governance Statement by the Chief Executive and Director of Resources (Section 151 Officer) and the Leader of the Council, and its publication on the county council's website following final approval of the Statement of Accounts, be noted; and
- iv) The updated Code of Corporate Governance for 2021/22, as presented, be recommended to Full Council for approval.

11. Response to the Information Request from the External Auditor

Khadija Saeed, Head of Corporate Finance presented a report detailing the proposed management response to the external auditor's annual information request, which provides the external auditors with information to support their work.

It was noted that there had been some format changes to the request for information this year, so a separate response from the committee Chair was not required as in previous years.

The committee's attention was drawn to the section of the response about accounting estimates, which had been included to inform the committee of the nature of the estimates included in the Statement of Accounts and how they had been reached.

Resolved: That the management response to the information request from the external auditor, as presented, be approved.

12. Matters arising under Urgent Business since the last meeting

Josh Mynott, Democratic and Member Services Manager presented a report outlining the decisions approved by the Director of Corporate Services as matters of Urgent Business since the last meeting of the Audit, Risk and Governance Committee, following the webcast failure at the committee's meeting on 25 January 2021.

It was noted that the webcast failure towards the end of the last meeting had meant that the final items of the meeting agenda had not been broadcast. To ensure the decisions approved by the committee had been properly recorded, the decisions were retaken as matters of Urgent Business by the Director of Corporate Services.

Resolved: That the decisions approved by the Director of Corporate Services as matters of Urgent Business since the last meeting, in agreement with the Chair and Deputy Chair of the Audit, Risk and Governance Committee, be noted.

13. Urgent Business

None.

14. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 26 July 2021 at 2.00pm, at County Hall, Preston.

15. 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.

16. Counter Fraud, Special Investigations and Whistleblowing Annual Report

(Not for Publication - Exempt information as defined in Paragraphs 2, 3 and 7 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)

Ruth Lowry, Head of Internal Audit presented a private and confidential report outlining the work completed during 2020/21 to prevent, detect and investigate fraud and corruption within the county council.

Resolved: That the Counter Fraud, Special Investigations and Whistleblowing Annual Report, as presented, be noted.

The Chair thanked all the officers of the county council and at Grant Thornton UK who had assisted the Audit, Risk and Governance Committee over the last four years.

Members echoed the Chair's gratitude and also thanked the Chair and Deputy Chair of the committee for their work.

L Sales
Director of Corporate Services

County Hall
Preston