

## **Lancashire County Council**

### **Audit, Risk and Governance Committee**

**Minutes of the Meeting held on Monday, 20th May, 2019 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

#### **Present:**

County Councillor Alan Schofield (Chair)

#### **County Councillors**

J Berry	M Parkinson
T Martin	J Rear
E Nash	J Shedwick

#### **1. Apologies**

None.

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

None declared.

#### **3. Minutes of the Meeting held on 28 January 2019**

**Resolved:** That the minutes of the Audit, Risk and Governance Committee held on 28 January 2019 be confirmed and signed by the Chair.

#### **4. Internal Audit Progress Report**

Ruth Lowry, Head of Internal Audit, presented a report outlining the updates on the Internal Audit Service's work. The report included key findings, issues of concern and actions undertaken as a result of the work. It was highlighted that:

- Of the 79 audits planned, 58% had been completed and details of 19 were included in the report. A further 3 were almost ready to report. At the July meeting of the committee assurance would be provided for the Lancashire Pension Fund and the first ICT audit.
- The report included managers' progress in implementing agreed actions in response to audit work from 2016/17, 2017/18 and 2018/19. It was acknowledged that 86% had been completed or superseded, 3% were incomplete and 11% were awaiting a response.

In response to questions from members the following information was clarified:

- The increase in the number of planned audits from 2017/18 to 2018/19 from 51 to 79 was achievable as the newer members of the Internal Audit team had completed their training and coaching programme and so the team were now able to complete more audits.
- In terms of determining which local authority was responsible for meeting the care and support costs where a person moves between two local authorities; the specifics of who would be accountable for persons leaving Calderstones, Whalley when it closed was not known by the Internal Audit team. However the steering group set up to oversee such decisions had a negotiating strategy which followed a consistent approach to support the resolution of this type of issue and minimise the financial cost to the council. The Chair commented that the Health Scrutiny Committee had received information regarding closure of the Calderstone's site and this may be useful to the Internal Audit team.
- As detailed in the Corporate Risk and Opportunity register (item 7), it is likely that the European Structural and Investment Fund (ESIF) programme would continue to its planned conclusion at the end of 2020. The ESIF monies totalling circa £200m, were currently ring-fenced for use in Lancashire over the next 5 years.
- Action was underway to address the breaches to the council's contract and procurement financial limits that had occurred for the procurement of expert assessment and therapy provision.
- An action plan had been agreed with management in order to take steps to mitigate risks for those service areas with limited assurance. The responses to the action plan were discussed and followed up to ensure the agreed work had taken place as described.
- It was not necessarily typical for this number to be outstanding at this stage in the year, however as previously stated the Internal Audit service's productivity had now increased and the work would start earlier this year. In view of this it was anticipated that the plan would be at a better position this time next year.

**Resolved:** That the Internal Audit progress report as presented be noted.

## **5. Internal Audit Annual Report 2018/19**

Ruth Lowry, Head of Internal Audit, presented the Internal Audit annual report for 2018/19 which summarised the work undertaken in this period and the key themes arising in relation to internal control, governance and risk management across the county council. It was highlighted that moderate assurance on the overall framework could be provided and there were no indicators to contradict this opinion.

This was based on assurance of individual systems and processes and the balance was weighed more toward substantial to moderate assurance. The county council continued to face financial pressures and there were some areas where improvements needed to be made. This included children's social care, which had seen a positive outcome when re-assessed by Ofsted and progress continued to be positive. The report included statutory reporting to comply with professional standards and informed the Annual Governance Statement.

**Resolved:** That the Internal Audit annual report for 2018/19 be noted.

## **6. The Council's Annual Governance Statement 2018/19 & Code of Corporate Governance**

Paul Bond, Head of Legal and Democratic Services, presented the 2018/19 Council's Annual Governance Statement to be included in the Annual Statement of Accounts and the Code of Corporate Governance for annual review.

The following areas were highlighted:

- The draft Statement reflected the issues highlighted in the Internal Audit annual report and included: the key elements of the governance framework; the Council's approach to risk management and performance; an update on the budget setting process, reporting and performance management; the role of the corporate management team in receiving reports on service performance, risk and the budget and the work of the Committee throughout the year.
- The Information Commissioner's Office (ICO) had raised concerns regarding the time the Council was taking to process subject access requests. Members were assured that a recovery plan had been agreed with the ICO and good progress was being made in clearing the backlog.
- Issues from 2018/19 had been highlighted to the Committee via the review of the Corporate Risk and Opportunities Register throughout the year. In addition the reports regarding the Neighbourhood Wellbeing grants had been brought to the Committee separately and a key policy document was now in place for Our Vision for Lancashire, which provided an update on the corporate strategy and the performance framework.
- The key issues for the coming year were captured on the corporate risk register which was the action plan to monitor actions taken to mitigate risks. The register was presented and discussed at this Committee, the Cabinet Performance Improvement Committee and the Corporate Management Team.
- It was clarified that the Code of Corporate Governance included the new corporate strategy, actions to be taken to achieve the supporting principles and how this would be evidenced.

The chair commented that it was evident how the reported documents linked together and informed the Annual Governance Statement.

In response to a question it was confirmed that the hyperlinks to the Register and the Code would be inserted into the final document, once they had been agreed.

**Resolved:** That

- (i) The draft Annual Governance Statement for 2018/19 be approved for inclusion in the draft Statement of Accounts.
- (ii) It be noted that the Annual Governance Statement would be signed by the Chief Executive and Director of Resources (S151) and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts.
- (iii) The Committee had considered the updated Code of Corporate Governance and had not proposed any amendments for recommendation to Full Council.

## **7. Corporate Risk and Opportunity Register Quarter 1 2019/20**

Paul Bond, Head of Legal and Democratic Services, presented the quarter one Corporate Risk and Opportunity Register for 2019/20.

The following points were highlighted:

- It was confirmed that the Corporate Management Team had completed the annual review of the register which had been updated to reflect the current priorities and was aligned to the Annual Governance Statement.
- Corporate Risk (CR) 1: reshaping the County Council, replaced the previous risk regarding delivering the operational plan which had been given a 12 month timeframe. CR1 incorporated workforce planning and phase 2 of the service challenge process.
- CR5: recruit and retain experienced staff across the organisation which had replaced the risk focussed on Children's services staffing and had been broadened to include addressing skill shortages across the whole organisation.
- CR11: future provision of ICT services. This was a new risk relating to the work underway to address the upcoming expiration (2021) of the ICT contract with BTLS.
- There were two new Corporate Opportunities (CO) that had been identified: CO3, fair funding and business rate retention and CO4, working

collaboratively with key health partners in order to develop our offer to the health economy.

In response to a question it was confirmed that with regard to CO3, Central Government had changed their interpretation of the criteria for assessment for the one year pilot for business rate retention. It was emphasised that other authorities were in the same position and the council would maintain the position of keeping to the original agreement when the county council began the pilot.

**Resolved:** That the updated Corporate Risk and Opportunity Register as set out be noted.

## **8. Internal Audit Annual Plan 2019/20**

Ruth Lowry, Head of Internal Audit, presented a report explaining the approach to establishing the audit plan for 2019/20 and the work proposed to support the overall opinion for the year on the council's framework of governance, risk management and control. It was highlighted that the report sets out the context of the work to be undertaken and the actions required to improve the controls in place to mitigate risks. The report also included details of the spread of work across the organisation and its control areas according to the framework. The audit methodology was made up of different stages. Firstly an assessment of the adequacy of controls in place would be undertaken, this could then be progressed to testing the effectiveness of the controls, in most cases these were done together.

In response to a question it was confirmed that a number of the audits that were withdrawn the previous year would be addressed this year.

The Chair recommended that any members who had been unable to attend the internal audit training, review the presentation or attend the mop session (date to be confirmed).

**Resolved:** That the internal audit plan 2019/20 be approved.

## **9. Grant Thornton's Request for Information from Management**

Khadija Saeed, Head of Corporate Finance, presented the management response to external auditors Grant Thornton's request for information.

Robin Baker, Director and Engagement Lead for Grant Thornton expressed thanks for the comprehensive response and confirmed that there was no information provided that would indicate that any changes were required to the planned external audit work.

**Resolved:** That the management response to Grant Thornton's request for information be approved.

## **10. Grant Thornton's Request for Information from the Committee Chair**

Khadija Saeed, Head of Corporate Finance, presented the Chair of the Committee's response to external auditors Grant Thornton's request for information.

Robin Baker, Director and Engagement Lead for Grant Thornton expressed thanks for the comprehensive response and confirmed that there was no information provided that would indicate that any changes were required to the planned external audit work.

**Resolved:** That the Chair of the Committee's response to Grant Thornton's request for information be approved.

## **11. External Audit - Audit Progress Report and Sector Update 2018/19**

This item was taken after 12 and 13 which were brought forward with the agreement of the chair.

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented an update in terms of progress in delivering the audit for both the County Council and the pension fund. It was explained that the auditors had undertaken an interim audit, updating their understanding of the control environment and undertaken early substantive testing to ease the work over the coming months. It was anticipated that the draft financial statements would be available by the end of this week and would be published on the Council's website by the statutory deadline. The final detailed audit report would be presented at the Committee meeting on 29 July 2019. It was highlighted that good progress had been made on the audit and there had been no adverse findings to date.

The Chair recommended that members attend the understanding financial accounts training course to be held on 24 June 2019.

**Resolved:** That the external audit progress report and sector update 2018/19 be noted.

## **12. External Audit - Lancashire County Council Audit Plan 2018/19**

This item was brought forward with the agreement of the Chair.

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the annual audit plan for Lancashire County Council for 2018/19. The plan set out the auditor's understanding of the issues and risks the council faced and the nature and scope of work that would be carried out to discharge their responsibilities.

It was clarified that:

- The risks around the audit opinion were consistent with local authorities of this size and nature.
- Materiality had been set at £32 million, which was the same as previous years.
- In terms of value for money responsibilities, the principal issues to be considered were regarding financial sustainability, which reflected the financial pressure all authorities currently faced. Another consideration was the internal controls which had previously been identified as a risk area and the positive opinion provided by the head of internal audit would be acknowledged.

**Resolved:** That the External Audit plan for the audit of Lancashire County Council for 2018/19 and the fees therein be approved.

### **13. External Audit - Lancashire County Pension Fund Audit Plan 2018/19**

This item was brought forward with the agreement of the Chair.

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the annual audit plan for Lancashire County Pension Fund for 2018/19. The plan set out the risks and issues and had been agreed with officers and the Pensions committee earlier this year.

**Resolved:** That the External Audit plan for the audit of Lancashire County Pension Fund for 2018/19 and the fees therein, be approved.

### **14. External Audit - Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20**

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the proposed fee letter for the audit work to be undertaken by Grant Thornton in respect of Lancashire County Council and the Lancashire County Pension Fund for 2019/20. It was confirmed that the fee would remain as 2018/19 at £87,006 for Lancashire County Council and £26,310 for the Lancashire County pension fund. This was in line with the scale fee set by the appointing body. The Chair asked members to note that this fee had been reduced from 2017/18 as a result of competitive tendering.

**Resolved:** That the fees for the audit work to be undertaken by Grant Thornton in respect of Lancashire County Council and Lancashire County Pension Fund for 2019/20 be approved.

## **15. Neighbourhood Wellbeing Grants Update**

Josh Mynott, Democratic and Member Services Manager, presented an update on the monitoring activity in relation to the Neighbourhood Wellbeing Grants awarded in 2016/17.

It was highlighted that since the agenda had been published, additional information had been received. There had now been some contact with all recipients of the grant apart from 1 who had received £1,000. This was equivalent to 0.2% of the total amount of grant funding issued. It was noted that this recipient had since ceased operations.

Contact had also been made with an additional 2 organisations and the requested paperwork was anticipated. Partial monitoring information had been received for a further 5 organisations. In total this equated to less than 3% of the grant funding issued. An update would be provided on the progress of the remaining groups to members of the committee outside of the Committee meeting.

Thanks were expressed to the Democratic Services team for their work in tracking the recipients of the funding.

The Chair moved that press and members of the public be excluded from the remainder of the discussion of this item 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.

**Resolved:** That the press and members of the public be excluded from the meeting during consideration of the remainder of this item and item 19 (as notified on the agenda) 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.

(Exempt information as defined in Paragraph 3 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 interests in disclosing the information.)

The names of the organisations that had yet to provide monitoring information were shared with the committee.

## **16. Urgent Business**

There was no urgent business to be considered.

**17. Date of Next Meeting**

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 29 July 2019 at County Hall, Preston.

**19. Whistleblowing, Special Investigations and Counter Fraud Annual Report 2018/19**

(Exempt information as defined in Paragraphs 2, 3 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 interests in disclosing the information.)

Ruth Lowry, Head of Internal Audit, presented a report which reviewed the assessment of fraud risks and potential harm to the council from fraud and corruption. It was highlighted that the Internal Audit Service supported the council's management team in responding to instances of suspected fraud and undertook proactive work to identify and pursue indications of potentially fraudulent activity. This was done through corporate systems testing and via additional testing of other areas that are particularly susceptible to fraud.

**Resolved:** That the annual report for 2018/19 on whistleblowing, special investigations and counter fraud be noted.

L Sales  
Director of Corporate Services

County Hall  
Preston