

# Annual Report 2018/19

**Audit, Risk and Governance Committee**  
Lancashire County Council

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## **Chairman's Introduction**

As the Chairman of the Audit, Risk and Governance Committee I am very pleased to present the second annual report which sets out the role of the Audit, Risk & Governance Committee, and summarises the work we have undertaken during the financial year 2018/19.

The Committee operates in accordance with the good practice guidance produced by the Chartered Institute of Public Finance Accountancy (CIPFA) and continues to be well supported by Officers, providing a high standard of reports and presentations. In particular I should like to thank the Internal Audit and Corporate Finance Teams, the External Auditors and Legal and Democratic Services.

I should like to take this opportunity to give my personal thanks to all the officers, my Deputy Chairman County Councillor Edward Nash and without exception, all fellow Committee members who have contributed and supported the work of the Committee in such a meaningful and positive way throughout the past year.

**County Councillor Alan Schofield**  
Chairman, Audit, Risk & Governance Committee

## **Role of the Audit, Risk and Governance Committee**

The Audit, Risk and Governance Committee operates in accordance with the “Audit Committees, Practical Guidance for Local Authorities and Police” produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018. The Guidance defines the purpose of an Audit Committee as follows:

1. Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
2. The purpose of an Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The key functions of the Audit, Risk and Governance Committee are set out in its Terms of Reference (See Council's Constitution) and are agreed each year at the first committee meeting following Full Council's Annual General Meeting.

## **Key Activities**

In this section the activities of the Committee during 2018/19, are summarised under the headings of the key functions.

### ***Internal Control***

The Audit, Risk & Governance Committee approved the Annual Governance Statement (AGS) for 2017/18 in July 2018. This included actions for 2018/19, within the following areas, to improve existing governance arrangements:

- A new Operational Plan
- Continue to improve children's services following the Ofsted Inspection
- Managing major projects
- Response to SEND inspection
- Improving health & wellbeing
- Core systems and data
- Intermediate care for older people in a residential setting
- Supporting disadvantaged families to fulfil their potential

The Committee actively monitors progress through the Corporate Risk and Opportunity Register and specific reports.

The Committee received and considered updates in the following areas:

- Delays and overspends on major projects
- Neighbourhood wellbeing grants
- Skills and development needs review
- Protocol for grants to the Voluntary Community and Faith Sector
- Lancashire central - Cuerden

The Committee receives regular progress reports from the Head of Internal Audit, including the summaries of the outcome of Internal Audit work.

In April 2018, the Committee approved an updated Local Code of Corporate Governance and recommended its adoption to Full Council.

### ***Risk Management***

The Committee has continued to receive quarterly updates from the Head of Legal and Democratic Services on the Corporate Risk & Opportunity register. The register is signed off by the Corporate Management Team and is then presented to the Cabinet Committee on Performance Improvement before it is presented to this committee. The reports reviewed have demonstrated good progress in the alignment between risk and performance reporting and the link to key issues identified in the AGS.

An Internal Audit review gave substantial assurance over the process by which the corporate register is prepared.

Training on risk management and governance was delivered as part of the training session on 'Effective Audit, Risk & Governance Committees' in June 2019.

### ***Internal Audit***

In April 2018 the Committee agreed the Internal Audit Plan 2018/19, which provides members with the opportunity to challenge and influence the plan where they have identified areas of concern.

The regular update reports of the Head of Internal Audit to the Audit, Risk and Governance Committee have enabled emerging issues arising from Internal Audit activity to be considered on a timely basis, including where appropriate working with the Senior Officers to seek assurance that matters are being dealt with promptly and effectively.

The Internal Audit Annual Report 2017/18 was presented to the Committee in April 2018. The report summarised the work undertaken by the Internal Audit Service and the key themes arising in relation to internal control, governance and risk management across the County Council. However, during the year our assurance framework identified service areas where improvements needed to be made. The council has introduced improvement plans and whilst the overall direction of travel in these areas is positive, the evidence needed to provide substantial assurance was not available. As a result, the Head of Internal Audit's overall opinions as set out in the Annual Report is that only limited assurance can be given regarding the adequacy of the design and effectiveness in operation of the organisations framework for governance, risk management and control for 2017/18.

However, in May 2019, the Internal Auditor reported that Audit work had progressed well against an ambitious plan and 80% of the work completed by the year end has yielded favourable assurance over the design and operation of the services, systems and processes audited.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that **moderate** assurance can now be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2018/19.

As the Chairman of the Committee, I have met with the Head of Internal Audit without other officers present, and I am satisfied Internal Audit are free to carry out their duties without restrictions.

### ***External Audit***

The Council's external auditors, Grant Thornton LLP, attended all the committee meetings during 2018/19, providing regular updates on their work plan and any matters arising. In addition they have provided the Committee with sector updates for consideration that highlight key themes, issues and priorities for local government. These have been well received and are very helpful to the Committee. The Committee received and reviewed the External Audit Annual Letter.

### ***Counter Fraud and Corruption***

The Audit, Risk & Governance Committee receive regular updates from the Head of Internal Audit on any reported matters of suspected fraud, including investigations. Outcomes of investigations are reported to and monitored by the Audit, Risk and Governance Committee.

In April 2018, we received a report on Whistleblowing, Special Investigations and Counter Fraud from the Head of Internal Audit, that highlighted there have been very few cases. Whilst it is not unexpected there is very little fraud identified, nationally statistics show that fraud is on the increase, so it is important that we all remain vigilant.

### ***Annual Accounts Process***

The 2017/18 Accounts were prepared on time and presented to the Committee for comment and approval. We received the External Auditors report in July 2018 when it was very pleasing to note that high standards had been maintained. The External Auditor concluded that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

At its meeting, on 30 July 2018, the Committee had been unable to approve the statement of accounts due to an unresolved issue around the accounting treatment of Lender Option Borrower Option (LOBO) loans. Following the resolution of the issue around the LOBO loans, the statement of accounts were finalised and approved by the Committee in August 2018.

A dedicated session on the draft Statement of Accounts was held in advance for the committee.

### ***Work Plan 2018/19***

In July 2018, the committee agreed its work plan for 2018/19. The plan set out the standard reports which are expected to be brought to the committee during the course of the municipal year.

It was expected that during the course of the year, the committee would also identify other areas and issues to consider as appropriate. A list of those reports are set out on page 5 of this report.

## **Treasury Management**

The Committee receives reports on Treasury Management throughout the year, exercising its stewardship role. The Committee reviewed:

- Review of Treasury Management Activity 2017/18
- Lancashire County Council Treasury Management Investment Policy
- Treasury Management Activity 2018/19 Update
- Treasury Management Policy and Strategy 2018/19

A training session for the Committee was held again on Treasury Management.

## **Governance**

The committee agreed the Annual Governance Statement 2017/18 that explained how the County Council had complied with the Local Code of Corporate Governance. The Committee reviewed the Local Code of Corporate Governance in April 2018 and recommended it to Full Council for approval.

The Committee has not received any reports in respect of investigations into allegations of misconduct under members' code of conduct. The Committee has not granted any dispensations from requirements relating to interests as set out in the code of conduct for members.

## ***Effectiveness of the Audit, Risk and Governance Committee***

At its meeting in July 2017, the Committee had considered a report from the Head of Internal Audit on 'Actions to enhance the committee's effectiveness as an element of the Council's governance framework'. The Committee agreed to a number of actions that were implemented during 2018/19. This included:

- Providing scrutiny chairmen with a copy of the Internal Auditors Report and future audit work plan to aid future work planning
- Presenting the committee's terms of reference annually for consideration and option
- The chairman of the Audit, Risk & Governance committee giving clear direction that committee members should act objectively and independently, and that substitutions should not generally be made
- Following the completion and analysis of the Training Needs Analysis Questionnaires in 2018, training and development sessions have been delivered as follows:
  - Statement of Accounts briefing session
  - Treasury Management training by Arlingclose Ltd
  - Internal Audit comprehensive briefing session
  - Financial Management training

- Effective Audit Committee training including values of good governance, risk management and counter fraud/whistleblowing

County Councillors who are not members of the committee but had indicated a training and/or development need were invited to attend some of the sessions and a number did.

- Presenting a schedule of meetings and their agendas to the committee at the start of the municipal year.
- The committee receiving an annual report presented by the Chairman of the committee

## **Membership, Meetings & Attendance**

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

The Audit, Risk and Governance Committee comprises eight elected members representing the two main political parties.

### ***Officers***

The Audit, Risk and Governance Committee continues to be well supported by Officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee.

In 2018/19 the Chief Executive and S151 Officer, Director of Finance, Director of Corporate Services (& Monitoring Officer), Head of Legal and Democratic Services (& Deputy Monitoring Officer), Head of Internal Audit and Head of Corporate Finance routinely attended the meetings.

### ***External Audit***

The External Auditors, Grant Thornton, have attended all the Audit and Governance Committee meetings.

### ***Meetings***

The Audit, Risk and Governance Committee met five times in 2018/19. A work programme has been agreed by the Audit, Risk & Governance Committee. The programme will be reviewed when setting the agenda for each meeting and added to when appropriate to ensure ad-hoc requests instigated by the Committee are reported.