

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 30th July, 2018 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

C Crompton	E Nash
B Dawson	P Steen
C Edwards	P Williamson
T Martin	

1. Apologies

There were no apologies.

County Councillors Carl Crompton, Bernard Dawson, Charles Edwards, and Peter Steen replaced County Councillors Miles Parkinson, Julia Berry, John Shedwick and Alan Vincent respectively.

The Chair welcomed County Councillor Tony Martin as a new member of the Committee replacing County Councillor Erica Lewis.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Constitution, Membership and Terms of Reference 2018/19

The Committee considered a report setting out details of its Constitution, Membership and Terms of Reference for 2018/19 as approved by Full Council at its meeting on 24 May 2018.

Resolved: - That:

- (i) The appointment of County Councillors Alan Schofield and Edward Nash as Chair and Deputy Chair respectively of the Audit, Risk and Governance Committee for the 2018/19 municipal year, as set out in the report now presented, be noted;
- (ii) The membership of the Audit, Risk and Governance Committee for the 2018/19 municipal year, as set out in the report now presented, and the terms of reference of the Committee, as set out at Appendix 'A' to the report now presented, be noted.

4. Minutes of the Meeting held on 30 April 2018

Resolved: - That the minutes of the meeting of the Audit, Risk and Governance Committee held on 30 April 2018 be confirmed and signed by the Chair.

5. Approval of the County Council and County Pension Fund Letters of Representation 2017/18

The Committee considered a report setting out, for approval, the County Council and Lancashire County Pension Fund Letters of Representation for 2017/18. The letters were appended to the report at Appendices 'A' and 'B' respectively.

It was reported that the council's external auditors, Grant Thornton, were required to obtain written representations from those charged with governance and management of the council on matters material to the financial statements where other appropriate audit evidence could not reasonably be expected to exist.

It was noted that, at the time of agenda publication, the external auditors had not yet completed their audit. In light of further information available since the publication of the agenda, the Chief Financial Officer and Chair of the Committee would be asked to sign updated letters, copies of which were tabled and made available to the Committee.

Resolved: - That:

- (i) The management representation letters set out at Appendices 'A' and 'B' to the report now presented, and as updated and tabled, be noted;
- (ii) It be agreed that, as updated and tabled, they be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee prior to being made available to the external auditor.

6. External Audit - Lancashire County Council Audit Findings Report 2017/18

The Committee considered a report setting out the findings of the external auditor in relation to the audit of the 2017/18 statement of accounts of Lancashire County Council, and the proposed opinion on the accounts and value for money conclusion.

The report set out the headlines and key issues arising from the audit; significant and potential risks; issues raised with management; accounting policies; value for money; follow up of prior year recommendations and audit adjustments, before concluding with the audit opinion.

The Committee's attention was drawn to the new national deadline of 31 July 2018 for the completion of the audits. The new deadline had been challenging and the auditor thanked county council officers and colleagues in Grant Thornton

for their assistance, and this was echoed by the Chair on behalf of the Committee.

The Committee's attention was also drawn to the independent advice which was being sought by the auditor in respect of Lender Option Borrower Option (LOBO) Loans which would mean a delay in the County Council receiving a final audit opinion and the signing off of the accounts beyond the 31 July deadline. This delay had been discussed with Public Sector Audit Appointments and they had confirmed it would not have a negative impact on the County Council.

In terms of Value for Money arrangements, it was reported that proper arrangements were in place with the exception of the inadequate OFSTED rating and the limited assurance opinion for 2017/18 issued by the County Council's Head of Internal Audit.

On page 11 of the report, the Committee's attention was drawn to an incorrect figure on the right hand side where the figure of £47.619m of reserves should have stated £42m of reserves.

New issues and risks identified during the course of the audit, and which had not been previously included in the audit plan, included the LOBO loans and also changes to Minimum Revenue Provision which had been approved by the Full Council on 19 July.

Reference was made to financial sustainability going forward and the auditor noted the revised operational plan recently put in place which would require detailed savings options in due course.

The Chair noted the reference that an audit certificate could not be issued for the year ending 31 March 2018, as had also been the case in recent financial years, due to the ongoing police investigation but once that had concluded the external auditor would assess the implications for the County Council's audit.

Resolved: - That the adjustments to the financial statements and the other issues raised by the auditor as set out in the report, now presented, be noted.

7. External Audit - Lancashire County Pension Fund Audit Findings Report 2017/18

The Committee considered a report setting out the findings of the external auditor in relation to the audit of the annual accounts of the Lancashire County Pension Fund, and the proposed opinion on the accounts.

The report set out the key issues arising from the audit; the significant and potential risks; issues raised with management and audit adjustments, before concluding with the audit opinion.

The Committee's attention was drawn to one material adjustment to the financial statements that had resulted in a £137m adjustment to the Fund's reported financial position.

Resolved: - That the report, now presented, be noted.

8. Internal Audit Progress Report

The Committee considered a report setting out further information to support the Internal Audit Annual Report considered by the Committee at its meeting on 30 April 2018.

The report presented updates on outstanding work from 2017/18 and also included a section on the work of Deloitte LLP as the internal auditors of Local Pensions Partnership Ltd which administers the Lancashire County Pension Fund. With Deloitte's agreement, their audit conclusions were being reported to the Committee and the progress report included a short response from the management of Local Pensions Partnership Ltd in response to queries raised at the Committee's last meeting.

The progress report also referred to the action plans agreed with service managers and the discussions developing around responses to the risks identified through the internal audit process. The Committee was assured that this issue would be monitored and, ultimately, any issues would be resolved at a Corporate Management Team level. It was also reported that the Cabinet Committee on Performance Improvement would now be considering reports on a new performance indicator, the 'proportion of the actions identified through audit work that were completed within the agreed timescale in the period'. This was deemed to be good management practice, strengthening internal accountability and controls and holding managers to account on the implementation of agreed actions.

Reference was made to the limited assurance given to decision making under delegated powers. It was reported that there was some inconsistency in the recording of such decisions and that discussions were taking place between officers in Internal Audit and Legal and Democratic Services to address this.

The Chair raised the issue of overpayment of salaries which had been previously considered by the Committee. Whilst the BTLS processes had received full assurance, the less effective controls to ensure the data was input in a timely and accurate way by service managers had resulted in limited assurance. The Committee was assured that this would be monitored and improvements were expected to be made.

Resolved: - That the report, now presented, be noted.

9. Annual Governance Statement 2017/18

The Committee considered a report setting out a revised draft Annual Governance Statement for publication with the Statement of Accounts for 2017/18.

The Committee had considered a draft document at its meeting on 30 April 2018 and, following a number of comments, a revised draft had been produced.

Resolved: - That the Annual Governance Statement as set out at Appendix 'A' to the report, now presented, be approved for publication with the 2017/18 Statement of Accounts.

10. Approval of the Council's Statement of Accounts 2017/18

The Committee considered a report setting out, for approval, the County Council's Statement of Accounts for 2017/18.

A number of amendments had been made to the document since the publication of the agenda and these were tabled at the meeting.

It was reported that, due to the outstanding opinion of the external auditor, it would not be possible under the regulations for the Committee to approve the Statement of Accounts as intended by the statutory deadline of 31 July 2018. As previously reported at item 6, this delay had been discussed with Public Sector Audit Appointments and would not have a negative impact on the County Council.

It was noted that Grant Thornton had been consistent in terms of the advice given to all the local authorities for which it provided an external audit service and which had a similar LOBO loan arrangement. It was also noted, however, that a number of local authorities had their accounting treatment in this regard approved where the external audit services were provided by other audit firms.

Resolved: - That:

- (i) The Statement of Accounts for 2017/18 as set out in the report, now presented, together with the changes tabled at the meeting, subject to external audit, be noted;
- (ii) Approval of the Statement of Accounts for 2017/18 be deferred to a further meeting of the Committee to be held as soon as practically possible after the completion of the outstanding audit work.

11. Review of Treasury Management Activity 2017/18

The Committee considered a report setting out a review of the County Council's treasury management activities in 2017/18 including a review covering the economic conditions during 2017/18; the borrowing activity; the investment

activity; and the actuals measured against 2017/18 prudential and treasury management indicators.

Resolved: - That the treasury management activities for 2017/18, as set out in the report, now presented, be noted.

12. Grant Thornton Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2018/19

The Committee considered a report setting out details of the planned fees for the audit work to be undertaken by Grant Thornton in respect of the County Council and the Lancashire County Pension Fund for 2018/19.

It was reported that there had been a fee reduction of 23% for 2018/19 for both the County Council and County Pension Fund audits and this would also apply for the following five financial years.

Resolved: - That the fees for 2018/19 as set out at Appendix 'A' to the report, now presented, be approved.

13. Corporate Risk & Opportunity Register Q1

The Committee considered a report setting out an updated (Quarter 1) Risk and Opportunity Register.

It was reported that, following a recent review, the register had been updated to reflect changing priorities and the register was now aligned to the Annual Governance Statement. The register now included entries where, allowing for mitigating actions, the residual risk score was 12 or above and these eleven entries, together with three opportunities, were set out in the report which had also recently been considered by the Cabinet Committee on Performance Improvement.

Resolved: - That the report, now presented, be noted.

14. Chairman's Annual Report 2017/18

The Committee considered a report setting out the Chairman's Annual Report for 2017/18, the first such report following the Committee's approval to a number of actions to enhance its effectiveness as an element of the County Council's governance framework.

The Chair drew the Committee's attention to a number of aspects of the report and, in particular, to the CIPFA knowledge and skills framework which was appended at Annex 2. It was reported that, using the framework, it was the intention to undertake a training needs analysis for the Committee to identify areas for training and development.

The Committee discussed a number of issues including the possibility of combining training and development opportunities around financial and governance issues with other committees, e.g. the Pension Fund Committee and the Lancashire County Developments Ltd Audit Committee. It was also suggested that the Committee should consider areas of high risk such as major projects where there had been delays and overspends, and particular reference was made to projects such as the Central Lancashire Strategic Site; the M6/Heysham Link Road and the Broughton relief road. It was suggested that one way in which this could be done could be through the Corporate Risk Register and, in particular, CR 7 which related to the delivery of major projects and schemes on time and within budget which, allowing for mitigating action, had a current residual score of 12.

Resolved: - That:

- (i) The report, now presented, be noted;
- (ii) The draft knowledge and skills framework set out at Annex 2 to the Chairman's Annual Report, now presented, be agreed;
- (iii) A report on delays and overspends on major projects, with specific reference to the Central Lancashire strategic site, be presented to the Committee at its next meeting on 29 October 2018.

15. Committee Work Plan 2018/19

The Committee considered a report setting out details of a work plan for the Committee for 2018/19. The work plan included those standard items, identified by service area, that the Committee would be expected to consider at each of its meetings during the course of the municipal year.

It was noted that items on specific issues could be requested as and when the Committee deemed appropriate.

Resolved: - That the report, now presented, be approved.

16. Update on the Review of Neighbourhood Wellbeing Initiative Grants

The Committee considered a verbal update from Laura Sales, Director of Corporate Services, on the review of neighbourhood wellbeing initiative grants.

The Committee was reminded that, at its meeting on 14 December 2017, Full Council had resolved to ask the External Auditor to carry out an investigation into the manner in which these grants were recommended, approved and paid and to report the findings to the Audit, Risk and Governance Committee for consideration.

It was reported that the External Auditor's investigation was now drawing to a close and that a final report would be submitted to the Committee for consideration at its next meeting.

Resolved: - That the update, now presented, be noted.

17. Urgent Business

There was no urgent business to be considered.

18. Date of Next Meeting

It was noted that the next meeting of the Committee would be a special meeting to be held on a date and time to be arranged. The next ordinary meeting of the Committee would take place at 2.00pm on Monday 29 October 2018 at County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston