

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 29th July, 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 Burrows

E Nash

B Dawson

J Rear

T Martin

J Shedwick

County Councillors J Burrows and B Dawson replaced County Councillors A Vincent and J Berry respectively.

1. Apologies

Apologies were received from County Councillor S Malik.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Constitution, Membership and Terms of Reference 2019/20

The Chair presented The Constitution, Membership and Terms of Reference of the committee for 2019/20. Attention was drawn to the statement of purpose within the terms of reference which stated that the primary function of the committee was to provide independent assurance via the independent review of the Council's governance, risk management and control frameworks. To do so, committee members should be objective and independent in their deliberations and decisions.

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 2019/20 municipal year be noted.
- (ii) The membership of the Audit, Risk and Governance Committee for the 2019/20 municipal year, as set out in the report, and the terms of reference of the committee as set out at appendix A be noted.

4. Minutes of the Meeting held on 20 May 2019

Resolved: That the minutes of the Audit, Risk and Governance Committee held on 20 May 2019 be confirmed and signed by the Chair.

It was noted that an update regarding the Neighbourhood Wellbeing Grants from Josh Mynott, Democratic and Member Services Manager, had been circulated to all members and the substitute members for today's meeting.

5. 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. The committee considered the final internal audit progress report and outcomes of the work for 2018/19 for the period to 30 June 2019.

It was highlighted that:

- The internal audit annual report for 2018/19 had previously provided moderate assurance overall and this opinion continued to be supported by the audit results since then. There were just two pieces of work outstanding from 2018/19 regarding ICT controls which would be brought to the next meeting of this committee, along with 2019/20 audit work.
- The service areas in which the audit findings had concluded only limited assurance could be given were highlighted and the summary of findings for each was explained.
- Local Pension Partnership Ltd (LPP) had to some degree anticipated the assessments made by its internal auditor, Deloitte, which had reported ineffective assurance in four out of the seven areas reported. The business was currently working through a period of significant adjustment and work was underway to address the issues raised. The audit results and actions to be taken to mitigate these would be reported to the Pension Fund Committee in September 2019.

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

- Where limited assurance was given, actions to mitigate the risks were agreed between the internal auditor and the relevant manager/ head of service. The reports and action plans could be provided to members on request. All agreed actions would be then followed up to ensure they had been put in place or superseded and the resulting data would be reported to the committee.
- The re-testing of the LPP functions providing limited assurance would be undertaken by Deloitte and the results would be reported to the Pension Fund committee. A senior manager from LPP would also attend that meeting to

answer questions. A succinct update would be requested from the Pension Fund committee.

- Some over payments to staff continued to occur but the systems in place supported the process effectively. It was confirmed that moderate assurance was in place for this area of work, making this a low risk compared to other areas.

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

6. Internal / External Audit Protocol

Ruth Lowry, Head of Internal Audit, presented the protocol setting out how Lancashire County Council's Internal Audit Service and Grant Thornton as its external auditor worked together, differentiated responsibilities and established a framework for coordination, cooperation and exchange of information. The protocol was last issued in 2017 and had been reviewed and revised to include references to the Lancashire Pension Fund and the consideration given by Grant Thornton to the head of internal audit's overall opinion.

Resolved: That the Internal / External Audit Protocol, as presented, be noted.

7. Approval of the County Council and County Pension Fund Letters of Representation 2018/19

Khadija Saeed, Head of Corporate Finance, presented the County Council and County Pension Fund Letters of Representation for 2018/19. Robin Baker, Director and Engagement Lead representing Grant Thornton the county council's external auditors, explained that these were standard letters that were reviewed and agreed by the external audit team before submission.

Resolved: That

- (i) The management representation letters at appendix A and appendix B be noted.
- (ii) It was agreed that 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.

8. External Audit - Lancashire County Council Audit Findings Report 2018/19

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the audit findings for Lancashire County Council. The report at appendix A explained the overall findings of the external auditor in relation to the

audit of the annual accounts of Lancashire County Council, the external auditor's proposed opinion on the accounts; and the value for money conclusion.

The following points were highlighted:

- This was the standard annual report that was brought to the committee prior to the approval of the accounts and included the key findings and conclusions arising from the statutory audit of Lancashire County Council and the preparation of the financial statements for the year ended 31 March 2019.
- All outstanding items were now completed and subject to the committee's approval, the auditor's intention was to issue an unqualified opinion confirming that the accounts presented a true and fair view of the Council's financial position.
- With regard to the net pension fund liability of £1.2 billion, the auditors challenged and evaluated the work of the actuaries who assess this figure. The auditors had reviewed with officers the potential impact of a national legal case regarding age discrimination for judges and firefighters pension schemes (the McCloud judgement). This resulted in a £17.7 million increase in the pension liability. There was no impact to the useable reserves of the Council as a result of this.
- The audit also looked at the external process of valuing land and buildings assets, which currently stood at just over £2 billion. Around 40% of assets had been revalued during the year. It was highlighted that there was a £3.5 million unadjusted error from 2017/18. There was no impact to the usable reserves of the Council as a result of this and there were no material errors that would impact on the auditor's unqualified opinion of the accounts.
- The auditor's also reviewed the narrative report that set out the picture of the Council's financial position and the annual governance statement. This review confirmed that they were both reflective of the auditor's knowledge of the organisation and had been prepared in accordance with statutory guidance. The auditors could therefore issue a clean, unmodified audit opinion with respect to both these.
- The auditors also looked at whether the Council made appropriate arrangements for ensuring value for money by making the best use of resources. As previously discussed, the internal audit was able to give an overall moderate assurance opinion which was a significant improvement on the position of previous years. On this basis the auditor would issue an unqualified value for money opinion confirming that the Council had appropriate arrangements in place. Detailed work had also been undertaken reviewing the financial sustainability of the Council. It was acknowledged that substantial savings had been made and this would need to be maintained in light of the continuing challenges faced. Progress with regard to this would be monitored going forward.

In response to questions the following information was clarified:

- The auditing standards presumed two significant risks: management override of controls and improper revenue recognition.
- The auditors' statutory powers included the power to issue a formal public report that the Council would have to publicly respond to. They could also seek a declaration in high court that an item in the accounts was contrary to law. The public also had the authority to question the auditor about the accounts and make formal objections. It was noted that these and previous years accounts cannot be certified as closed due to the ongoing police investigation.
- Although Grant Thornton are the group auditors for Lancashire County Council the Council's companies are all individually audited. Grant Thornton liaise with and rely on the information the individual auditors provide for the final figures on the Council's balance sheet.

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

9. External Audit - Lancashire County Pension Fund Audit Findings Report 2018/19

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the audit findings for Lancashire County pension fund.

The following key messages were highlighted:

- The report presented a summary of the findings and conclusions of the pension fund audit for 2018/19. There was a classification adjustment of the primary statements of £10.8 million which did not impact the bottom line figures.
- All the required verifications of the various investments within the fund had been obtained.
- As a result of the previously explained McCloud legal judgement, a £64 million increase had been made to the promised benefits note to reflect the most likely impact.
- As with the Council's audit there had been good cooperation between the officers and the audit team.
- Subject to the committee's approval, the auditor's intention was to issue an unqualified opinion on the financial statements of the pension fund for

2018/19. It was confirmed that an unmodified opinion would also be issued for the annual report and the annual governance statement.

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

10. Approval of the Council's Statement of Accounts 2018/19

Khadija Saeed, Head of Corporate Finance, presented the Council's 2018/19 Statement of Accounts.

The following information was highlighted:

- The accounts were published on the Council's website in May 2019. The main changes from then were detailed in the report and related predominately to the McCloud judgement and the impact of this on the accounts. In addition, as already discussed, the classification issue in relation to the investment management fees for the pension fund and the addition of the taxation figures of the LCDL group accounts.
- In response to a question Abigail Leech, Head of Service for the Pension Fund, confirmed that the classification issue was related to new guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) on providing more transparency on annual report disclosures with regard to investment management fees.
- Members thanked officers and the audit team for the work in producing the accounts within shorter timescales and were pleased to note the final outturn figure that showed an underspend against the budget for the year.

Resolved: That the 2018/19 Statement of Accounts be approved.

11. Treasury Management Activity Outturn 2018-19

Mike Jensen, Director of Investment for Financial Services presented the Treasury Management Activity Outturn 2018-19.

The following points were highlighted:

- Global and national risk factors were likely to carry through to 2019/20 and beyond, and as such it was likely that the current treasury management strategy would continue to take advantage of short term borrowing given the low interest rates in the UK. A minor change had been made this year rebalancing the portfolio to include a small amount of longer term borrowing, as a shift in overall interest rates had made the differential between long term and short term borrowing costs much smaller. This was to mitigate the potential risk of the revocation of article 50 to leave the European Union which would have caused an increase in interest rate. The long term Lender Option

Borrower Option (LOBO) loan had now been repaid on very favourable terms and the Council would continue to apply the short term borrowing policy which had proven very successful for the Council.

- For the year ahead, it was anticipated that the interest rates in the UK would be cut further and this would allow the Council to take advantage of the lower rates via the short term borrowing policy.
- Investment in long term holdings would continue and improvements in performance was likely if the interest rate was to further reduce as expected.
- In general there had been a slight decline in the level of indebtedness in 2018/19 due to improved balance positions. This was expected to continue, with the overall level borrowing declining slightly.
- It was noted that in the investment table on page 388 'bank deposit 5 years +' and 'bank & local authority deposits 5 years +' on page 390 should both read 'local authority deposits 5 years +'. Unsecured bank deposits were not made in order to maintain the Council's high quality credit profile, currently classed as AA.
- The outturn for the year showed an under spend of £27.568 million. This was made up of changes to the minimum revenue provision and a better than budgeted treasury management performance of £16.792 million.
- In response to a question, Mike Jensen gave his views on the potential implications of the different scenarios for leaving the European Union from a treasury management perspective.

Thanks were expressed to the Treasury Management team for the funds generated for the authority.

Resolved: That the report detailing the review of treasury management activities for 2018/19 be noted.

12. Corporate Risk & Opportunity Register - Quarter 2 2019/20

Paul Bond, Head of Legal and Democratic Services, presented an update of the Corporate Risk and Opportunities register for quarter two. It was noted that there were no additions or deletions to the register.

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

13. Chairman's Annual Report 2018/19

The Chair presented the second Chairman's Annual Report 2018/19. Paul Bond, Head of Legal and Democratic Services, was thanked for his support in producing the report.

The training needs analysis that had been undertaken was highlighted, as was the resulting training sessions from both internal and external sources that were offered to committee members and to all County Councillors.

Resolved: That the Chairman's Annual Report, as presented, be noted.

14. Draft Committee Work Plan 2019/20

Paul Bond, Head of Legal and Democratic Services, presented the draft committee work plan for 2019/20. It was explained that the work plan contained the standard items and other reports would be added as required.

Resolved: That the draft work plan for 2019/20, as set out at appendix A be noted.

15. Urgent Business

There was no urgent business to be considered.

16. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 28 October July 2019 at County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston