

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 28th October, 2019 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

L Beavers

J Rear

J Berry

J Shedwick

B Dawson

A Vincent

E Nash

1. Apologies

Apologies were received from County Councillor J Shedwick.

County Councillors B Dawson and L Beavers replaced County Councillors T Martin and S Malik respectively.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 29 July 2019

It was acknowledged that an update regarding the internal audit by Deloitte of the functions of the Local Pension Partnership Ltd had been provided to the Pension Fund Committee at its meeting on 20 September 2019.

Resolved: That the minutes of the 29 July 2019 Audit, Risk and Governance Committee be agreed.

4. The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2018-19

Robin Baker, Director, Grant Thornton and Angela Pieri, Senior Manager, Public Sector Audit, Grant Thornton presented the Annual Audit Letter which summarised the outcome of the work of the external auditors in 2018/19. The report included the key messages in relation to the financial statements audit and audit opinion, and value for money conclusion.

It was highlighted that:

- It was an annual audit requirement to produce this report summarising the high level findings and it was confirmed that it largely reflected the audit report that was presented to the committee at the 29 July 2019 meeting.
- The auditors had issued unqualified audit opinions for both the county council and the county council pension fund prior to the statutory deadline. This included an unqualified value for money conclusion, confirming that the county council had appropriate arrangements in place for its use of resources. The key factors in determining this had been the completed risk based internal audit work for the year and the progress made to stabilise the financial position with reduced reliance on reserves, despite ongoing challenges. However, it was noted that the certificate of completion could not be issued, as audits from previous years remained open due to an ongoing police investigation.
- Attention was drawn to the update regarding audit fee charges in the report. It was clarified that the fees were subject to approval by Public Sector Audit Appointments Ltd.
- In response to a question it was clarified that although the report stated that the delivery of savings in 2018/19 provided 'some' assurance that the county council process for delivering savings was robust; it was recognised that considerable progress had been made. The financial position for local government continued to be challenging and the cautious language in the report reflected this.
- The chair acknowledged the explanation of the additional fees of £9,000 and that the renegotiated five year contract from 2018/19 would continue to deliver an overall saving on the previous charges levied.

Resolved: That the Annual Audit Letter for 2018/19, as presented, be noted.

5. External Audit - Audit Progress Report and Sector Update 2019/20

Robin Baker, Director, Grant Thornton and Angela Pieri, Senior Manager, Public Sector Audit, Grant Thornton presented the External Audit Progress Report and Sector Update 2019/20 as of October 2019.

The following key areas were highlighted from the report:

- The work to certify the teachers' pension return was underway and should be completed this week, ahead of deadline.
- The Government had announced that a review of local government audit and accounts arrangements would be undertaken in response to concerns expressed regarding late filing and increased detail in reports over the last

decade. Recommendations from the review to Government were expected early in 2020 and the committee would be kept updated with regard to any changes proposed.

- The National Audit Office were currently consulting on the proposed new Code of Audit Practice for April 2020, which would impact on audits for 2020/21. The key changes would be around the value for money audit, which may require a longer narrative regarding financial sustainability rather than the current requirement for a yes/no conclusion. In addition, it was proposed to move the submission date for the value for money audit away from that of the annual accounts in order to spread the burden of work over the year.

Resolved: That the External Audit Progress Report and Sector Update 2019/20, as presented, be noted.

6. Internal Audit Progress Report

Ruth Lowry, Head of Internal Audit, presented updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the internal audit progress report and outcomes of the work for 2019/20 for the period to 30 September 2019.

The following points were highlighted:

- Of the planned audits for the period, ten had been completed to date and the amendments to the audit plan as detailed in the report were explained and noted by the committee. The report contained details of actions arising from previous years and it was confirmed that all actions from 2015/16 and 2016/17 were now closed.
- There were six actions that remained outstanding from 2017/18, including the transition from children's to adult services (high risk) and it was explained that the actions identified in 2018 had been subsumed into a single action for the directors of Children's and Adults Services. There was a significant amount of work still underway in this area and the relevant directors had contributed to the progress update in the report. Currently no due date could be determined for completion of the action.
- The other outstanding high risk area for action to be completed was personal budgets for children's service users and direct payments to their carers. The work on this was linked with the Special Educational Needs and Disabilities Ofsted improvement plan that management was working through. Further testing in this area was underway that would be reported to the next meeting of the committee.
- The medium risks with actions outstanding were: case management of occupational therapy services; public health commissioning strategy and commissioning, design and monitoring of the capital programme. The latter

two should be completed prior to February 2020, however the first had no foreseeable date for completion.

- An example of type one assurance was shared from the report that showed that the adequacy of the control framework had been audited and given assurance but was not yet in operation, therefore there could be no testing of the controls in place (type two audit work). This example highlighted the differences between the two types.
- Of the ten completed audits for this period, only Lancashire Safeguarding Children's Board (LSCB) governance of expenditure had been given limited assurance. It was explained that the LSCB had been replaced by a statutory Safeguarding Assurance Partnership, covering Lancashire, Blackburn with Darwen and Blackpool and its financial arrangements would be different from those for the LSCB. To address questions raised by members regarding scrutiny and transparency for expenditure, Ruth Lowry would circulate the full report.

Members expressed concern regarding the management response to the outstanding actions for the high risk areas and the absence of a due date for resolution, for these and the medium risk: case management of occupational therapy services. Members requested that executive directors provide a progress report to the January 2020 committee meeting, including what had been done so far to mitigate the risks.

Angie Ridgwell, Chief Executive, responded that the issues needed to be looked at in the broader context of the Children's Services improvement journey of 'getting to good' following Ofsted monitoring inspections. The service had undertaken a significant amount of work and had recently been successful in assuring a bid for Safeguarding Families funding, which would allow a remodelling of children's social care that could potentially address the issues raised in the audit and supersede the agreed actions.

It was agreed that the head of Internal Audit and the head of Legal and Democratic Services would liaise with the executive directors to ensure that any duplication of work to address the needs of both this committee and the Internal Scrutiny Committee is minimised, but that reports on each of these actions should be brought to this committee's next meeting in January 2020.

Resolved: That

- (i) The Internal Audit Progress report be noted.
- (ii) The committee receive an update report at the 27 January 2020 meeting from the relevant executive directors regarding the progress made toward addressing the actions identified from audit work from 2017/18 for the following areas:
 - transition from children's to adult services;

- personal budgets for children's service users and direct payments to their carers; and
- case management of occupational therapy services.

7. Treasury Management Activity 2019/20

Mike Jensen, Director of Investment presented the Treasury Management Activity for the first half of the financial year 2019/20.

The following points were highlighted:

- Since the report was produced there had been a deterioration in UK economic data which would influence treasury management activity. The Bank of England was preparing the economy for lower and potentially negative interest rates in the wake of the negative fiscal impact of the UK's exit from the European Union.
- With the potential to take borrowing at advantageous rates in the remainder of the year, facility to increase the current borrowing limit to take best opportunity of the market conditions was recommended.
- With regards to performance, the council's budget monitoring had so far reported a £7million underspend as a result of treasury management activity and this was likely to be substantially improved by the next reporting cycle.
- The traditional route for local authority funding has been the Public Works Loan Board (PWLB) loan, who had recently increased the cost of borrowing by 1%. In response, the county council would explore alternative opportunities for funding from the public market which could be substantially cheaper than the new PWLB rates.
- A recent change to the structure of the UK Municipal Bond Agency would see control passed from the Local Government Funding Agency to a preferred operator, via a procurement process. The agency existed primarily to reduce councils' capital long term financing costs and allowed local authorities to diversify funding sources and borrow at a lower cost than was available via the PWLB. This change would potentially provide an opportunity for improved efficiency for local authorities. Rather than looking solely at long term debt financing, the change could create an opportunity to create a broader platform for funding, including investment, where councils would have more control. The committee would be kept updated regarding these negotiations.

In response to questions it was clarified that:

- The county council's private finance initiative (PFI) would continue for a further 19 years, however alternative forms of financing would continue to be sought.

- Borrowing costs have so far been lower than budget, however, the county council would continue to seek to secure the position through continuing to review opportunities for long term cost effective options.
- Mike Jensen provided a response to a question on the potential impact on economic indicators of leaving the EU.

Resolved: That

- (i) The Treasury Management Activity for the first half of the financial year 2019/20, as presented, be noted.
- (ii) An increase in the Authorised Borrowing Limit from £1,375m to £1,600m for the remainder of 2019/20, be recommend to Full Council for approval.

8. Urgent Business

There was no urgent business to be considered.

9. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 27 January 2020 at 2pm at County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston