

**Audit, Risk and Governance Committee**  
Meeting to be held on Tuesday, 28 August 2018

Electoral Division affected:  
(All Divisions);

**Statement of Accounts 2017/18**  
(Appendices 'A' and 'B' refer)

Contact for further information:  
Neil Kissock, Tel: (01772) 536154, Director of Finance,  
[neil.kissock@lancashire.gov.uk](mailto:neil.kissock@lancashire.gov.uk)

**Executive Summary**

The Audit, Risk and Governance Committee at its meeting on 30 July 2018, noted the draft statement of accounts of the county council for the year 2017/18. Under the Accounts and Audit Regulations 2015, the committee was unable to approve the accounts as the external auditor's opinion had not been finalised pending his further consideration on the council's accounting treatment of a complex loan agreement.

The external auditors have now concluded their review and accepted the council's accounting treatment, subject to additional explanatory notes being included in the accounts. The council's statement of accounts are now recommended for approval including the required additional notes.

In order to enable the conclusion of the audit, as required by the auditor, the committee must once again provide written representations from those charged with governance and management of the council on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist. The representations recommended for approval are unchanged from that presented and approved at the last meeting of the committee in July.

**Recommendation**

The Committee is asked to:

- (i) Agree the management representation letter at Appendix 'A' to be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee prior to it being made available to the external auditor.
- (ii) Approve the 2017/18 statement of accounts, at Appendix 'B', for Lancashire County Council and the Lancashire County Pension Fund.

## Background and Advice

The Audit, Risk and Governance Committee at its meeting on 30 July 2018, noted the draft statement of accounts of the county council for the year 2017/18. The Accounts and Audit regulations 2015 require that the accounts are approved by 31 July 2018, however the external audit opinion was not completed by that time. The external auditor wished to consult an external party in relation to the accounting treatment of the council's Lender Option Borrower Option (LOBO) loans, and the decision to approve the accounts was deferred until that matter had been concluded.

Under these circumstances, section 10(2a) of the Accounts and Audit regulations required that the Council publish a notice on its website stating that it has not been able to publish the accounts and the reason for this. This notice was duly published.

The external auditor has now concluded his audit and produced a final Audit Findings Report which contains the audit opinion. As such the final statement of accounts for the county council are presented at Appendix 'B' for approval. Since the accounts were noted at the July committee meeting, there are two changes relevant to these accounts:

Firstly, the external auditor has now taken external advice on the LOBO loan accounting treatment. They have obtained sufficient audit assurance to conclude that the basis of the accounting for the inverse floating LOBO loans and the assumptions and processes used by the council in determining the valuation were reasonable. The valuation disclosed in the financial statements are also reasonable. On this basis, the external auditor is not proposing any amendments to the primary financial statements.

The external auditor has recommended that the council include additional disclosures in the financial statements to clearly describe the judgements that have been made in this respect. These additional disclosures are included in the final statement of accounts recommended for approval as follows:

- Note 2 - Critical judgements in applying accounting policies, page 27

This identifies that the council has made a critical judgement regarding the accounting treatment and valuation of the inverse floating LOBO loans, determining the valuation of these loans during the year to be in accordance with International Accounting Standard (IAS) 39 Auditor Guidance note 7.

- Technical Annex - financial instruments disclosure notes, page 100 - 101

An explanatory note has been included in the accounts that describes the interrelationship between the inverse floating interest feature and the lenders prepayment option and how it impacts interest rate risk.

Secondly, since the last committee meeting, the council has received the outcome of its recent OFSTED inspection. This has resulted in an improvement from the previous position. The references to the OFSTED inspection in the 2017/18 accounts are limited to those contained in the Annual Governance Statement (AGS). These

have not been updated for the more recent inspection outcome, as the AGS relates to the year 2017/18, and therefore remains accurate for that reporting period. However, the AGS for 2018/19 will report the current position. As a result of the positive OFSTED assessment, the external auditor has removed the caveat on his value for money assessment in this regard.

In order to enable the conclusion of the audit, as required by the auditor, the committee must once again provide written representations from those charged with governance and management of the council on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist. The council's management representations are attached at Appendix 'A' in the form of a letter to the external auditor. The representations recommended for approval are unchanged from that presented and approved at the last meeting of the committee in July.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk Management**

No significant risks have been identified

### **Legal**

Under the Accounts and Audit Regulations 2015, 10(2b) where an audit of accounts has not been concluded before 31 July 2018, the council must carry out the requirements of the regulations "as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit".

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact/Tel
Approval of the Council's Statement of Accounts 2017/18	30 July 2018	Khadija Saeed/ (01772) 536195
Accounts and Audit Regulations	2015	

Reason for inclusion in Part II, if appropriate  
N/A