

## **Lancashire County Council**

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

#### **Minutes of the Meeting held on Monday, 19th October, 2020 at 2.00 pm - Skype Virtual Meeting**

##### **Present:**

County Councillor Alan Schofield (Chair)

##### **County Councillors**

J Berry	J Rear
H Khan	J Shedwick
T Martin	A Vincent
E Nash	

CC H Khan replaced CC S Malik for this meeting only.

#### **1. Apologies**

None.

#### **2. Constitution, Membership and Terms of Reference 2020/21**

Paul Bond, Head of Legal and Democratic Services, presented a report setting out the constitution, membership, Chairmanship, Deputy Chairmanship and terms of reference of the Audit, Risk and Governance Committee for the remainder of the municipal year 2020/21.

##### **Resolved:** That

- (i) The appointment of County Councillors A Schofield and E Nash as Chairman and Deputy Chairman respectively of the Audit, Risk and Governance Committee for the 2020/21 municipal year; be noted.
- (ii) The membership of the committee following the county council's annual meeting on 16 July 2020, as presented, be noted.
- (iii) The terms of reference of the committee, as presented, be noted.

#### **3. Disclosure of Pecuniary and Non-Pecuniary Interests**

None.

#### **4. Minutes of the Meeting held on 27 July, 2020**

**Resolved:** That the minutes of the Audit, Risk and Governance Committee held on 27 July 2020 be confirmed and would be signed by the Chairman.

## **5. External Audit - Lancashire County Council Audit Findings Report 2019/20**

Stuart Basnet, Audit Manager, Grant Thornton presented the Lancashire County Council Audit Findings Report 2019/20, for the year ending 31 March 2020.

The following points were highlighted from the report:

- Due to the pandemic the audit had been undertaken remotely, resulting in some tasks taking longer than usual. However excellent communication between council officers and Grant Thornton, meant that the majority of work was now complete and an unqualified audit opinion was anticipated.
- The audit approach was unchanged from that reported at the July committee meeting and there was no change to the figures applied for materiality and triviality.
- The significant risk areas were listed in the report, along with the work completed by the auditors to gain assurance against each. No issues were reported against each risks, apart from the valuation of land, buildings and investment, where a material uncertainty paragraph (emphasis of matter) would be included due to the movement of property prices and valuations as a result of Covid-19. It was noted that this was a general issue, not specific to Lancashire County Council. This additional note would provide context to readers of the accounts when reviewing the valuation.
- The review of the budget for next year, medium term financial strategy and cash-flow forecasts had confirmed that the county held a strong reserve base, meaning there was no material uncertainty regarding the going concern status of the council.
- Some deficiencies in the strength of internal controls were highlighted in relation to access of the council's management information system – Oracle, and the process for notifying payroll when staff left. Recommendations had been made to address this and management had provided a response.
- The Value for Money conclusion was that the council had secured economy, efficiency and effectiveness in the use of resources. The significant level of reserves meant that the council was in a strong position to face the current challenges faced by local government.
- The report also included a follow up of prior year recommendations, audit adjustments, fees levied for the audit and the draft audit opinion.

In response to questions the following information was clarified:

- In relation to overpayment of salaries, Neil Kissock, Director of Finance, confirmed that measures had been taken to reduce this and there had not been a significant increase in the number of occurrences or financial impact.

However managers would continue to be reminded of the importance of processing staff changes quickly, to prevent overpayment.

- The savings made and reserve balance had mitigated the financial challenge of the council's response to the pandemic. A £50 million budget gap next year had been reported to Cabinet, however the reserve balance alongside the receipt of central government funding would offset the financial impact of the Covid-19 pandemic. A monthly report on additional expenditure and loss of income was reported to the Budget Scrutiny Review Panel and confirmed that the additional funding was offsetting Covid-19 costs.

**Resolved:** That the findings of the 2019/20 Lancashire County Council Audit report, amendment made to the financial statements and the issues raised by the auditor, as presented, be noted.

## **6. External Audit - Lancashire County Pension Fund Audit Findings Report 2019/20**

Andy Ayre, Audit Manager, Grant Thornton presented the Lancashire County Pension Fund Audit Findings Report for 2019/20, for the year ending 31 March 2020.

The following points were highlighted from the report:

- Although some work was still ongoing, an unqualified audit opinion was anticipated with an 'emphasis of matter' in relation to the valuation property and investments held by the Pension Fund. It was noted that this was not a modification to the accounts, but was a necessary disclosure (as with the Lancashire County Council Audit Findings Report).
- There had been a slight change to materiality from the audit plan due to a change in the year end figure from the forecast, as a result of the impact of the Covid-19 pandemic, however this was not a change to the risk.
- There were still some items outstanding and the auditors were awaiting responses from Local Pensions Partnership. It was confirmed that this had been escalated to the Head of Fund.
- The significant risk areas were listed in the report, along with the work completed by the auditors to gain assurance against each. No issues were reported against the risks, apart from the valuation of level three pooled and level two directly held investment properties. The material uncertainty regarding the valuation of these would be highlighted via an 'emphasis of matter' in the audit opinion.
- A recommendation reported in the 2018/19 audit regarding authorisation procedures for manual journals in the financial ledger, remained outstanding.

The management response as to the systems in place that prevented this from being a risk, was included in Appendix A. This would be left open as the auditors still identified it as a reportable issue.

- The report also included audit adjustments, of which some disclosure improvements had been recommended, but there were no major misstatements to report; audit fees and the draft audit opinion.

**Resolved:** That the findings of the 2019/20 Lancashire County Pension Fund Audit report, including the adjustments made to the financial statements and other issues raised by the auditor, as presented, be noted.

## **7. Approval of the Council's Statement of Accounts 2019/20**

Khadija Saeed, Head of Service, Corporate Finance, presented the council's Statement of Accounts for 2019/20.

It was explained that the report set out additional disclosure changes, suggested by the auditors for the benefit of readers, subsequent to the draft being signed and published on the council's website. There had been no changes to the core financial statements.

It was also highlighted that the management representation letters were additional assurances requested by the auditors from management, regarding areas where they can't reasonably expect to find audit evidence.

Members thanked the team for their professional work in producing the statement of accounts and supporting the auditors to complete their work within the deadlines set.

**Resolved:** That

- (i) The 2019/20 statement of accounts, at Appendix A, for Lancashire County Council and Lancashire County Pension Fund, as presented, be approved.
- (ii) The management representation letters at Appendices B and C be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee prior to them being made available to the external auditor.

## **8. Treasury Management Activity**

Mike Jensen, Director of Investment, Financial Services presented a report detailing a review of treasury management activity for 2019/20 and an update of 2020/21 activity up to August 2020, including a financial outlook.

The following points were highlighted from the report:

Review of 2019/20 activity

- Treasury management activity had taken advantage of high levels of volatility in the financial markets, leading to an underspend against budget of £22.9 million by the end of 2019/20. This had been achieved whilst retaining a low risk profile.
- The structured re-financing of the authorities debt portfolio had been undertaken and in March 2020 the council issued a £350 million five year bond, launched via the UK Municipal Bond Agency to secure short term funding. The bond received multiple bids from a wide range of investors and was significantly oversubscribed and resulted in a substantial saving compared to the Public Works Loan Board alternative rates. This refinancing would enable shorter term debt to be reduced by March 2022.

#### Review of 2020/21 activity

- Market volatility continued in response to the Covid-19 pandemic and the negotiations for withdrawal from the European Union. This gave an opportunity to improve returns, however also meant a potential for an increase in risk levels.
- There was a £19.9 million underspend against budget reported to Cabinet in September due to transactions in the gilt market and short term investments market.
- More information would be known following the upcoming Bank of England's Monetary Policy Committee meeting regarding a potential further increase in quantitative easing and any formalisation of negative interest rates.
- In August 2020 a £250 million 40 year bond was launched, which allowed substantial savings compared to offers by the Public Works Loan Board. The bond was again significantly oversubscribed by market investors. The third bond could be launched in 2021 and a favourable reception by market traders was anticipated.
- The council had borrowed in advance of paying the short term debt portfolio, which had meant a large increase in the borrowing position. However this would continue to decrease significantly as debts were paid off and the council's portfolio would return to a more balanced position early in the 2021/22 financial year.

Thanks were expressed to the Chief Executive for presenting Lancashire as a well-managed and sustainable authority to the investors.

In response to questions the following information was clarified:

- As the bond issue was so significantly oversubscribed, restricting which sectors could invest would not have impacted interest. Pension funds and insurance companies were given preference over sovereign wealth funds.

- The market had not fully factored in a no deal exit from the European Union. If an exit deal wasn't agreed, the UK's credit rating could be cut further and there was the potential for the liquidity of markets to be affected in early 2020.

**Resolved:** That the review of treasury management activities for 2019/20 and 2020/21, as presented, be noted.

## **9. Update Regarding the Internal Audit Plan for 2020/21**

Ruth Lowry, Head of Internal Audit, presented a report explaining how a request for support from the Internal Audit team to support the council's response to the Covid-19 pandemic, had necessitated a reduced internal audit plan for 2020/21. The report provided a summary of the curtailed internal audit plan. It was emphasised that although the plan would be considerably reduced in its scope, there would be sufficient information to provide an overall audit opinion, supported by work undertaken in preceding years.

Members commented that the key to a successful reduced audit would be the cooperation and support of the relevant directors.

In response to a query from members regarding the importance of retaining the vital role of councillors as scrutineers, it was confirmed that how this was managed would be included in the internal audit work carried out regarding the transparency of decision making throughout the pandemic. Josh Mynott, Democratic and Members Services Manager, highlighted that the Scrutiny Committee meetings had not reduced and it was emphasised that engagement and challenge from members at county and district level was essential for ongoing successful scrutiny.

**Resolved:** That the reduced internal audit plan for 2020/21, as presented be approved.

## **10. Code of Conduct**

Josh Mynott, Democratic and Members Services Manager, presented a report which provided an overview of the best practice recommendations of the Committee for Standards in Public Life in relation to local government standards. It was noted that the report had been brought for consideration as all local authorities had been asked to provide a progress update regarding their response to the recommendations. Some changes had been made to the Code of Conduct by officers relating to procedural matters, however more substantial amendments would require elected member input.

Members made the following comments:

- The Local Government Association had published a draft code of conduct to reflect the Committee's recommendations.
- An opportunity to engage a wider number of elected members from all political groups would be welcome in any discussions regarding the Code of Conduct,

particularly in relation to the regulation of behaviour, respectful communication and conduct in council meetings.

- If it was agreed to review the Code of Conduct, it would be useful to seek the contribution of the council's appointed Independent Persons.
- A task and finish group made up of appropriate officers and elected members to provide input to the Political Governance Working Group on a review of the Code may be an appropriate mechanism to ensure an inclusive review.

**Resolved:** That

- (i) Officers look at best practice recommendations 13 and 15, as presented in Appendix A of the report, and put in place a process to address these.
- (ii) Officers engage with elected members regarding best practice recommendations 1, 2, and 6, as presented in Appendix A of the report, and report back to the next meeting of the committee with proposals to implement them.

## **11. Urgent Business**

There was no urgent business to be considered.

## **12. Date of Next Meeting**

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 25 January 2021.

L Sales  
Director of Corporate Services

County Hall  
Preston