

## SOUTH RIBBLE BOROUGH COUNCIL

### Governance Committee

Meeting held at 6.00pm on Wednesday, 23rd April, 2014 in Cross Room, Civic Centre, West Paddock, Leyland, PR25 1DH

#### Present:-

Councillors W Bennett (in the chair), Clark, Ogilvie and Patten

#### In Attendance:-

Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor) and Carol Eddleston (Democratic Services Officer)

Gareth Winstanley (the Council's External Auditor – Grant Thornton)

#### Officers:-

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#### Other Members:-

Councillor P Smith

Minute No.	Description/Resolution
50	<p><b>Apologies for Absence</b></p> <p>An apology for absence was submitted on behalf of Councillor Foster.</p>
51	<p><b>Declarations of Interest</b></p> <p>There were no declarations of interest.</p>
52	<p><b>Minutes of the Last Meeting</b></p> <p>RESOLVED: that the minutes of the meeting held on 20 March 2014 be approved as a correct record and signed by the chairman.</p>
53	<p><b>External Audit Opinion Plan 2013/14</b></p> <p>Gareth Winstanley, from the Council's External Auditor, Grant Thornton, presented the report which highlighted a number of issues considered by the external auditor when setting the audit plan. It referenced a number of developments which were specific to South Ribble and detailed significant risks (common to all audits and not specific to this authority) and how the auditors' work was planned to address them.</p> <p>He explained that the external auditor was required to issue a Value for Money conclusion on the following criteria specified by the Audit Commission: proper arrangements in place for securing financial resilience and for challenging how the authority secured economy, efficiency and effectiveness.</p>

	<p>The external auditors also regularly reviewed the findings of the Internal Audit Service to see if any areas for improvement identified in the course of internal audit reviews warranted further scrutiny by the external auditors. He was pleased to report that the interim audit work carried out to date had not identified any weaknesses which impacted on the auditors' approach to the audit.</p> <p>In response to questions about how the auditors would deal with the City Deal, Mr Winstanley confirmed that they would look at any significant project in which the authority was involved. In the 2013/14 audit it would be very much a case of a watching brief to ensure that the authority had factored the costs and income associated with the City Deal into its longer term plans. In the longer term the external auditor would want assurance that satisfactory governance arrangements were in place. The external audit team had not had specific experience of other City Deals but was vastly experienced in looking at local risks and partnerships, and could tap into the varying experience of other Grant Thornton audit teams.</p> <p>The external auditors' work on examining the efficiency programme would inevitably include the impact of the senior management team restructure on efficiencies achieved against those originally budgeted but would not look specifically at specific challenges emerging from the restructure.</p> <p>In the course of sample testing to identify fraudulent transactions it was possible that cases of human error might also be identified. As a rule 60 random sample employee payroll transactions would be looked at over the course of the year and this would include looking at the staff costs for an individual, verifying that that individual existed and checking the details of his/her contract. The value of the individual transactions did not matter as the sample testing process should highlight any control weaknesses.</p> <p>The scope of the audit would only be likely to change if something came to light such as, for example, a suggestion of some fraudulent activity which required the external auditors to do additional work on the core audit.</p> <p>In response to observations from Councillor P Smith in the audience about the significant risk of the pensions deficit, Mr Winstanley confirmed that the deficit was outside the Council's control but that the external auditors highlighted issues as and when they arose and discussed them on an ongoing basis in meetings with senior management, acting in some ways as a critical friend. He confirmed that this authority was in a relatively fortunate position when compared with many others.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) the report be noted;</li> <li>2) page numbers be included on all committee reports submitted by the external auditors in future, and</li> <li>3) the committee look forward to receiving external audit feedback on the City Deal, and</li> <li>4) the positive findings of the interim audit work carried out to date be welcomed.</li> </ol>
54	<p><b>External Audit 2014/15 Audit Fees Letter</b></p> <p>Mr Winstanley explained that the scale of fees was set by the Audit Commission and this council's fee for 2014/15 was the same as for 2013/14. The council's grant certification fee had been reduced by 14% to reflect the fact that the external auditors were no longer required to audit the council's National Non-Domestic Rate return. Having said that, the auditors would still do a lot of work on the NNDR for the purposes of securing assurance on that particular balance in the statement of accounts.</p>

	<p>The key members of the senior audit team for 2014/15 were mainly the same as in previous years apart from a change in the Audit Executive.</p> <p>Mr Winstanley confirmed that there was no discount for paying the audit fee annually 'up front' rather than quarterly but he would make enquiries as to whether this might be a possibility in future.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) the planned audit fee 2014/15 be noted, and</li> <li>2) the reduction in grant certification fee be welcomed.</li> </ol>
55	<p><b>External Audit Governance Committee Update</b></p> <p>Mr Winstanley presented the report which outlined progress by the external auditors in delivering their responsibilities to the authority, included a summary of emerging national issues and developments that may be relevant to this authority, and a number of related challenge questions which the committee may wish to consider. He responded to questions from members.</p> <p>Members noted with particular interest a number of key points from the Local Audit and Accountability Act which had received Royal Assent on 30 January 2014, including local authorities taking responsibilities for choosing their own external auditors.</p> <p>The Head of Shared Assurance Services said that the challenge questions posed in the report would be addressed as part of this year's extensive Annual Governance Statement process, the results of which would be brought to the committee in June.</p> <p>Mr Winstanley accepted an observation from the chairman that reference to 'spare room subsidy' on page 12 was misleading and should in fact refer to 'under occupancy'.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) the report be noted;</li> <li>2) reference to 'the spare room subsidy' in future reports be amended to 'the under occupancy', and</li> <li>3) the committee look forward to receiving the Annual Governance Statement at its next meeting.</li> </ol>
56	<p><b>Internal Audit Plan 2014/15</b></p> <p>The Principal Auditor presented the report which explained the content of the Internal Audit work programme for the 2014/15 financial year which had been determined following a detailed risk assessment and consultation exercise and asked for the committee's approval of the Audit Plan. The report also explained the basis of the revised controls assurance rating system. The Principal Auditor and the Head of Shared Assurance Services responded to members' questions.</p> <p>Several services which had moved to another directorate as a result of the senior management restructure would be subject to a review, e.g. homelessness and development control.</p> <p>As the City Deal was still in its infancy, it would be included in the risk assessment in future years.</p> <p>The Principal Auditor agreed with members that communications were vitally important, especially in times of ongoing change, but she assured members that the Internal Audit</p>

	<p>Service was well placed to be kept aware of changes and developments at all levels.</p> <p>The Internal Audit Service benefited from IDEA software - a very useful and resource-saving tool which enabled officers to focus checking on transactions where error was most likely to occur.</p> <p>It would be for the relevant Director / Head of Service / Service Manager to decide if member involvement in a project would be appropriate at an early stage such as, for example, the informal Waste Procurement project group. There was no member involvement in the Welfare Reform Project Team.</p> <p>The Principal Auditor explained that up until now the controls assurance ratings system did not put each system into context to show its relative risk to the overall effective governance of the organisation. It was the intention to rectify this from 2014/15 with the use of a scoring matrix. She and the Head of Shared Assurance Services explained that Internal Audit staff would continue to write audit reports, identify areas for improvement and agree management actions to mitigate the risks, but the matrix was intended to provide a more visual representation of control ratings and to give Directors / Heads of Service a degree of evidence of what was happening in their areas. They could also provide a gross score for the year which could be benchmarked year on year. From the audience, the Chief Executive and the Director of Business Transformation reassured members that managers were not complacent when it came to 'adequate' ratings and, in the case of 'limited' ratings, would undoubtedly want some reassurance that steps were being taken to mitigate the risks regardless of the matrix score.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) the 2014/15 Internal Audit Plan be noted, and</li> <li>2) the revised controls assurance rating system be approved.</li> </ol>
57	<p><b>New Public Sector Internal Audit Standards</b></p> <p>The Head of Shared Assurance Services presented the report which appraised members of new requirements for Internal Audit following the recent publication of Public Sector Internal Audit Standards which applied to all public sector internal audit providers; presented an analysis of the Council's existing (significant) compliance with the new standards together with an action plan to address any areas of non-compliance and presented a new Internal Audit Service Charter for approval. It was considered that this council's Internal Audit staff were sufficiently well experienced, trained and qualified to ensure full compliance with the new standards.</p> <p>Independent external assessments of the Internal Audit Service's compliance with the new standards would be carried out on a reciprocal free of charge, time credit basis through the Lancashire Districts Audit Group. Members of the Group would draw up a timetable and a set of compliance criteria to ensure a consistent approach across local authorities in the county. Members would be kept appraised of progress as the arrangements were put in place.</p> <p>Noting the 'Reporting and Monitoring' section on page 6, members agreed that it would be appropriate to amend 'the Head of Shared Assurance Services or Principal Auditor' to read 'the Head of Shared Assurance Services or, in his/her absence, Principal Auditor'.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) the report be noted and amended as detailed in the paragraph above;</li> <li>2) the current level of compliance with the new Public Sector Internal Audit standards</li> </ol>

	<p>be welcomed, along with the recent re-certification of the Internal Audit Service to BS EN ISO 9001.</p> <p>3) the new Internal Audit Service Charter be approved.</p>
58	<p><b>Forward Plan</b></p> <p>The Forward Plan was noted without further debate.</p>

The meeting ended at 7.14pm.

..... Chairman