

## SOUTH RIBBLE BOROUGH COUNCIL

### Governance Committee

**Meeting held at 6.00pm on Wednesday, 13th April, 2016 in Wheel Room, Civic Centre, West Paddock, Leyland, PR25 1DH**

#### Present:-

Councillor Ogilvie (in the chair)

Councillors Clark, Foster, Patten, Mrs Snape and Mrs K Walton

#### In Attendance:-

Garry Barclay (Head of Shared Assurance Services), Carol Eddleston (Democratic Services Officer), Dawn Highton (Principal Auditor) and Denise Johnson (Director of Development, Enterprise & Communities)

Councillor Hughes (Cabinet Member for Strategic Planning)

Mark Heap and Gareth Winstanley from the Council's external auditors Grant Thornton

#### Public Attendance:-

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#### Other Members:-

Councillors Bennett, Martin, Mrs M Smith and P Smith

#### Officers:-

4

Minute No.	Description/Resolution
42	<p><b>Apologies for Absence</b></p> <p>All members of the committee were present.</p>
43	<p><b>Declarations of Interest</b></p> <p>There were no declarations of interest.</p>
44	<p><b>Minutes of the Last Meeting, Held on 27 January 2016</b></p> <p>It was confirmed that the details requested in minute 39 resolution 3) and 4) would be provided to the committee following this meeting.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) As agreed at the meeting held on 27 January, details of posts which had remained vacant all year and procedures relating to virement be provided to the committee;</li> <li>2) The minutes of the meeting held on 27 January 2016 be approved as a correct</li> </ol>

	record and signed by the chairman.
45	<p><b>External Audit Plan 2015/16</b></p> <p>Mark Heap of the Council's external auditors, Grant Thornton, presented the audit plan for the year ending 31 March 2016, outlining the planned scope and timing of the audit. He explained that he was required to give an opinion on the Council's financial statements and on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Interim audit work already undertaken had not identified any weaknesses which would impact on Grant Thornton's audit approach nor adversely impact on the Council's financial statements.</p> <p>Mark Heap and Gareth Winstanley responded to questions and observations from the committee.</p> <p>Monthly bank reconciliations had been monitored on an informal basis during 2015/16 which had led to a weakness with regard to evidencing the completeness of this task. Mr Heap stressed that there had been no weakness in the bank reconciliation itself but he was now satisfied that management had implemented the external auditors' recommendation to introduce a formal review of the Council's bank reconciliation. This had been implemented in February 2016 and backdated to April 2015. Members were pleased that this had now been implemented and, at their request, Mr Winstanley agreed that the external auditors would seek to satisfy themselves again in the summer that all formal reviews of all bank reconciliations were recorded and evidenced.</p> <p>In view of the forecast budget gap of £2.254m by 2018/19, the external auditors were asked if they would be treating their review any differently. Mr Heap confirmed that they would, as usual, look at the robustness of the Council's Medium Term Financial Strategy and aim to understand the plans the Council had in place to address and manage the challenges and opportunities ahead.</p> <p>Proposed changes to SOLACE and CIPFA guidance on the Local Code of Governance, including the requirement for authorities to produce a Narrative Statement reporting on financial performance and use of resources, was unlikely to have any major impact on this Council.</p> <p>The earlier close down of accounts by 2017/18 required by the Accounts and Audit Regulations 2015 would be challenging but plans were in place to make it a manageable process by next year and Grant Thornton aimed to complete all substantive work in the current audit by 31 August 2016 as a 'dry run'.</p> <p>Any misstatement at all of the three types of disclosures contained in the table on page 8 would be classed as 'material'.</p> <p>Under the requirements of a new accounting standard on fair value (IFRS 13) the external auditors would be looking to ensure that surplus assets within property, plant and equipment had been correctly valued and would review any brief that the Council had given to the valuer. A 'fair value' valuation was essentially the value that the market would put on a particular asset whereas the 'existing use' value was the current value minus its depreciation. Mssrs Heap and Winstanley acknowledged that this was a very technical area and offered to bring a paper to a future meeting to aid understanding. The findings of the Council's own strategic asset review would feed into the external auditors' work on Value for Money.</p>

	<p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) The External Audit Plan 2015/16 be noted, and</li> <li>2) Mssrs Heap and Winstanley be thanked for presenting the plan and responding to questions, and</li> <li>3) The committee welcome the offer of a paper to explain the fair value valuation of surplus assets.</li> </ol>
46	<p><b>Planned Audit Fee for 2016/17</b></p> <p>Gareth Winstanley of the Council's external auditors, Grant Thornton, outlined the planned audit fee for 2016/17, explaining that PSAA (Public Sector Audit Appointments Limited) was currently responsible for setting fees following the closure of the Audit Commission in March 2015. He confirmed that the scale fees were set at the same level as for 2015/16.</p> <p>The adoption of new measurement requirements for the Highways Network Asset referred to in the audit fee letter would not impact on this Council as it did not own any highways.</p> <p>Mr Heap confirmed that the authority was billed on a quarterly basis as external audit work was undertaken throughout the year and he agreed to consider expanding the 'Outline Audit timetable' in future Annual Audit Fee letters to identify what work was to be done and when.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) The Planned Audit Fee for 2016/17 be noted, and</li> <li>2) The committee welcome a more detailed breakdown of the audit timetable in future Planned Audit Fee Letters.</li> </ol>
47	<p><b>Changes to Arrangements for Appointment of External Auditors</b></p> <p>The Head of Shared Assurance Services presented the report and explained that this Council's current external audit contract would expire following completion of the 2017/18 audit and a new appointment would therefore need to be made by 31 December 2017. The Head of Shared Assurance Services outlined the various options open to the Council for appointing its external auditor: setting up an Independent Auditor Appointment Panel; joining with other councils to set up a joint Independent Auditor Appointment Panel; using an existing independent panel of the authority (where a suitable panel already exists), or opting in to a Sector Led Body (SLB) that would negotiate contracts and make the appointment on behalf of councils.</p> <p>The Local Government Association (LGA) was strongly in favour of the last option as it believed it offered best value to councils by reducing set-up costs and having the potential to negotiate lowest fees. The LGA therefore had asked all councils to give an indication of their preferred approach by the end of this month.</p> <p>The Head of Shared Assurance Services confirmed that the purpose of the report was to provide members with an appraisal of the options available. Nothing was being ruled in or out at this stage as the Council's preferred option did not need to be in place until spring 2017 and a more detailed report would need to be brought to committee for consideration in due course. Issues such as set up costs, fees &amp; duration of appointment contracts and details of audit firms from which to select were as yet unknown.</p> <p>From the audience, the Cabinet Member for Finance and Resources indicated that he would favour a Sector Led Body approach. He thought that the current contract with Grant Thornton, let by the Audit Commission and now managed by Public Sector Audit</p>

	<p>Appointments Limited, showed how successful such an arrangement could be, with this Council having saved around 40% each year for the last four years whilst being very satisfied with the service provided.</p> <p>RESOLVED (unanimously) that: The committee agree not to rule out any of the options outlined in the report at this stage but to authorise the Head of Shared Assurance Services to express an interest by the end of April 2016 in opting into a Sector Led Body.</p>
48	<p><b>Findings of Internal Audit Reviews</b></p> <p>The chairman informed the committee that he had received an officer request to defer this item due to conflicting work priorities. He had been assured that the specific management actions agreed following the reviews in question were/had already been implemented and he believed that deferring the item until the June meeting would actually allow the committee a better opportunity to evaluate the success of the implementation of these actions.</p> <p>RESOLVED: That the Findings of Internal Audit Reviews item be deferred to the 29 June meeting.</p> <p>Councillor Foster expressed concern and disappointment that the request to defer had been made and agreed to, and that the committee was consequently not able to discuss the issues raised in the reviews at this meeting.</p>
49	<p><b>Internal Audit Plan 2016/17 and Member Reporting Protocol</b></p> <p>The Principal Auditor presented the Internal Audit Work Programme for the 2016/17 financial year which had been determined following a detailed risk assessment and consultation exercise within each Service Area and with the Senior Management Team. She explained that each review was considered against a range of nine risks as defined on page 8 and the impact it would have if the system were to fail. Together these allowed an overall risk rating to be determined for each review before the internal audit work commenced; the control rating was issued after the internal audit work had been carried out.</p> <p>The Principal Auditor and the Head of Shared Assurance Services responded to questions and observations from the committee.</p> <p>Certain audits fell naturally into certain timescales and yearly quarters but others were profiled throughout the year in what was considered to be a best fit, e.g. in terms of bedding in of new systems and personnel.</p> <p>The Chairman expressed surprise at the risk rating for the proposed Licensing Audit being categorised as Major rather than Critical in the current circumstances. In the light of any findings arising following the conclusion of the current investigations into the Licensing function he asked that this rating be revisited as soon as possible thereafter in order to capture any relevant impact.</p> <p>The Housing Capital Working Group referred to in Appendix one was an officer group which was involved in projects in a number of areas, including private sector housing and empty homes.</p>

	<p>The chairman explained that the Member Reporting Protocol was being presented to the committee following discussion at the last meeting about existing arrangements for dissemination of full Internal Audit review reports.</p> <p>The Head of Shared Assurance Services confirmed that he had met with the Governance Committee task group to outline existing arrangements and to discuss where its members felt that arrangements might need to be clarified and formalised. He explained that page 10 made clear that the onus was on Directors and Heads of Service to keep their portfolio holder(s) informed of the outcome of all internal audit reviews and then in turn for the portfolio holder(s) to inform Cabinet colleagues of important issues arising.</p> <p>The chairman enquired if the proposed reporting protocol presented to the Committee had resulted from a joint discussion between SMT and Cabinet. He was disappointed to be advised that Cabinet members had not been party to the discussions.</p> <p>Members agreed when the chairman suggested that 3.4 should be expanded to require the portfolio holder(s) to circulate all Internal Audit reports to all members of the Cabinet to avoid any gaps in communication.</p> <p>The Head of Shared Assurance Services agreed to amend 'Chief Officers' to 'Directors and Heads of Service'.</p> <p>Councillor Bennett expressed surprise that Cabinet had not been consulted on the draft protocol. He said that he would certainly expect Directors and Heads of Service to be asked to attend Governance Committee in respect of red rated reports.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) The Internal Audit Plan 2016/17 be approved, and</li> <li>2) The Member Reporting Protocol be approved as amended above.</li> </ol>
50	<p><b>Developers' S106 Contributions by My Neighbourhood Area</b></p> <p>The Cabinet Member for Strategic Planning, Councillor Hughes, presented the report which detailed the developers' S106 contributions held by the Council and allocated to the My Neighbourhood Areas. The My Neighbourhood Areas would determine their own priorities and use the contributions accordingly.</p> <p>The Cabinet Member for Finance &amp; Resources had already shared the information with the My Neighbourhood Forums in line with his commitment to improve the transparency of reporting in this area and raise the level of financial awareness and understanding among councillors. With this in mind, Councillor Hughes said it was important that the My Neighbourhood Areas were made aware of exactly what monies would be coming forward, and when. They could not assume that all S106 monies associated with an approved planning application would come forward as we sometimes allowed the developer to use [some of] the monies directly for something specific on a particular site.</p> <p>Councillor Hughes and the Director of Development, Enterprise and Communities responded to questions and observations from the committee.</p> <p>As far as Councillor Hughes was aware the authority had a record of where monies had been spent and by whom decisions to spend had been taken. He believed that the monies had been spent in the areas from which they had been generated. The Director of Development, Enterprise and Communities reminded the committee that the My Neighbourhood Area system of working had been introduced in 2011/2012.</p>

The Director of Development, Enterprise and Communities pointed out that S106 money was only one kind of funding mechanism for My Neighbourhood Area projects. She said that her team would work with members to identify the most appropriate way of funding particular projects that they had identified and this may or may not be via S106 monies.

Members of the committee acknowledged that there was confusion among some members about how projects could be funded and suggested that future reports might outline how other sources of funding might be accessed. This in turn might encourage My Neighbourhood Areas to agree and progress additional projects more quickly.

From the audience Councillor Bennett echoed earlier comments about the availability of other funding mechanisms for My Neighbourhood Area projects. He and Councillor Hughes said they would be happy to provide a similar report to the committee at a frequency members considered to be appropriate, but Councillor Hughes advised it would not be practical to include 'monies available' and 'available until' dates as there were so many variables involved, including, for example, start date & duration of development and specific conditions attached to individual S106 agreements.

From the audience Councillor Martin said that he had been able to identify only one area of spend in the Penwortham area which had been made by a My Neighbourhood Area chairman and member delegated decision.

Councillor Hughes said he would look into holding a Learning Hour about S106 monies.

RESOLVED (unanimously) that:

- 1) The report be noted and the Cabinet Members for Finance and Resources and Strategic Housing be thanked for increasing visibility of S106 monies gathered by the authority;
- 2) Future reports outline other possible sources of funding for My Neighbourhood Area projects, and
- 3) The committee welcome the suggestion of a Member Learning Hour on S106 agreements and monies.

The meeting finished at 7.25pm.

..... Chairman