

REPORT TO	ON
Governance Committee	28 th June 2017

Jan 2017



TITLE	AUTHOR	Agenda item No.
Compliance with International Auditing Standards	G Barclay D Highton	16

1. PURPOSE OF THE REPORT

1.1 The purpose of this report is to enable the Governance Committee as ‘those charged with governance’ and the Chief Executive on behalf on ‘management’ ’ to provide a range of assurances being sought by the external auditors – Grant Thornton as part of their audit of the Council’s 2016/17 accounts. The specific assurances being sought by Grant Thornton are set out in the letters appended to this report.

1.2 The report links with all of the corporate priorities, in particular to be an ‘efficient, effective and exceptional Council’.

2. RECOMMENDATIONS

2.1 That, subject to consideration by the Committee, the Chairman of the Governance Committee and the Chief Executive be enabled to sign the assurance letters requested by Grant Thornton.

3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire		Efficient, effective and exceptional council	X

4. BACKGROUND TO THE REPORT

4.1 Recently Grant Thornton wrote to the Chief Executive (Appendix A) and the Chair of the Governance Committee (Appendix B) requesting information to assist with their audit of the Council’s 2016/17 financial statements. Given that the assurances requested would need to rely on very similar evidence to that being gathered by Internal Audit to compile the Annual Governance Statement (AGS), and in the interests of transparency, it was agreed with Grant Thornton that responses to their letters would be provided following consideration at this meeting.

5. GOVERNANCE OPINION

5.1 Having reviewed the specific information being sought, Internal Audit is satisfied that the Council's arrangements are such that positive assurances can be given in response to Grant Thornton. Principally, this conclusion is arrived at through the:

- comprehensive assurance and evidence gathered in compiling the AGS;
- ongoing work of the Governance Committee and Internal Audit scrutinising and challenging the Council's arrangements;
- work of the Chief Financial Officer and the financial arrangements and controls including financial regulations, that have been adopted; and
- work of the Monitoring Officer supported by the Legal Services team.

5.2 Further detailed information to support Internal Audit's review and conclusions can be found in the tables at Appendices C and D.

6. BACKGROUND DOCUMENTS

Annual Governance Statement
Service Assurance Statements
Evidence collated by Internal Audit to support responses



Mrs Jean Hunter
Chief Executive
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Date 4 April 2017

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Dear Jean

South Ribble Borough Council Financial Statements for the year end 31 March 2017

As you will be aware each year, as your external auditor, we contact you to comply with International Auditing Standards to gain an understanding of the Council's management processes in place to prevent and detect fraud and to ensure compliance with law and regulations. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the enclosed schedule. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to our request to management, we also will need to gain an understanding of how the Governance Committee maintains oversight of the above processes. I have also enclosed, for your information, a copy of the letter that I intend to send to the Chair of the Governance Committee. We suggest that it may be useful to co-ordinate your response with the response from the Chair of the Governance Committee

In preparing your responses it would also be helpful if you could include a summary of evidence you have relied on to inform your responses. If you are in agreement, I would be grateful for your formal response by 1st May 2017. Please note that your response should cover the full twelve month period ending 31st March 2017.

Please feel free to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Simon Hardman
Manager
For Grant Thornton UK LLP T 07880 456202
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Cllr Alan Ogilvie
 Governance Committee Chair
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Date 4 April 2017

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Dear Cllr Ogilvie

South Ribble Borough Council Financial Statements for the year end 31 March 2017 - Understanding how the Governance Committee gains assurance from management

As you will be aware, each year as your external auditor, we contact you to comply with International Auditing Standards to establish an understanding of how the Governance Committee gains assurance over management processes and arrangements.

I am contacting you in your role as the Chair of the Governance Committee, to ask for your responses to the following questions.

- 1 How does the Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?
 - how will the Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with by the Council?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Chartered Accountants

Member firm within Grant Thornton International Ltd

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Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

I have attached a schedule that will help summarise your responses to some of the questions on the previous page.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to the Chief Executive, (the schedule of questions is also enclosed). We suggest that it may be useful to co-ordinate your response with that of management.

If you are in agreement I would be grateful for your formal response by 1st May 2017 to cover the full twelve month period ending 31st March 2017.

Please feel free to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

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Manager
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28th June 2017

Simon Hardman
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Dear Simon

Audit of South Ribble Borough Council Financial Statements – Compliance with International Auditing Standards

With reference to your letter dated 4th April 2017 in respect of the above, I have now commissioned a review of the management processes that are in place within the Council which address the specific questions you raised.

These are contained in the attached table which was formally reported to and discussed by the Governance Committee on 28th June 2017. I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Mrs Jean Hunter
Chief Executive
South Ribble Borough Council
Civic Centre
West Paddock
Leyland
PR25 1DH

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17 and which we should consider as part of our audit approach?	<p>The Business Rates Retention Regime, the Payment of the Pensions Contribution and valuation of assets.</p> <p>Changes to reporting format required by The Code 2016/17</p>
Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Yes – the production of Medium Term Financial Strategy sets framework for policy and spending decisions.</p> <p>Accounting Policies were approved by Governance Committee on 12/04/17.</p>
Are you aware of any changes to the regulatory environment that may have a significant impact on the Authority's financial statements?	<p>The council has the following arrangements in place to advise officers:</p> <p>Monitoring Officer and team of qualified lawyers; Corporate Governance Group; Standing Orders and Financial Regulations. Compliance with the CIPFA Code of Conduct for Finance Officers. The council is in the process of carrying out a thorough review of the Constitution. Changes to CIPFA Code and Accounting Standards.</p>
How would you assess the quality of the Authority's internal control processes?	<p>The Council has the following robust measures in place:</p> <p>Internal Audit compliant with the Public Sector Internal Audit Standards. Internal Audit Annual Report. Annual assessment against the Local Code of Governance. (updated 2016) Annually completed Service Assurance Statements. Independent sources of assurance obtained from Services. Fortnightly compliance with the procure to pay process reports to the s151 then reported on the SMT for action as appropriate.</p>
How would you assess the process for reviewing the effectiveness of internal control?	<p>Highlighted areas for improvement included within the Annual Governance Statement. Annual and interim Internal Audit reports to the Governance Committee.</p>
How do the Authority's risk management processes link to financial reporting?	<p>Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.</p> <p>The introduction of the GRACE risk management software will further strengthen the Risk Management processes.</p>

<p>How would you assess the Authority's arrangements for identifying and responding to the risk of fraud?</p>	<p>Would assess as sound as the following arrangements are in place: Internal Audit Risk Assessment updated over the course of the year. Internal Audit annual plan approved by Senior Management Team and Governance Committee. Monitoring of management actions by Internal Audit and reporting to Governance Committee.</p> <p>A range of probity policies are in place including:</p> <p>Whistle Blowing, Anti Fraud & Corruption, Anti Money Laundering, & Anti Bribery Policy.</p> <p>Arrangements for responding to fraud and detailed in the Fraud Response Plan. (available on Connect)</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit Annual Plan agreed by Senior Management Team and Governance Committee. Audit Plan completed, no significant control weaknesses relating to fraud identified.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Where cash transactions can be manipulated and corrupted. The awarding of contracts.</p> <p>Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.</p>
<p>Are you aware of any potential whistle blowing matters or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None for 2016-17</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>None for 2016-17</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Annual and interim reports Internal Audit reports to Governance Committee. External Audit assurance. On-going monitoring and reporting of the Corporate Risk Register to Governance Committee.</p>
<p>As a management team, how do you communicate to employees your views on business practices and ethical behaviour?</p>	<p>Use of Core Managers forums, 1-2-1s and Directorate Management Team meetings and core brief.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>The Council has a number of qualified legal staff who are trained and experienced to identify any possible legal liability. In situations where potential legal liability is identified then the Council's Legal team will refer the matter to the Assurance team for liaison with our insurers as appropriate. The closure of accounts process contains an</p>

	action for the finance department to liaise with the legal team to identify potential and current litigation for inclusion in the SOAs
Is there any use of financial instruments, including derivatives?	The Council discloses movements in financial instruments in note 17 to the Statement of Accounts. The financial instruments include borrowing, investments, debtors and creditors, all relating to the normal course of business.
Are you aware of any significant transactions outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	None for 2016-17
Are you aware of allegations of fraud, errors, or other irregularities during the period?	No
Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?	We are not aware of any instances of failure to comply with legislation.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	None for 2016-17
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	Yes:- Multiple estimates in quantifying Business Rates Retention (BRR) Pension Fund Valuations Asset Valuations
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	Judgements have been made with regard to:- BRR - successful appeals made against RV. Outstanding Appeal data from VOA and forecasting outcomes on past trend data. Outcomes are uncertain. Pension Fund – Obtained from the Actuary Assets Valuation – RICs
What is the status of contingent assets and liabilities reported in prior years?	Contingent Liabilities: Many councils, including South Ribble Borough Council, have received claims for mandatory charitable business rates relief from NHS Trusts and NHS Foundation Trusts. The backdated relief could be worth hundreds of millions of pounds in total for all of the councils. The councils have rejected the claims on the grounds that the NHS bodies are not charities, and therefore the claims are unfounded. Contingent Assets: The Council has made successful claims to HMRC regarding VAT overpaid over many years in relation to leisure centre income. At 31 March 2017, a claim submitted for compound interest relating to a claim settled in 2009/10 was still outstanding.

	The outcome of the claim is dependent on a test case which has proceeded to the UK Supreme Court. Up until now the taxpayer has been successful in the earlier courts however there is uncertainty with regard to what decision this court will provide in light of it being the final UK court which can decide on this matter. Therefore it is not possible to estimate the timing and value of any future payments.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	Preparation of a 3 year budget projection included in the Medium Term Financial Strategy to identify any financial risks facing the council.
Can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	We have instructed external solicitors to assist us on a number of issues throughout the year including employment, licensing and property matters. The firms that we have made most use of include Weightmans and Wilkin Chapman. Generally speaking we instruct solicitors via the North West Consortium – this is something that local authorities in the north west of England have set up. It ensures that we can access high quality legal advice at preferential rates.
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	We have also instructed Counsel on a number of issues. The main areas where we have sought such support is planning. The Chambers we most frequently use is Kings Chambers, Manchester.
Have any of the Authority service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
How have any key issues identified in the prior year as internal control deficiencies been addressed?	None identified

28th June 2017

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Dear Simon

Audit of South Ribble Borough Council Financial Statements - Compliance with International Auditing Standards

Further to your letter dated 4th April 2017 in respect of the above, please find attached a table providing you with the necessary information that you seek in relation to the specific issues you raised to assist with planning for the 2016/17 financial statements audit:

The attachment was formally reported to and discussed by the Governance Committee on 28th June 2017 and I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Cllr Alan Ogilvie
Governance Committee Chair
South Ribble Borough Council
Civic Centre
West Paddock
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Response from Governance Committee Chair

Fraud risk assessment

Issues	How the Governance Committee demonstrates that it secures the relevant assurances
<p>How does the Governance Committee oversee management's processes in relation to:</p> <ul style="list-style-type: none"> • Carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error • Identifying and responding to the risk of breaches of internal control • identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist) • Communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)? • How will the Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements? 	<p>Receipt of Internal Audit's Annual Report including audit opinion from the Head of Shared Assurance</p> <p>Receipt of assurance from Internal Audit following the review of key financial systems on an annual basis</p> <p>Receipt of Annual Governance Statement</p> <p>Promotion of core values</p> <p>Publicity of Codes of Conduct</p> <p>Approval of the Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response and Anti-Money Laundering policies.</p> <p>Has oversight of the Financial Regulations and Contract Procedure Rules within the Constitution</p>
<p>Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details</p>	<p>No - receipt of quarterly Internal Audit reports. NFI results.</p>
<p>How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with by the Council?</p>	<p>The Monitoring Officer has attended Governance Committee on a regular basis. Further the Monitoring Officer comments on all reports before the Governance Committee. Any issues would be brought to the attention of Committee.</p>
<p>Are you aware of any actual or potential litigation or claims that would affect the financial statements</p>	<p>No</p>

Auditor Question	Response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	Fraud risks are considered as part of the Council's risk management arrangements and high risk areas are considered in the Internal Audit risk assessment and Internal Audit plan.
What are the results of this process?	<p>No significant weaknesses identified.</p> <p>The Council also undertook a self-assessment against Fighting Fraud and Corruption Locally – The Local Government Counter Fraud & Corruption Strategy 2016-2019 with the outcome reported to Governance Committee.</p>
What processes does the Authority have in place to identify and respond to risks of fraud?	<p>Internal Audit risk assessment annually updated. Internal Audit Annual Plan approved by Governance Committee.</p> <p>Promotion of core values</p> <p>Publicity of Codes of Conduct</p> <p>Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response, Anti-Money Laundering and Anti Bribery Policies.</p> <p>Financial Regulations and Contract Procedure Rules within the Constitution</p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No - we do not currently have any concerns and / or suspected fraud. Fraud risks are considered as part of the Council's risk management arrangements and high risk areas are considered in the Internal Audit risk assessment and Internal Audit plan.
Are internal controls, including segregation of duties, in place and operating effectively?	The opinion of the Head of Shared Assurance in the 2016/2017 Internal Audit Annual Report is that the Council continues to operate within a strong internal control environment
If not, where are the risk areas and what mitigating actions have been taken?	All areas considered within the Internal Audit Risk Assessment
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No – All finance department services and records are available for audit inspection.

Are there any areas where there is a potential for misreporting?	No – Financial reporting is balanced back to the general ledger.
How does the Authority exercise oversight over management's processes for identifying and responding to risks of fraud?	Internal Audit risk assessment. Internal Audit annual plan agreed by Senior Management Team and Governance Committee. Monitoring of management actions by Internal Audit and reporting to Governance Committee.
What arrangements are in place to report fraud issues and risks to the Authority?	Annual and interim reports Internal Audit reports to Governance Committee. External Audit assurance On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	Internal Audit has time dedicated to fraud awareness / anti-fraud and corruption in the annual plan. Local Code of Corporate Governance On-going promotion of core values Register of interests / gifts and hospitality Adherence to Codes of Conduct Ethical guidance / policies on the intranet Zero tolerance of fraud Compliance with corporate policies relating to Whistle Blowing, Anti-Fraud and Corruption and Anti money laundering.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Governance documents including the Whistleblowing Policy, Anti-Fraud and Corruption Strategy and Fraud Response Plan are all available on the intranet.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	We do checks every year as part of closure of accounts process and run extracts from the financial system's creditors module to test
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Trust as a whole or within specific departments since 1 April 2016?	None for 2016-17

Law and regulation

Auditor Question	Response
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	<p>Role of Monitoring Officer and team of qualified lawyers to advise officers.</p> <p>System of internal audit, Governance Group, Governance Committee, Standing Orders, Financial Regulations and Contract Procedure Rules within the Constitution</p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>Annual and interim reports Internal Audit reports to Governance Committee.</p> <p>External Audit assurance</p> <p>On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.</p>
How is the Authority provided with assurance that all relevant laws and regulations have been complied with?	System of internal audit, Governance Group, Governance Committee, Standing Orders and Financial Rules
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015?	None for 2016-17
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	<p>Very little litigation against this Council for uninsured risks.</p> <p>The process for closing down the year end accounts includes requesting an update on the latest position by the finance department.</p> <p>Any major issues would be reported to CEO and the Section 151 Officer</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None for 2016-17