

GOVERNANCE COMMITTEE

THURSDAY, 20TH SEPTEMBER, 2018, 6.00 PM

WHEEL ROOM, CIVIC CENTRE, WEST PADDOCK, LEYLAND PR25
1DH

AGENDA

- | | |
|--|-----------------|
| 1 Apologies for absence | |
| 2 Minutes of the Last Meeting | (Pages 3 - 8) |
| Held on Thursday, 26 July 2018, to be signed as a correct record. | |
| 3 Declarations of Interest | |
| Members are requested to indicate at this stage in the proceedings any items on the agenda in which they intend to declare an interest. Members are reminded that if the interest is a Disclosable Pecuniary Interest (as defined in the Members' Code of Conduct) they must leave the room for the whole of that item. If the interest is not a Disclosable Pecuniary Interest, but is such that a member of the public could reasonably regard it as being so significant that it is likely that it would prejudice their judgment of the public interest (as explained in the Code of Conduct) then they may make representations, but then must leave the meeting for the remainder of the item. | |
| 4 Amended Investment Strategy Options 2018-19 | (Pages 9 - 20) |
| Report of the Interim Deputy Chief Executive (Resources and Transformation) attached. | |
| 5 External Annual Audit Letter | (Pages 21 - 38) |
| Report of the Interim Deputy Chief Executive (Resources and Transformation) attached. | |
| 6 Audit Progress and Sector Update Report | (Pages 39 - 52) |
| Report of the Deputy Chief Executive (Resources and Transformation) attached. | |
| 7 Combined Governance Committee Report on Terms of Reference and Development Plan | (Pages 53 - 64) |

Report of the Assistant Director of Scrutiny & Democratic
Services attached.

Heather McManus
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillors
Alan Ogilvie (Chair), James Patten (Vice-Chair), Carol Chisholm, Paul Foster,
Mike Nathan, Ian Watkinson and David Suthers

The minutes of this meeting will be available on the internet at
www.southribble.gov.uk

Forthcoming Meetings

6.00 pm Thursday, 22 November 2018 - Wheel Room, Civic Centre, West Paddock,
Leyland PR25 1DH

MINUTES OF GOVERNANCE COMMITTEE

MEETING DATE Thursday, 26 July 2018

MEMBERS PRESENT: Councillors Alan Ogilvie (Chair), James Patten (Vice-Chair), Carol Chisholm and David Suthers

OFFICERS: Helen Seechurn (Interim Deputy Chief Executive (Resources and Transformation)/Section 151 Officer), Dave Whelan (Legal Services Manager/Interim Monitoring Officer), Jane Blundell (Deputy Section 151 Officer), Michael Jackson (Principal Management Accountant), Simon Hardman (Grant Thornton PLC) and Dianne Scambler (Governance and Member Services Team Leader)

OTHER MEMBERS AND OFFICERS: James McNulty (Senior Management Accountant), Louise Hawkins (PA to the CEO), Councillor Caroline Moon (Deputy Leader and Cabinet Member (Environment and Community Safety) Deputy Leader of the Conservative Group), Councillor Warren Bennett (Cabinet Member (Assets and Transformation)) and Councillor Phil Smith

PUBLIC: 1

15 Apologies for absence

Apologies were received from Councillors Paul Foster, Michael Nathan and Ian Watkinson.

An apology was also received on behalf of Mark Heap (Grant Thornton PLC) and Councillor Susan Snape, Cabinet Member (Finance). The Committee were informed that Councillor Warren Bennett, Cabinet Member (Assets and Transformation) was attending the meeting in her place.

16 Declarations of Interest

Helen Seechurn, Interim Deputy Chief Executive (Resources and Transformation) declared, that as she worked part-time for the Local Government Association she would not take part in any of the discussions relating to Item 4: Audit Findings Report, at the meeting.

17 Minutes of the Last Meeting

RESOLVED: (Unanimously)

That the minutes of the Governance Committee meeting held on 29 May 2018 be confirmed as a correct record for signing by the Chair.

18 Matters Arising from those Minutes

Minute 9 – Unaudited Statement of Accounts for Year Ending 31 March 2018

At the last meeting Members had requested further detail on the financial reconciliation for the relocation of DWP into the Civic Centre. This had yet to be circulated.

19 Treasury Management Annual Report 2017/18

The Committee received a report of the Interim Deputy Chief Executive (Resources and Transformation) that presented the outturn Treasury management activity monitoring information for the quarter to June 2018, together with a commentary on issues relating to the economy and updated interest rate forecasts.

All investment activity during 2017/18 complied with the strategy approved by Council. An average return of 0.49% had been achieved which had exceeded the target rate of 0.24% (being the seven day LBID plus 15%). Investments had peaked at £45.1m and at year end, the total, excluding accrued interest was £31.6m.

The average rate earned in the first quarter of 2018/19 had increased to 0.63%, though the average sum invested per day is currently lower than average for 2017/18. Officers would aim to identify additional counterparties, in particular money market funds and UK banks, as permitted by the approved investment strategy for 2018/19.

The Committee were informed that the revised Operational Boundary of £0.749 for 2017/18 had been exceeded by £0.151m. This is the limit beyond which external debt is not normally expected to exceed. On reflection it was considered that this revision had been set too low and would be reviewed accordingly. However, Members did note that the authorised limit for external debt, approved by Council had not been exceeded.

The Chair commented that this was a positive report that was going in the right direction. Table eight of the report summarised the term deposits at year end by investment counterparty and compared the value to the approved maximum. The Committee asked if there was any opportunity to revisit the counterparty listings and asked if this could be undertaken as an interim review. Councillor Warren Bennett, Cabinet Member (Assets and Transformation) shared the view that an expansion of our counterparties would be prudent at this stage and asked how the Council benchmarks against other authorities.

RESOLVED: (Unanimously)

1. That the report be noted.
2. That a review of the Council's Investment Strategy to include a use of its counterparties be undertaken and brought back to Committee for further consideration.

20 Audit Findings Report

The External Auditor apologised for the lateness of their report but reported that they were still confident that they would be in a position to sign off the accounts by 31

July 2018. They also gave thanks to the work of the Finance Team with a special mention going to James McNulty for providing timely responses throughout the process.

The Committee received a report of the External Auditor on their audit findings for the authority for the year ending 31 March 2018 that highlighted key matters arising from the Council's financial statements.

Subject to outstanding queries being resolved, the Auditor intended to issue an unqualified opinion on the financial statements, these included:

- receipt of management representation letter
- completion of the cut-off testing
- review of financial instruments
- review of audit files by Engagement Lead and Manager, and
- review of the final set of financial statements

Upon completion of their risk based review of the Council's value for money arrangements the Auditor concluded that the authority did have proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the Peer Challenge team, finding that the pace of change remains slow, which progress hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk and as such intended to issue a qualified 'except for' Value for Money conclusion on 31 July 2018.

In addition to the above requirements the external Auditor has additional powers and duties under the Local Audit and Accountability Act 2014. The Auditor has concluded that it is appropriate to use these powers to make a recommendation under section 24 of The Act due to the slow progress made by the Council in respect of responding to the recommendations made by the Local Government Association (LGA) in their Corporate Peer Review 2017. This would require a response from the Council.

The statutory recommendation will mean that the Council needs to:

- make demonstrable progress in relation to the eight recommendations that were made in the letter dated 16 March 2018 to the Chief Executive from the Local Government Association (LGA) in relation to the LGA Corporate Peer Challenge follow up visit to South Ribble Borough Council
- in particular, the two recommendations in relation to the management structure to be implemented as a matter of urgency, which are to place particular focus in the short term upon:
 - implementing the new senior management restructure
 - developing the leadership potential of the new senior team to take forward the place, strategic finance and transformation agendas.

The Chair on behalf of the Committee expressed his upmost disappointment to the Auditor, for the issuing of the statutory recommendation under Section 24 of The Act, feeling very strongly that this action was too extreme, given the vast improvements that had been made by the Council over the past 12 months. Councillors Caroline Moon, Deputy Leader and Warren Bennett, Cabinet Member (Assets and Transformation) also expressed their frustration with the Auditor's view, stating that all the recommendations made by the Peer Review had either been completed or were in hand, evidenced by meetings with LGA Peer Members through the Improvement Reference Group. A full management response including Action Plan

had been completed which had met with their approval and was being reported to Cabinet in September.

RESOLVED: (Unanimously)

That the report be noted.

21 Audited Statement of Accounts 17/18 and Letter of Representation

The Interim Deputy Chief Executive (Resources and Transformation)/Section 151 Officer submitted a report for Committee approval of the audited Statement of Accounts (SOA) for its publication by 31 July 2018 under requirements of the Accounts and Audit (England) Regulations 2015. Once approved, the signed statement would be published on the Council's website alongside the Annual Governance Statement.

Members were informed that material changes to the SOA from the draft version presented on 29 May 2018 related to an amendment on the Cash Flow Statement where two figures were misstated, but they were compensating errors and therefore had no impact on the accounts.

It was understood that the Appointed Auditor intended to issue an unqualified opinion of the SOA.

The Committee were advised that at the time of preparing the report and current version of the SOA, the auditors were still undertaking a limited amount of checks. Due to the audit not having been finalised, it was possible that further changes to the SOA could be required. As a consequence, it was recommended that the Interim Deputy Chief Executive (Resources and Transformation)/Section 151, in consultation with the Chair of Governance Committee should approve and non-material amendments before recertifying the SOA. In the event that the Interim Deputy Chief Executive (Resources and Transformation)/Section 151, was of the opinion that the amendments were considered material, the Governance Committee would be reconvened to approve the new SOA.

The Local Audit and Accountability Act 2014 provides a framework for local public audit. Under this Act, Public Sector Appointments Ltd (PSAA) has the power to make auditor appointments for local authority audits. Their responsibilities also include setting fees and monitoring the quality of auditors' work. From 2018/19, the PSAA, no longer has the power to make appointments for grant work, including Housing Benefit certification. The external audit certification of the Housing Benefit subsidy claim for 2017/18 will be undertaken by Grant Thornton for a fee of £7k. It is proposed to extend this arrangement, (subject to final agreement of the fee level) for a further year for the continuity and stability of the service during major changes in relation to the roll out of Universal Credit. Members were informed that the cost would be met from existing budgets.

RESOLVED: (Unanimously)

1. Approval of the Statement of Accounts (SOA) for 2017/18
2. Approval granted for the Interim Deputy Chief Executive (Resources and Transformation)/Section 151 Officer to sign off the Letter of Representation.

3. To note the appointment of the Grant Thornton PLC for the certification of grants for a further year in 2018/19

22 Annual Governance Statement

The Interim Monitoring Officer presented the Annual Governance Statement (AGS) for 2018 that provided assurance on the standards of corporate governance spanning all the Council's priorities and covering all activity.

The Council is required under the Accounts and Audit Regulations 2015, to conduct an annual review of the effectiveness of its system of corporate governance and to publish a statement on the adequacy of the system with its annual accounts.

The report followed on from that which had been presented to the Committee on 29 May 2018, when the Committee had considered the draft AGS and agreed its content, subject to some relatively minor amendments which had now been completed and the revised AGS was appended to the report.

Following receipt of the Audit Findings Report issued by External Audit the GAS had also been amended to include assurance by the Council to ensure that it fully complies with its duties under Section 24 of the Act.

RESOLVED: (Unanimously)

Approval of the Annual Governance Statement for signing by the Leader of the Council and the Chief Executive, for publishing with the Statement of Accounts for 2017/18

Chair

Date

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REPORT TO	ON
Governance Committee	20 September 2018



TITLE	REPORT OF
Amended Investment Strategy Options 2018/19	Deputy Chief Executive (Resources & Transformation)

Is this report confidential?	No
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1. PURPOSE OF THE REPORT

To compare the performance of this council's treasury investments with the performance of other councils.

To propose an amendment to the Investment Strategy for 2018/19, which requires the approval of Full Council.

2. RECOMMENDATIONS

Members are asked to recommend to Council that the amended limits per Investment Counterparty presented in Appendix C should be approved.

3. EXECUTIVE SUMMARY

The average rate achieved on treasury investments in the first quarter of 2018/19 is in line with performance by other councils. Treasury investment activity by this council is similar to that of other Lancashire district and unitary councils.

All UK-incorporated banks and building societies with a Link Asset Services suggested investment duration of at least three months should be considered for use as investment counterparties. Banks and building societies without suggested investment durations should not be used.

The limit per UK bank, building society, or local authority should be increased from £5m to £6m. This may give access to banks which require higher minimum investments, and larger sums can be invested as term deposits at higher rates of interest.

4. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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5. BACKGROUND TO THE REPORT

The Annual Investment Strategy for 2018/19 was included in the Treasury Strategy 2018/19 to 2022/23, which was approved by Council on 28 February 2018. The report emphasised that the Council's investment priorities will be **Security** first, portfolio **Liquidity** second, and only then return (**Yield**).

The Treasury Management Annual Report 2017/18 was presented to Governance Committee on 26 July 2018. The report indicated that an average return on investments of 0.49% had been achieved, which exceeded the target rate of 0.24%, being seven day LIBID plus 15%. In the first quarter of 2018/19, the average return had increased to 0.63%.

A review of investment counterparties was requested, and information about how this council's treasury investment performance compares to that of other authorities. This report provides benchmarking information and proposes changes to investment counterparties and limits.

6. TREASURY INVESTMENT PERFORMANCE COMPARED TO OTHER AUTHORITIES

At present, the rate of return on treasury investments achieved by local authorities is lower than the rate of inflation, whether measured by CPI or RPI. Inflation is at a higher rate than the return on investments, so the downside of holding cash to invest is that it loses its value. Local authorities aim to minimise this loss in value by achieving as high a rate of return as can be earned from highly secure and liquid treasury investments. As an alternative, local authorities may use their cash to invest in council-owned income generating assets. However, purchase or construction of such assets is beyond the scope of this report, being capital expenditure rather than treasury investment.

Link Asset Services, the council's treasury advisors, have compared investment activity performance for the first quarter of 2018/19 with the performance achieved by their other local authority clients. Performance is summarised in the following table.

	South Ribble Borough Council	Non-Met Districts (91)	Other Councils (224)
WARoR	0.62%	0.69%	0.66%
WAM	89	98	92
WATT	142	192	178
WA Credit Risk	3.38	3.36	3.19

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.

This council's investment performance is similar to that of other local authorities, though a little lower. Though credit risk is a little higher than that of other councils, the scale is from 1 to 7 so this council's score is in the lower half of the range. Risk could be reduced by investing regularly in the Debt Management Office's Debt Management Account Deposit Facility (DMADF), but the effect would be to reduce rate of return on investments.

The comparison of performance against other local authorities and the Link Model is presented as Appendix A. Though some councils are achieving a higher rate of return, in line with their risk appetites, this council's performance is in line with expectations.

Appendix B, which is derived from local authorities' quarterly borrowing and investment returns, compares this council's investments as at 31 March 2018 and 30 June 2018 with those of English local authorities as a whole, other Lancashire district councils, and the Lancashire unitary councils.

The tables show that the most popular treasury investment types for English councils are banks, local authorities, and money market funds (MMFs).

At both dates analysed in Appendix B, this council had placed more cash with banks than the national average and other Lancashire councils. At 31 March 2018, investments with other local authorities were higher than the national percentage, but slightly lower than for other Lancashire councils. By 30 June 2018 several local authority term deposits had matured and the cash was not reinvested with local authorities, so the percentage in this category was lower than for English authorities in general. The percentage placed with MMFs at 31 March 2018 was lower than for all English authorities and other Lancashire councils, but by 30 June was slightly higher than the percentage for English authorities, and similar to that for other Lancashire councils.

This council's treasury investment activity is typical of Lancashire councils in general. Few of the Lancashire councils use treasury investment options other than banks, local authorities, and MMFs.

In summary, the average rate achieved for treasury investments in the first quarter is broadly in line with expectations according to Link's benchmarking, and the type of treasury investment activity is typical of Lancashire councils in general.

7. OPTIONS FOR AMENDING THE 2018/19 INVESTMENT STRATEGY

The approved Investment Strategy for 2018/19 permits cash to be placed with UK-incorporated banks and building societies which have a Link Asset Services' maximum duration of three to twelve months.

There are a limited number of suitable UK-incorporated banks and building societies which can be used by the council, based on credit ratings from the three main agencies (Fitch, Moody's, and Standard & Poor's) and Link suggested investment durations. These are as follows:

- Barclays Bank
- Close Brothers
- Coventry Building Society
- Goldman Sachs International Bank
- HSBC group
- Leeds Building Society
- Lloyds group (Banks of Scotland and Lloyds Bank)
- Nationwide Building Society
- Royal Bank of Scotland group (RBS and NatWest Bank)
- Santander group (Abbey National Treasury Services and Santander)
- Skipton Building Society
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corporation Europe
- UBS Limited
- Yorkshire Building Society

Not all of these banks have been used by the council. It is recommended that the Investment Strategy should be interpreted to permit use of all of the UK-incorporated banks and building societies which have a Link suggested investment duration of at least three months.

Some large banks, which do have credit ratings, currently have no suggested investment duration recommended by Link. This is reviewed frequently by Link, and it is possible that ratings may improve so that other banks can be added to this list. In the meantime, such banks should not be used. This would exclude banks such as the Co-operative Bank and Clydesdale Bank from the list of counterparties for the time being.

There are a large number of UK-incorporated challenger, specialist and small banks which do not have credit ratings from the three main agencies, and therefore do not have Link suggested investment durations. All have been reviewed as potential investment counterparties, but there is no reason to depart from Link's advice that they should not be used for investment purposes by local authorities.

Use of additional non-UK counterparties or an increase in the limit per non-UK bank has not been considered. The only non-UK bank used at present is the large German bank Helaba. The use of non-UK banks was approved when investment counterparties were reviewed during 2015/16, and Helaba has been used as a counterparty since then. As the bank has a UK base and takes deposits in sterling, it is broadly equivalent to a UK bank. Risks arising from Brexit are not considered material, but will be monitored.

Until accounts are set up with additional banks, there is a possibility that the DMADF may have to be used from time to time for short-term investments. To reduce the likelihood of this, it is recommended that Council should approve an increase in the limit per UK institution or group and local authorities from £5 million to £6 million. The maximum duration of twelve

months should be retained. All term deposits are approved by the S151 Officer before they are placed, and credit ratings are checked before cash is transferred.

8. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

No consultation has been undertaken in preparing this report.

9. FINANCIAL IMPLICATIONS

Increasing the maximum invested per UK bank or building society may lead to some reduction in liquidity if more cash is invested as term deposits. Another consequence may be an increase in the average return. No reduction in security is anticipated.

10. LEGAL IMPLICATIONS

Please see the Monitoring Officer comments.

11. COMMENTS OF THE STATUTORY FINANCE OFFICER

The proposed changes have the potential for increasing the average return on treasury investments.

12. COMMENTS OF THE MONITORING OFFICER

The Monitoring Officer has no concerns or issues with what is proposed in this report.

13. OTHER IMPLICATIONS:

<ul style="list-style-type: none">▶ HR & Organisational Development▶ ICT / Technology▶ Property & Asset Management▶ Risk▶ Equality & Diversity	<p>The Investment Strategy sets limits on investments in order to manage risks.</p>
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14. BACKGROUND DOCUMENTS

Treasury Strategy 2018/19 to 2022/23

(Council 28/2/18)

15. APPENDICES

- Appendix A SRBC Investment Performance Quarter 1 2018/19
- Appendix B Comparison of Investments by Counterparty Category
- Appendix C Proposed Revisions to Investment Counterparties 2018/19

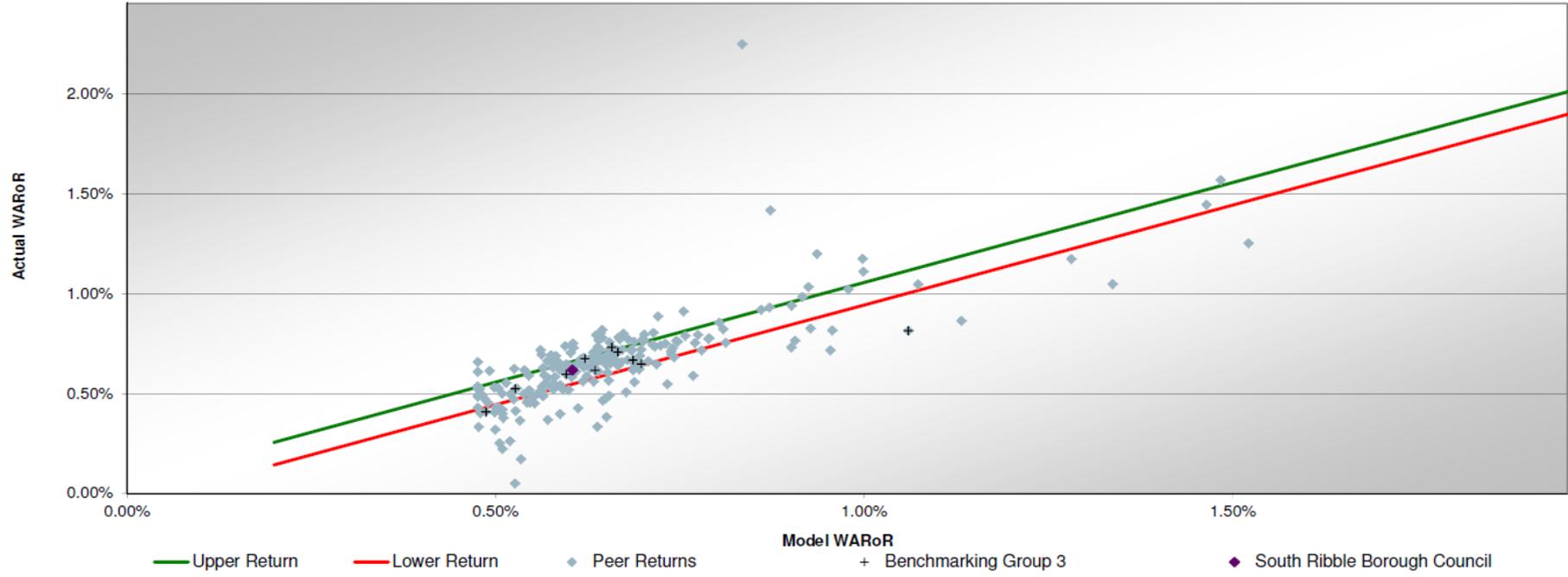
ELT Member's Name: Helen Seechurn

Job Title: Deputy Chief Executive (Resources & Transformation)

Report Author:	Telephone:	Date:
Michael Jackson Principal Financial Accountant	01257 515490	27/08/18

South Ribble Borough Council

Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
South Ribble Borough Council	0.62%	0.60%	0.01%	0.55%	0.66%	Inline

Definitions of terms used in performance graph and table in section 6 of the report**WARoR Weighted Average Rate of Return**

This is the average annualised rate of return weighted by the principal amount in each rate. It can be used to evaluate the performance of a portfolio. The WARoR is a measure of the compound rate of growth in a portfolio. It is to compare the returns of investment portfolio because it removes the distorting effects on growth rates shaped by inflows and outflows of money.

WAM Weighted Average Time to Maturity

This is the average time, in days, till the portfolio matures, weighted by principal amount. To calculate the WAM, first calculate each of the weightings by adding the value of the deposits together, and determining what percentage each deposit has to the total. Then multiply each weighting by their respective time to maturities and total these numbers.

WATT Weighted Average Total Time

This is the average time, in days, that deposits are lent out for, weighted by principal amount.

WA Risk Weighted Average Credit Risk Number

The WA Risk is the weighted average risk number, from 1-7, of all rated deposits in an investment portfolio. The measure gives clients an idea of a portfolio's credit quality as per Link's creditworthiness methodology and helps to identify how risky a portfolio is overall. The higher the weighted average credit rating, the riskier a portfolio

Model WARoR Model Weighted Average Rate of Return

This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.

Difference

This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR

<u>Investments - 31 March 2018</u>	English authorities		South Ribble BC		Other Lancashire Districts		Lancashire Unitaries	
	31/03/18	31/03/18	31/03/18	31/03/18	31/03/18	31/03/18	31/03/18	31/03/18
	£000	%	£000	%	£000	%	£000	%
Deposits: banks	9,282,378	27.4	16,336	51.6	55,617	29.6	7,225	18.4
Deposits: building societies	1,017,428	3.0			11,900	6.3	1,000	2.6
Treasury bills	529,917	1.6						
Certificates of deposit: banks	810,295	2.4						
Certificates of deposit: building societies	79,704	0.2						
British Government (Gilt-edge) securities	188,321	0.6			3,250	1.7		
Other financial intermediaries	50,707	0.1						
Public corporations	1,221,755	3.6						
Debt Management Account deposit facility	543,052	1.6						
Money market funds	6,694,845	19.7	2,300	7.3	36,960	19.7	12,945	33.0
Externally managed funds	2,450,735	7.2						
Other investments	2,755,297	8.1						
Local Government	8,314,080	24.5	13,000	41.1	80,000	42.7	18,000	46.0
Total investments	33,938,514	100.0	31,636	100.0	187,727	100.0	39,170	100.0

<u>Investments - 30 June 2018</u>	English authorities		South Ribble BC		Other Lancashire Districts		Lancashire Unitaries	
	30/06/18	30/06/18	30/06/18	30/06/18	30/06/18	30/06/18	30/06/18	30/06/18
	£000	%	£000	%	£000	%	£000	%
Deposits: banks	10,107,391	27.8	24,256	65.5	72,872	32.8	7,738	24.9
Deposits: building societies	1,333,556	3.6			16,400	7.4	1,000	3.2
Treasury bills	550,465	1.5						
Certificates of deposit: banks	1,172,872	3.2						
Certificates of deposit: building societies	42,936	0.1						
British Government (Gilt-edge) securities	187,485	0.5			3,250	1.5		
Other financial intermediaries	48,455	0.1						
Public corporations	1,292,274	3.5						
Debt Management Account deposit facility	540,941	1.5			3,950	1.8		
Money market funds	7,862,718	21.6	10,800	29.1	61,210	27.6	9,303	30.0
Externally managed funds	2,457,352	6.7						
Other investments	3,215,054	8.8						
Local Government	7,725,633	21.1	2,000	5.4	63,700	28.9	13,000	41.9
Total investments	36,537,132	100.0	37,056	100.0	221,382	100.0	31,041	100.0

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Investment Counterparties 2018/19

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
Money Market Funds				
Money Market Funds (CNAV) **	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Changes from the approved Investment Counterparties maximum periods and limits for 2018/19 are in **bold**.

** Funds used by the council in 2017/18 were BlackRock, Federated, and Standard Life.

Maximum durations suggested by Link Asset Services (LAS)

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

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REPORT TO	ON
Governance Committee	20 th September 2018

September 2017



TITLE	REPORT OF
External Audit Letter - update	Interim Deputy Chief Executive (Resources and Transformation)

Is this report confidential?	No
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1. PURPOSE OF THE REPORT

This report provides an update on the audit of the financial statements and the VfM conclusion for the financial year 2017/18, as set out in the attached Annual Audit Letter.

2. RECOMMENDATIONS

That the Governance Committee note, review and comment on the report.

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	√

4. BACKGROUND TO THE REPORT

In July, the Committee received a report of the External Auditor (Grant Thornton) on their audit findings for the authority for the year ending 31 March 2018.

Subsequently an unqualified opinion on the financial statements and the audit certificate were issued on 31 July 2018. On the same date Grant Thornton issued a qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Council's Statement of Accounts, Audit Findings report and Notice of Conclusion of the Audit were published on 31 July 2018 (the statutory deadline).

The Accounts and Audit Regulations 2015 require that, following receipt of the annual audit letter, a committee of the local authority meet to consider the audit letter as soon as reasonably practical. The attached Annual Audit Letter has been issued to the Council and is to be presented at this Governance Committee by the External Auditor. The regulations also require publication of the letter, following consideration by the Committee.

5. DETAILS

The annual report includes a written recommendation under Section 24 of the Local Audit and Accountability Act 2014, in relation to making demonstrable progress on the eight recommendations made in the letter dated 16 March 2018 to the Chief Executive from the Local Government Association (LGA), on 26 July 2018.

In response to this recommendation, on 26th September the full Council will consider a report ('Corporate Peer Challenge Action plan and response to Statutory Recommendation') which recommends that Council accept the recommendation made by the external auditor and provide a formal response in relation to the progress made.

6. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

6.1 Comments of the Statutory Finance Officer

The financial implications are contained within the report.

6.2 Comments of the Monitoring Officer

Clearly it is imperative that the council commits itself fully to ensuring that all identified actions are completed at the earliest opportunity.

As a consequence of the Section 24 recommendation referred to, a report on this matter will be considered at full Council on the 26th of September. It is important that all councillors commit themselves to this. Nevertheless it is also important that Governance committee (given its particular function and role) should also have the opportunity to discuss and explore the issues concerned.

Other implications:	
▶ Risk	Failure to comply with the External audit recommendations could lead to reputational damage as well as further action/recommendations from External audit.
▶ Equality & Diversity	There are no implications
▶ HR & Organisational Development	There are no implications
▶ Property & Asset Management	There are no implications
▶ ICT / Technology	There are no implications

7. BACKGROUND DOCUMENTS

Governance Committee July 2018 – Audit Findings Report

Jane Blundell
Principal Management Accountant/Deputy s151

Report Author:	Telephone:	Date:
Jane Blundell	01772 625245	5/09/18

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Annual Audit Letter

Year ending 31 March 2018

South Ribble Borough Council
4 August 2018
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Contents



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Section

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3. Value for Money conclusion

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- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Ribble Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

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Materiality	We determined materiality for the audit of the Council's financial statements to be £850,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	No work was required on the WGA return as the Council's financial outturn, assets and liabilities were below the threshold.
Use of statutory powers	<p>As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.</p> <p>We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of The Act due to the slow progress made by the Council in respect of responding to the recommendations made by the Local Government Association (LGA) in their Corporate Peer Review in 2017.</p>

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matter we identified in respect of the LGA Peer Challenge team finding that the pace of change remains too slow, with progress being hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- We delivered an efficient audit with you in July, by the deadline and two months earlier than in previous years
- We held regular meetings with the Finance Team to ensure that the audit was delivered as efficiently as possible and that, where possible, issues were addressed prior to our year-end audit

- During the year we met several times with the Council's senior managers to gain an understanding of the challenges facing South Ribble and to share our varied publications and thought leadership reports
- We provided regular updates for the Governance Committee covering best practice, latest sector reports and our own thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff and also the shared financial services team.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £850,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for the Senior Officer remuneration note and related parties.

We set a lower threshold of £43,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, including the narrative report and annual governance statement (AGS) to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including South Ribble Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for South Ribble Borough Council.</p>	<p>Our audit work did not identify any reason to change our rebuttal of the risk and no issues were identified.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>No issues were identified and there was no evidence of management overriding controls</p>

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • gave consideration to the competence, expertise and objectivity of any management experts used • discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>No issues were identified and the financial statements presented for audit were materially correct.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • checked the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report from your actuary 	<p>No issues were identified and the financial statements presented for audit were materially correct.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, meeting the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a detailed set of working papers to support them. Both the Council's own officers and the members of the shared financial services team responded appropriately to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Governance Committee on 26 July 2018.

Page 32 We did identify a small number of issues that resulted in the statement of accounts being amended, but none of these impacted on the financial position of the Council.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. Whilst a few relatively minor amendments were made following our audit we found that both documents are consistent with the financial statements prepared by the Council and also with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Code of Audit Practice.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Following a corporate governance failure, reported by the Council's Scrutiny Committee in September 2016, the Council invited the Local Government Association (LGA) to complete a Corporate Peer Challenge. The results of this challenge were reported to the Council in April 2017 and it recognised that the Council was very much on the early stages of the improvement journey.

As part of the original LGA Challenge, the Council asked the peer team to make a follow up visit approximately 12 months later to help review and assess progress in response to the peer challenge feedback and recommendations.

At its follow-up visit, the LGA highlighted that the Council has made some progress in taking forward the recommendations of the original peer review team. The establishment of an Improvement Reference Group and a new organisational structure were two of the positives highlighted by the LGA.

However, there were still a number of areas that required attention. Specifically the LGA highlighted that:

- the pace of change remains too slow
- the lack of permanent senior capacity is hampering the ability to deliver members' vision for the Borough
- ongoing political issues were causing distraction and delaying the improvement journey
- the Medium Term Financial Strategy (MTFS) required further development to take account of key strategic risks

The above resulted in our VfM Conclusion being qualified for the third year in succession. Given these circumstances, we have also made a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014, which is set out on the following page.

Statutory Recommendation

Recommendation made under section 24 of the Local Audit and Accountability Act 2014 ('the Act')

The Council needs to:

- Make demonstrable progress in relation to the eight recommendations that are made in the letter dated 16 March 2018 to the Chief Executive from the Local Government Association (LGA) in relation to the LGA Corporate Peer Challenge follow up visit to South Ribble Borough Council
- In particular, the two recommendations in relation to the management structure should be implemented as a matter of urgency which are to place particular focus in the short term upon:
 - Implementing the new senior management structure
 - Developing the leadership potential of the new senior team to take forward the place, strategic finance and transformation agendas

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Given the link between the statutory recommendation set out on the previous page and the findings from our VfM Conclusion review, we did not make any further recommendations within our Audit Findings Report presented to the Governance Committee on 26 July 2018.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified in respect of the LGA Peer Challenge team finding that the pace of change remains too slow, with progress being hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

We note that progress is being made in several areas, including corporate planning and capacity issues. However, it is the overall pace of change that is the key issue. The Council needs to ensure that there is a permanent management team in place with sufficient capacity to allow continued development of its approach to planning and delivery.

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Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Governance challenges</p> <p>For the year ended 31 March 2017 we qualified our VFM Conclusion due to the failings in the Council's procedures, including a major corporate governance failure, which resulted in significant damage to the Council's reputation.</p> <p>We will review the progress made by the Council in responding to the governance challenge by consideration of further external reviews; review of the Improvement Reference Group and discussions with key officers.</p>	<p>As part of our work we reviewed the progress made by the Council in responding to the governance challenge by:</p> <ul style="list-style-type: none"> • consideration of further external review • review of the Improvement Reference Group outcomes; and • discussions with key officers. 	<p>In 2015/16, we qualified the Council's VfM Conclusion due to matters identified in respect of the Scrutiny Committee Task Force review. The task force highlighted a number of issues including relating to a number of corporate governance failings.</p> <p>In our 2016/17 review we commented that some improvements had taken place with the introduction of the Improvement Reference Group, improvement action plans and bringing in a LGA Peer Review team. However, insufficient progress had been made to enable us to remove or 'except for' conclusion.</p> <p>In 2017/18 there remained a very mixed picture. Some positives were evident and included :</p> <ul style="list-style-type: none"> • the improvement reference group met throughout the year • a new corporate plan was prepared and issued • the Member / Officer Protocol has been approved • satisfaction with the Council remains high • financially the Council are in a relatively healthy position <p>However, as highlighted during the LGA revisit, reported to the Council in March 2018, a number of areas still require attention and the overall pace of change remains slow. The new management structure took some time to approve and posts remain unfilled, resulting in a lack of senior capacity. A review of the senior officer remuneration note in the Council's 2017/18 accounts highlights a management team in some flux with a number of interim appointments. The management structure changes resulted in two permanent Directors leaving the Council at the end of 2017.</p> <p>The organisational uncertainty has not been helped by:</p> <ul style="list-style-type: none"> • Some uncertainty over the development of further shared services • Changes in the personnel fulfilling the role of the s151 officer, which the Council has attributed to the shared service issue <p>The LGA Peer Review referred to "ongoing political issues" which were still causing some distraction and delaying the improvement journey. It was an issue that was raised several times in the report.</p> <p>The LGA also raised issues in relation to the Governance Committee's role being unclear and the need to improve internal communication, whilst it also concluded that there is insufficient assurance about the implementation of the MTFS. It noted that: "there is a need to develop a coherent approach to corporate, financial planning and strategic risk"</p> <p>We therefore concluded that, in all significant respects, except for the matter we identified in respect of the LGA Peer Challenge team finding that the pace of change remains too slow, with progress being hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.</p>

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Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Planning and Management</p> <p>There remain financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.</p>	<p>We reviewed the arrangements the Council has in place to manage and plan its finances over the short and medium term. We did this by considering the Council's arrangements in place to develop financial plans and how it reports its financial position. We also considered the role of the s151 Officer at the Council by comparing the role to CIPFA guidance on the role of the Chief Finance Officer</p>	<p>Overall we concluded that the arrangements were adequate, though this is partially due to the relatively strong financial position in which the Council finds itself. Furthermore there was a LGA review in 2017 that considered the financial planning assumptions and the budget setting process, Whilst some recommendations were made to improve the financial planning process we did note the final conclusion that generally the Council's MTFS and budget are based on reasonable though slightly cautious financial planning assumptions.</p> <p>We did find a number of issues for the Council to address including:</p> <ul style="list-style-type: none"> • The position of the s151 officer is a key statutory role. During the past nine months there has been some uncertainty in relation to the role, which has resulted in there being four officers either in the role, or fulfilling the role. We considered briefly the role of the s151 officer against CIPFA guidelines for the role. Whilst we accepted that the role was sufficiently maintained and discharged, it is difficult to see how a fully strategic approach could be taken when there has been so much change • In many Councils, the finance report is considered by the Cabinet / Executive and a Scrutiny Committee. In many cases the performance reports are also considered by the same Member Committees. Such practice allows service and financial performance to be considered together to allow appropriate overview. The Council's finance report however, is presented to the Governance Committee., Our review of the Constitution lacks clarity in relation to where the finance report should be considered • The finance report shows variances by type of spend, rather than by service provision, making it more difficult to analyse overspend by service <p>We concluded overall that, in relation to this specific risk covering financial planning and management, the Council has appropriate arrangements to deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Month issued
Audit Plan	April 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Audit related services	0
- None	
Non-Audit related services	0
- None	

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Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	43,923	43,923	43,923
Housing Benefit Grant Certification	7,128	TBC*	6,968
Total fees	51,051	TBC*	50,891

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

* The fee for housing benefit grant certification will not be finalised until we have completed our work in November 2018.

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.



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Audit Progress Report and Sector Update

South Ribble Borough Council

11 September 2018



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Introduction

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This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 11 September 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- A qualified (except for) value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year, or early in 2019, and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our Employment Tax and HR Forums that are taking place in our Manchester and Liverpool offices during October 2018.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	February 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Governance Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

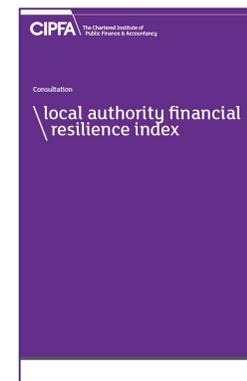
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Do you know what the Council's response is to the Financial Resilience Index consultation?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

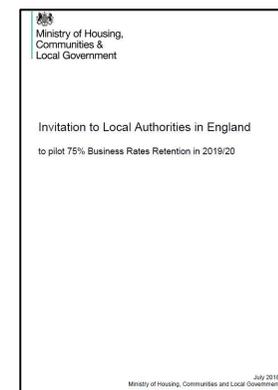
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

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REPORT TO	ON
Governance Committee	20 September 2018



TITLE	REPORT OF
Review of the Committee Terms of Reference and Governance Committee Development Plan	Assistant Director of Scrutiny & Democratic Services

Is this report confidential?	No
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1. PURPOSE OF THE REPORT

The purpose of this report is to review the terms of reference for the Governance Committee and agree a development plan to ensure the Governance Committee continues to fulfil its role in the most effective way possible and demonstrates best practice. The Governance Committee Task Group met on Thursday, 6 September 2018 to consider these issues.

2. RECOMMENDATIONS

- 2.1 That the Governance Committee consider and approve the draft Part 2D – Governance Committee terms of reference at Appendix B prior to submission to Full Council for their final approval.
- 2.2 That the Governance Committee approves the development action plan for implementation.

3. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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4. BACKGROUND TO THE REPORT

4.1 At its meeting on 1 February 2017, the Governance Committee agreed to review the Council's constitution. This process has been continuing. The latest task is to review the terms of reference for the Government Committee. The Local Government Association (LGA) Peer Review in March 2017 made some helpful suggestions of issues to consider as part of this review.

4.2 This report reviews the existing terms of reference and recommends changes to be forwarded for Full Council to agree. The report also includes a brief development plan of activities that the Governance Committee will undertake to ensure it continues to fulfil its important role in the most effective way possible and demonstrates best practice.

5. PROPOSALS

5.1 Members agreed to adopt the following “House Style” to ensure the Constitution was an easily accessible document:

- ▶ Use of plain English
- ▶ Clarity of expression
- ▶ Consistency of terminology
- ▶ Streamlining and simplification of sections
- ▶ Improvement of interactive links to allow ease of access within the document itself.

5.2 The existing terms of reference for the Governance Committee – Part 2D are set out in Appendix A.

5.3 The terms of reference have been reviewed and a number of issues were discussed around budget monitoring information being presented to the Cabinet and Scrutiny Committee in future rather than the Governance Committee. The Committee’s role in taking an overview of the constitution has been added and formalised. The opportunity was also taken to clarify some of the wording within the terms of reference.

5.4 The amended proposed terms of reference for the Governance Committee – Part 2D are set out in Appendix B.

5.5 The Governance Committee strives to continually improve and fulfil its important responsibilities as effectively as possible. As part of this continuous improvement and ensure it demonstrates best practice, the Committee has developed the following action plan for the remainder of this municipal year, to be reviewed in future years:

Action	Timescale
1. An induction programme be developed for when new Members first join the Committee	5 December 2018
2. A whole committee training session be arranged with CIPFA	31 December 2018
3. Governance Committee Members undertake the audit committee knowledge and skills framework	31 October 2018
4. A feedback system for those who work with and attend the Governance Committee be put in place	5 December 2018
5. An annual good practice self-assessment be carried out on an annual basis	August 2019

6. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

6.1 Governance Committee Members were engaged and consulted in the review of the terms of reference and action plan at the Governance Committee Task Group on Thursday, 6 September 2018.

7. FINANCIAL IMPLICATIONS

7.1 The training costs will be met from existing member development training budgets.

8. LEGAL IMPLICATIONS

8.1 Please see Monitoring Officer comments

9. COMMENTS OF THE STATUTORY FINANCE OFFICER

9.1 As set out in the financial implications, these proposals have no impact on the Council's budgets.

10. COMMENTS OF THE MONITORING OFFICER

10.1 The council's Governance committee has worked effectively for many years. However, we must always be looking at how we can improve further.

10.2 The existing terms of reference for Governance committee do not completely reflect its current practices. In particular there is no mention made of the committee's vital work in reviewing the Constitution. This has now included in the proposed new terms of reference.

11. OTHER IMPLICATIONS:

▶ HR & Organisational Development	There are no specific implications.
▶ ICT / Technology	There are no specific implications.
▶ Property & Asset Management	There are no specific implications.
▶ Risk	There are no specific implications.
▶ Equality & Diversity	There are no specific implications.

12. BACKGROUND DOCUMENTS

There are no background papers to this report.

13. APPENDICES

- ▶ Appendix A – Part 2D Governance Committee Terms of Reference
- ▶ Appendix B – Updated Part 2D Governance Committee terms of reference

Darren Cranshaw
Assistant Director of Scrutiny & Democratic Services

Report Author:	Telephone:	Date:
Darren Cranshaw	01772 625512	10 September 2018

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Appendix A

Existing Terms of Reference

Part 2D – Governance Committee

1. Governance Committee

Statement of Purpose

1. Governance Committee is a key component of South Ribble Borough Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of our Governance Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of South Ribble Borough Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

2. Membership

- (a) **Political Balance.** The Governance Committee is required to have proportional political balance in accordance with the provisions of the Local Government & Housing Act 1989.
- (b) **Membership.** 6 Members. No member of the Cabinet may sit on the Governance Committee
- (c) **Chairing the Governance Committee.** Chairman and Vice Chairman appointed by the Council at the first business meeting of the new municipal year. In the absence of the both the Chairman and Vice Chairman a Chairman for the meeting may be appointed by the Committee. Any permanent replacement of the Chairman or Vice Chairman requires full Council approval.
- (d) **Liaison with Scrutiny.** The Chairman of the Governance Committee will liaise with the Chairman of the Scrutiny Committee to ensure effective coordination of Scrutiny and Governance. An outline of how the joint areas of responsibilities between the Committees are to be met to avoid duplication and gaps is shown in Protocol 9 in Part 5C

3. Terms of Reference

Governance, Risk and Control

1. To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
2. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account

Appendix A

Existing Terms of Reference

internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

3. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
4. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
5. To monitor the effective development and operation of risk management in the council.
6. To monitor progress in addressing risk-related issues reported to the committee.
7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
8. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
9. To monitor the counter-fraud strategy, actions and resources.

Internal Audit

10. To approve the Internal Audit Charter.
11. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
12. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
13. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
14. To make appropriate enquiries of both management and the Head of Shared Assurance Services to determine if there are any inappropriate scope or resource limitations.
15. To consider reports from the Head of Shared Assurance Services on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note,

Appendix A

Existing Terms of Reference

considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

16. To consider the Head of Shared Assurance Annual report:

a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.

b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.

17. To consider summaries of specific internal audit reports as requested.

18. To receive reports outlining the action taken where the Head of Shared Assurance has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

19. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

20. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

21. To support the development of effective communication with the Head of Shared Assurance.

External Audit

22. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

23. To consider specific reports as agreed with the external auditor.

24. To comment on the scope and depth of external audit work and to ensure it gives value for money.

25. To commission work from internal and external audit.

26. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

Appendix A

Existing Terms of Reference

27. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

28. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability Arrangements

29. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.

Appendix B

Proposed Terms of Reference

Updates below in red text

Part 2D – Governance Committee

1. Governance Committee

Statement of Purpose

1. Governance Committee is a key component of South Ribble Borough Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of our Governance Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of South Ribble Borough Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
3. **To take an overview of the Council's constitution and assist the Monitoring Officer in reviewing the constitution to ensure it is current and meets the purpose set out in Article 1.**

2. Membership

- (a) **Political Balance.** The Governance Committee is required to have proportional political balance in accordance with the provisions of the Local Government & Housing Act 1989.
- (b) **Membership.** 7 Members. No member of the Cabinet may sit on the Governance Committee
- (c) **Chairing the Governance Committee.** Chairman and Vice Chairman appointed by the Council at the first business meeting of the new municipal year. In the absence of the both the Chairman and Vice Chairman a Chairman for the meeting may be appointed by the Committee. Any permanent replacement of the Chairman or Vice Chairman requires full Council approval.
- (d) **Liaison with Scrutiny.** The Chairman of the Governance Committee will liaise with the Chairman of the Scrutiny Committee to ensure effective co-ordination of Scrutiny and Governance. An outline of how the joint areas of responsibilities between the Committees are to be met to avoid duplication and gaps is shown in Protocol 9 in Part 5C

Appendix B

Proposed Terms of Reference

Updates below in red text

3. Terms of Reference

Governance, Risk and Control

1. To **periodically** review the council's corporate governance arrangements against the **CIPFA/SOLACE** good governance framework and consider annual governance reports and assurances.
2. To **approve** the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
3. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
4. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
5. To monitor the effective development and operation of risk management in the council.
6. To monitor progress in addressing risk-related issues reported to the committee.
7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
8. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
9. To monitor the counter-fraud strategy, actions and resources.

Internal Audit

10. To approve the Internal Audit Charter.
11. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
12. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
13. To approve significant interim changes to the risk-based internal audit plan and resource requirements.

Appendix B

Proposed Terms of Reference

Updates below in red text

14. To make appropriate enquiries of both management and the Head of Shared Assurance Services to determine if there are any inappropriate scope or resource limitations.

15. To consider reports from the Head of Shared Assurance Services on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

b) Regular reports on the results of the Quality Assurance and Improvement Programme.

c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

16. To consider the Head of Shared Assurance Annual report:

a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.

b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.

17. To consider summaries of specific internal audit reports as requested.

18. To receive reports outlining the action taken where the Head of Shared Assurance has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

19. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

20. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

21. To support the development of effective communication with the Head of Shared Assurance.

External Audit

Appendix B

Proposed Terms of Reference

Updates below in red text

22. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

23. To automatically refer any external auditor's report that has received a qualified opinion for consideration at the next available Full Council meeting.

24. To consider specific reports as agreed with the external auditor.

25. To comment on the scope and depth of external audit work and to ensure it gives value for money.

26. To commission work from internal and external audit.

27. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

28. To **approve** the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

29. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

30. To take an overview of the Council's Treasury Management Strategy.

Accountability Arrangements

31. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.

32. To take an overview of the Council's constitution and assist the Monitoring Officer in reviewing the constitution to ensure it is current and meets the purpose set out in Article 1.