

## **GOVERNANCE COMMITTEE**

WEDNESDAY, 23RD SEPTEMBER 2015, 2.30 PM  
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

### AGENDA

#### **APOLOGIES**

##### **1 DECLARATIONS OF ANY INTERESTS**

Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.

If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.

##### **2 MINUTES**

(Pages 3 - 10)

To confirm the minutes of the Governance Committee meeting held on 24 June 2015 (enclosed)

##### **3 EXTERNAL AUDIT FINDING REPORT 2014/15**

Report of the External Auditors (to follow)

##### **4 STATEMENT OF FINANCIAL ACCOUNTS 2014/15**

Report of Chief Finance Officer (to follow)

##### **5 INTERNAL AUDIT INTERIM REPORT AS AT 28 AUGUST 2015**

(Pages 11 - 18)

Report of the Head of Shared assurance Services (enclosed)

##### **6 TREASURY STRATEGY AND PRUDENTIAL INDICATORS 2015/16**

Report of Chief Finance Officer (to follow)

##### **7 CHANGE IN ACCOUNTING POLICY 2015/16**

(Pages 19 - 22)

Report of Chief Executive (enclosed)

8 **MEMBERS CODE OF CONDUCT: MEMBERS DISCHARGING THE ROLE OF A COUNCILLOR**

The Monitoring Officer will present a verbal report.

9 **RIPA APPLICATION UPDATE**

The Monitoring Officer will present a verbal report at the meeting.

10 **EXCLUSION OF THE PUBLIC AND PRESS**

To consider the exclusion of the press and public for the following items of business on the ground that it involves the likely disclosure of exempt information as defined in Paragraph \* of Part 1 of Schedule 12A to the Local Government Act 1972.

By Virtue of Paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Condition:

Information is not exempt if it is required to be registered under-  
The Companies Act 1985

The Friendly Societies Act 1974

The Friendly Societies Act 1992

The Industrial and Provident Societies Acts 1965 to 1978

The Building Societies Act 1986 (recorded in the public file of any building society, within the meaning of the Act)

The Charities Act 1993

Information is exempt to the extent that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Information is not exempt if it relates to proposed development for which the local planning authority may grant itself planning permission pursuant to Regulation 3 of the Town & Country Planning General Regulations 1992(a).

11 **REVIEW OF INVESTMENT COUNTERPARTIES 2015/16**

Report of Chief Finance Officer (to follow)

12 **ANY URGENT BUSINESS PREVIOUSLY AGREED WITH THE CHAIR**

GARY HALL  
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Alan Cullens, Gordon France, Margaret France, Margaret Lees, Matthew Lynch and Debra Platt.

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**MINUTES OF GOVERNANCE COMMITTEE**

**MEETING DATE** Wednesday, 24 June 2015

**MEMBERS PRESENT:** Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Alan Cullens, Gordon France, Margaret France, Margaret Lees, Matthew Lynch and Debra Platt

**OFFICERS:** Gary Hall (Chief Executive), Chris Moister (Head of Governance and Property Services), Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor), Dianne Scambler (Democratic and Member Services Officer) and Michael Jackson (Principal Financial Accountant)

**APOLOGIES:** None

**OTHER MEMBERS:** Councillor Peter Ripley (Independent Member)

**15.G.1 Declarations of Any Interests**

No declarations of any interests were received.

**15.G.2 Minutes**

**RESOLVED – That the minutes of the Governance Committee held 11 March 2015 be confirmed as a correct record for signing by the Chair.**

15.GS.57 – Members Code of Conduct: Members discharging the role of a Councillor

The Monitoring Officer had produced a short report that detailed the options available about the point at which Members are deemed to be discharging their role as a Councillor.

**RESOLVED - That members consult with their groups and bring a view back to the next meeting for decision.**

**15.G.3 Strategic Risk Register Update Report**

The Committee received a report of the Chief Executive that provided an update of the Strategic Risk Register which included 15 strategic risks to the Council, including

actions in progress and details of new actions planned to further mitigate identified risks.

The risk register is continually reviewed and currently, the majority of risk categories remain stable with five identified as high risk, seven medium risk and three low risk. One risk had been increased to the highest level to reflect the importance of partnership working in achieving public sector reform and maintaining local services in the light of budgetary cuts.

Members commented that the first five risks in the register were all integral to good partnership working relationships and sought assurances on what action the Council were actually taking to mitigate these risks. The Committee considered that further detail was required from the Executive Cabinet to evidence that robust procedures were in place and asked if this could be provided at a future meeting.

One risk had reduced following the successful work to embed actions around Welfare Reforms and engage with partners to minimise the impact of changes on residents. Members queried the low score for this in light of the major changes to the welfare system, it was explained that the infrastructure that the Council had put in place had been successful and were confident that it would meet future demands.

**RESOLVED:**

**That the report be noted.**

**That a letter be sent to Executive Cabinet requesting detailed information on what action the Council is taking to mitigate the risks associated with partnership working.**

**15.G.4 Treasury Management Annual Report 2014/15**

The Chief Finance Officer submitted the Treasury Management Annual Report that detailed the Council's performance and compliance with Prudential Indicators for the financial year ended 31 March 2015.

The report advised on compliance with Prudential and Treasury Indicators in 2014/15. The return on investments for the year was 0.59%, which although not high, had exceeded the benchmark of 0.35%. The report also detailed the Council's borrowing and investments as at 31 March 2015.

The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable this, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year, a mid-year review of that strategy, and an out-turn report.

Revised Prudential and Treasury Indicators for 2014/15 were included in the report "Treasury Strategies and Prudential Indicators 2015/16 to 2017/18", presented to Special Council of 3 March 2015. Where relevant, comparisons with 2014/15 indicators in this report were to those approved most recently.

In order to ensure that local authorities borrow only for capital purposes, the Prudential Code requires that borrowing net of investments should not exceed the Capital Finance Requirement for the preceding year plus any anticipated increase in the current and the next two years.

Total borrowing at 31 March 2015 was £19.042m (excluding accrued interest), all of which was from PWLB. Cash balances (net of bank overdraft) invested at year-end were £1.468m, which meant that borrowing net of investments was £17.574m. This was higher than the estimated net figure of £16.042m because surplus cash available for investment at year end was less than estimated.

It was explained to the Committee that it was more secure for the Council to have less cash in hand and that as time goes on, the Council will have to replace external borrowing with internal borrowing. The key is to borrow at the right time to reduce borrowing in the future. It had also been agreed at the request of this Committee that the calculations that would evidence how savings had been made by reducing external borrowing purchase the Market Walk shopping mall would be evidenced in future reports.

**RESOLVED – That the report be noted.**

#### **15.G.5 Draft Statement of Accounts 2014/15**

The Chief Finance Officer presented the draft Statement of Accounts (SOA) for 2014/15 before they are signed and authorised for issue by the end of June 2015. The report also advised about the process leading up to the formal submission of the SOA for approval by Members following the completion of the external audit and the new statutory requirements arising from the Accounts and Audit Regulations 2015.

The statement is currently an unsigned draft, which may be subject to change before being signed and made available to the External Auditor. The SOA could not be signed until Executive Cabinet approved transfers to reserves and financing of the capital programme at its next meeting.

The Accounts and Audit Regulations 2015 came into force on 1 April 2015. The main impact of the regulations is changes to the year-end closedown process and external audit arrangements will be required to enable the Council's audited accounts to be published two months earlier than they are currently. The deadline applies from 2017/18 onwards, with 2015/16 and 2016/17 being transition years.

Members of the Committee had received training prior to the meeting to help them to understand the role of Governance Committee and officers had delivered sessions on audit, financial accounting and standards. Members will continue to receive regular financial accounting training sessions to help promote debate at future meetings on the Statement of Accounts and Treasury Management reports.

**RESOLVED**

**That the report be noted.**

**That training sessions on financial accounting be delivered throughout the year before Governance Committee meetings take place.**

#### **15.G.6 Annual Governance Statement**

The Head of Governance and Property Services presented a report reminding the Committee of the regulatory framework requiring the Council to continuously review its system of governance and to formally publish an annual governance statement alongside its annual financial statements.

Members considered the draft annual government statement which had been produced in accordance with guidelines issued by the Chartered Institute of Public and Accountancy (CIPFA) and the Society of Local Authority Chief Executive (SOLACE).

Agreed improvements were detailed within the report that would build and strengthen the Council's corporate governance arrangements in relation to three themes, staff/member development, information management and equality and diversity.

It was also agreed that a change of wording was needed to better reflect the level of improvements needed, as none of the outstanding issues could be considered as significant.

An additional theme relating to the holding of information by third parties that had been identified through the recent cyber risk/vulnerability would be included in future Annual Government Statements.

**RESOLVED – That the Annual Governance Statement be formally signed off by the Leader, Chief Executive and Chair of Governance Committee before being submitted for external audit alongside the 2014/15 financial statements.**

#### **15.G.7 Internal Audit Annual Report 2014/15**

The Head of Shared Assurance Services submitted a report that summarised the work undertaken by the Internal Audit Service during the 2014/15 financial year. The report also gave an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control and gave an appraisal of the Internal Audit service performance.

An appendix to the report provided a detailed account of the individual audits undertaken and showed the approach that had been taken, the controls assurance rating that had been awarded and a summary of any actions that had been agreed with management to further improve controls within the areas audited.

The start of the Payroll Contract Review had been postponed and would now be undertaken as part of the 2015/16 Internal Audit Plan and the Planning Income audit had been replaced to reflect the teams on-going participation in the Single Front Office Project Team which did include an examination on the way in which Planning Income is collected.

There was some variation between the planned and actual time spent on contingency as the individual estimates proved to be excessive in practice, resulting in a net surplus of 23 days over the course of the year. The reviews of the key financial systems were largely completed on time and any remaining work finalised in quarter one of 2015/16.

Members were reminded that all individual audits are awarded separate controls assurance ratings of either minor, major or critical and are inherent to each system/area audited, reflecting the impact that they would have on the Council in financial or reputational terms if they were to fail.

During 2014/15 a total of 19 systems/areas were reviewed, 14 of which were critical and 5 were major systems. Members observed that the vast majority of areas

reviewed were awarded either an amber or green controls assurance rating. Therefore, concluding that the Council continues to operate within a strong control environment.

One area, Elections (Postal Voting and Proofing) had been rated as red. Although the review had identified that there were robust arrangements in place with regards to postal voting, it had been established that there had been non-compliance with the Contract Procedure Rules in relation to the procurement of documents. It was further explained by the Chief Executive that due to the specialised arrangements for election printing, a waiver had to be applied for and due to excessive work demands relating to the new arrangements for Individual Electoral Registration this had been missed.

**RESOLVED – That the report be noted.**

#### **15.G.8 Cyber Risk and Information Governance Review**

The Committee considered a report on a Cyber Risk and Information Governance Review that had been undertaken by Zurich Municipal Ltd. Cyber and information risk is an area of increasing concern for any organisation which uses IT systems and technology to handle personal, sensitive or confidential data and the Council's ability to secure its information, people and reputation is essential.

The Council had commissioned the company to conduct a cyber and information risk management exercise, to highlight any potential areas of vulnerability and assess the current risk exposure of the Council. The process involved a desktop review of existing documentation and processes, and interviewed senior managers and key people across the authority.

The report presented its overall findings and recommendations for manager's actions arising from Zurich Municipal's observations and views of participants with objective risk ratings allocated to each section. Only one section, Third Parties, had an amber rating and action had been taken to include this in the Annual Governance Statement and members were assured that all management actions would be monitored by Internal Audit over the coming months.

**RESOLVED – That the report be noted.**

#### **15.G.9 Compliance with International Auditing Standards**

The Head of Shared Assurance Services submitted a report to enable the Governance Committee, as those "charged with governance" and the Chief Executive on behalf of "management" to provide a range of assurances being sought by the external auditors, Grant Thornton as part of the Council's 2014/15 accounts. The specific assurances being sought by Grant Thornton were set out in two letters appended to the report.

Given that the assurances requested were similar to the evidence being collated by Internal Audit to support the Annual Governance Statement (AGS) and in the interests of transparency, it was agreed with Grant Thornton that responses to their letters would be provided following consideration at this meeting.

**RESOLVED – That the Chair of Governance Committee, Councillor Paul Leadbetter and the Chief Executive, Gary Hall signs the assurance letters requested by Grant Thornton.**

#### **15.G.10 Appointment of External Auditors**

The Committee received a report of the Head of Shared Assurance Services informing them of a recent Local Government Association (LGA) survey that sought the views of Council Chief Executives on the options for appointing auditors beyond 2017 when their current contracts cease.

The report provided the Committee with the options together with a view by the Local Government Association on the respective advantages and disadvantages. The results of the survey will influence the decision making by the Department for Communities and Local Government (DCLG) on an agreed way forward.

The current external audit contracts, led by the Audit Commission are due to end in March 2017 but can be extended for up to three years. All councils can procure their own external auditor or a sector-led body is created to procure external audit on behalf of councils, in the same way that the Audit Commission has done to date.

The Local Government Association view is that a contract extension would be in the best interests of councils in the immediate term and that there are many benefits to be derived from councils banding together to enter into collective procurement arrangements in the future. Our Chief Executive also has his own reservations about procuring our own auditor as the main reason for coming away from the Audit Commission in the first place was to drive down costs which have been achieved. There is also a lot of experience within our current provider, Grant Thornton which is invaluable in these austere times.

**RESOLVED – That the report be noted.**

#### **15.G.11 External auditors approach to the audit of financial systems**

The Council's External Auditors, Grant Thornton provided the Committee with a briefing note on their approach to the audit of the Council's key financial systems and how this linked to the work of Internal Audit. The Committee were assured that even though the audit fee has been halved they still continued to deliver the same standard of service.

It is important for members to understand the context of external and internal audit services. Most of the compliance audit work is carried out by Internal Audit with External Audit dealing with the core financial systems. Value for Money is an area where there has been a reduction in work although Grant Thornton continues to undertake research to establish best practice.

**RESOLVED – That the report be noted.**

#### **15.G.12 Governance Committee Update**

The External Auditors provided the Committee with a report on the progress made in delivering their responsibilities to the Council. It also included a summary of the



relevant emerging national issues and developments and included a number of challenge questions for Members to consider.

Works being undertaken on the audit of the 2014/15 final accounts and Value for Money (VfM) conclusion was on track to be reported to the Governance Committee in September. The report also contained the results of the fourth annual review of local government governance that focussed on three key areas:

- Governance of the organisation
- Governance in working with others
- Governance of stakeholder relations

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management and is a real challenge but they were confident that this would be achieved.

**RESOLVED – That the report be noted.**

#### **15.G.13 Planned Audit Fee Letter**

The Committee received the Planned Audit Fee Letter for 2015/16 which included details of the fee for the Council along with the scope and timing of the work and key members of the audit team for Grant Thornton that would support the Council.

The Council's scale fee for 2015/16 has been set by the Audit Commission at £45,255, which was a reduction on the fees for 2014/15. This reduction has been enabled by the procurement exercises run by the Commission across both the Local government and Health sectors.

**RESOLVED – That the report be noted.**

#### **15.G.14 RIPA Application Update**

The Monitoring Officer reported that there had been no RIPA applications made.

Chair

Date

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Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	23rd September 2015

**INTERNAL AUDIT INTERIM REPORT AS AT 28<sup>TH</sup> AUGUST 2015**

**PURPOSE OF REPORT**

1. To advise members of the work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Services for the period April 2015 to August 2015 and to comment on the outcomes;
2. To give an appraisal of the Internal Audit Service’s performance to date;

**RECOMMENDATION(S)**

3. That the report be noted.

**EXECUTIVE SUMMARY OF REPORT**

4. The report demonstrates that all performance indicators have either been achieved or exceeded with the exception of the percentage of audit plan completed for Chorley Council. This is due to a significant over run of work on Section 106 (S.106) / Community Infrastructure Levy (CIL) for the reasons explained on page 3 of this report.

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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**CORPORATE PRIORITIES**

5. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all.		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	<b>X</b>

**BACKGROUND**

6. This is the first progress report for 2015/16 and covers the period between 1<sup>st</sup> April 2015 and 28<sup>th</sup> August 2015.

**INTERNAL AUDIT PLANS**

- 7. **Appendix 1** provides a “snapshot” of the overall progress made in relation to the 2015/16 Internal Audit Plans, indicating which audits have been completed and their assurance rating, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and actually spent on individual audits.
- 8. The table below highlights the main pieces of work undertaken during the period together with any control issues identified, where applicable;

Audit Area	Assurance Rating	Comments
<b>Chorley Council</b>		
Annual Governance Statement	Not applicable	Proactive input was provided in collating information to inform the Annual Governance Statement.
National Fraud Initiative (NFI)	Not applicable	<p>The results for the 2014/15 exercise were released in February 2015 and investigations are on-going. The exercise has to date identified £10,328 (3 cases) whereby benefits had been incorrectly claimed and is now in the process of being repaid to the Council.</p> <p>In addition, we co-ordinated the Council’s input to the Council Tax Reduction Scheme Pilot. These results were released in July and currently 3 cases are being investigated.</p>
Travel and Subsistence	<b>AMBER (5)</b>	<p>Our work identified that whilst there are sound arrangements in place for the processing and administering of travel and subsistence claims, a number of areas for improvement were identified including:</p> <ul style="list-style-type: none"> <li>• The review and update of the Travel and Subsistence Policy;</li> <li>• The Council is not meeting the insurers’ expectations regarding vehicle and drivers checks;</li> <li>• The Council is not fully complying with HMRC requirements for employees whose employment has ceased.</li> </ul>

Audit Area	Assurance Rating	Comments
CIL / Section 106	Not available at this time	<p>A full review of the S.106 register, verification of its accuracy and completeness by using legal, planning and financial source documents was undertaken.</p> <p>All planning applications received following the implementation of CIL were also checked to ascertain if CIL was chargeable and to clarify whether CIL liability notices have been issued correctly.</p> <p>Whilst we are aware of internal control weaknesses which remain in the current systems, this is an on-going review and will be reported upon in due course.</p>
<b>Shared Services</b>		
Insurance	<b>AMBER (6)</b>	<p>Our work consisted of reviewing the Council's arrangements to ensure that the following controls are in place:</p> <ul style="list-style-type: none"> <li>• The type and level of insurance cover is adequate for the claims made against the councils;</li> <li>• Protocols are followed in respect of the annual renewal of insurance policies, potentially resulting in inflated premiums;</li> <li>• Insurers make claim decisions based on accurate or complete information; and</li> <li>• Action is taken to assist services to prevent future claims.</li> </ul> <p>No control issues were identified. The Council's arrangements were found to be robust.</p>

**CONTROLS ASSURANCE KEY**

<p><b>Limited</b> - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist. <b>Adequate</b> - the Authority can place only partial reliance on the controls. Some control issues need to be resolved. <b>Substantial</b> - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist</p>	<b>Control Rating</b>	<b>Limited</b>	4	7	9
		<b>Adequate</b>	2	5	8
		<b>Substantial</b>	1	3	6
		<b>Minor</b>	<b>Major</b>	<b>Critical</b>	
		<b>Risk Rating</b>			
<p><b>Minor, Major or Critical</b> reflects the relative risk of each system and the impact on the Council in financial and/or reputational terms if it was to fail. The risk rating for each audit has been agreed following a detailed risk assessment by Internal Audit and approval by Senior Management.</p>					

**INTERNAL AUDIT PERFORMANCE**

9. **Appendix 2** provides information on Internal Audit performance as at 28<sup>th</sup> August 2015. We are pleased to report that the majority of indicators have either been achieved or exceeded with the exception of one. The percentage of the audit plan completed (CBC) is below target due to the over-run on S.106/CIL.
10. We will closely monitor the Audit Plan over the coming months to ensure that it remains on target to be achieved.

**IMPLICATIONS OF REPORT**

11. The matters raised in the report are cross cutting and impact upon individual services and the Council as a whole.

GARRY BARCLAY  
HEAD OF SHARED ASSURANCE SERVICES

Background papers include the 2015/16 Internal Audit Plans for Chorley Council and Shared Financial Services.

<b>Report Authors</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay Dawn Highton	01772 625272 01257 515468	August 2015	Audit Interim report

## INTERNAL AUDIT PLANS 2015/16

AUDIT AREA	RISK RATING	PLAN (Days)	ACT (Days)	BAL (Days)	ASSURANCE RATING	COMMENTS
<b>CHORLEY</b>						
<b>CORPORATE AREAS</b>						
Annual Governance Statement	N/A	20	15.4	4.6	N/A	Complete
Anti Fraud & Corruption	N/A	15	2.6	12.4	N/A	On-going
NFI	N/A	20	3.6	16.4	N/A	On-going
<b>CHIEF EXECUTIVE</b>						
<b>Policy and Communications</b>						
Performance Management	CRITICAL	15	14.5	0.5		In progress
Partnerships	CRITICAL	15	1	14		To commence Q4
<b>Governance</b>						
Market Walk	N/A	10	0	10		To commence Q3
<b>Finance</b>						
New Payroll system	CRITICAL	10	0	10		To commence Q3
Travel and Expenses	MAJOR	15	14.1	0.9	Amber (5)	Complete
Contract Procedure Rules	CRITICAL	15	11.3	3.7		In progress
<b>CUSTOMER AND ADVICE SERVICES</b>						
<b>ICT</b>						
Information Security	CRITICAL	15	0	15		To commence Q3
Disaster Recovery	CRITICAL	15	0	15		To commence Q4
<b>Customer</b>						
Transactional Services	CRITICAL	15	1.9	13.1		On-going
Council Tax	CRITICAL	35	0	35		To commence Q3
Non Domestic Rates	CRITICAL					To commence Q3
Housing Benefits	CRITICAL					To commence Q3
Debtors	CRITICAL					To commence Q3
<b>PUBLIC PROTECTION, STREETSCENE AND COMMUNITY</b>						
<b>Planning</b>						
Community Infrastructure / S.106	CRITICAL	15	42.5	-27.5		In progress
<b>Health, Environment and Neighbourhoods</b>						
Empty Homes	MAJOR	5	2.5	2.5		In progress
Licencing	MAJOR	15	1	14		In progress
<b>Streetscene</b>						
Plant and Equipment	CRITICAL	5	0	5		To commence Q4
Tree Maintenance & Inspection regime	MAJOR	10	0.6	9.4		In progress
Management of external events	MAJOR	15	9.3	5.7		In progress
<b>GENERAL AREAS</b>						
Irregularities (Contingency)	N/A	10	0	10		On-going
Post Audit Reviews	N/A	10	2.3	7.7		On-going
Residual Work from 2014/15	N/A	15	17.2	-2.2		Complete
Unplanned Reviews (Contingency)	N/A	10	6	4		On-going
Governance Committee	N/A	20	6.2	13.8		On-going
<b>TOTAL</b>		<b>345</b>	<b>152</b>	<b>193</b>		

AUDIT AREA	RISK RATING	PLAN (Days)	ACT (Days)	BAL (Days)	ASSURANCE RATING	COMMENTS
<b>SHARED SERVICES</b>						
<b>SHARED FINANCIAL SERVICES</b>						
Main Accounting System	CRITICAL	95	0	95		To commence Q4
Creditors	CRITICAL					To commence Q4
Payroll	CRITICAL					To commence Q4
Treasury Management	CRITICAL					To commence Q4
Cash & Bank / Cheque Control	CRITICAL					To commence Q4
<b>SHARED ASSURANCE SERVICES</b>						
Insurance	CRITICAL	20	19	1	Amber (6)	Complete
<b>GENERAL AREAS</b>						
Post Audit Reviews	N/A	10	1	9	N/A	On-going
Contingency	N/A	20	7	13	N/A	On-going
Residual Work from 2014/15	N/A	20	25	-5	N/A	Complete
<b>TOTAL</b>		<b>165</b>	<b>52</b>	<b>113</b>		



## INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 28th AUGUST 2015

	Indicator	Audit Plan	Target 2015/16	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	29%	32%	Target exceeded
		CC	90%	37%	44%	Target exceeded
2	% audit plan completed	SS	100%	9%	9%	Target achieved
		CC	100%	20%	14%	Below target
3	% management actions agreed	SS	98%	98%	100%	Target exceeded
		CC	98%	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	90%	100%	Target exceeded
		CC	90%	90%	100%	Target exceeded

SS = Shared Services

CC = Chorley Council

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Report of	Meeting	Date
Chief Finance Officer	Governance Committee	23 September 2015

## CHANGE IN ACCOUNTING POLICY 2015/16

### PURPOSE OF REPORT

- To justify and recommend a change in accounting policy from 2015/16 onwards, to permit capitalisation of borrowing costs (fees and interest) in respect of major capital projects up to the point that the qualifying assets become operational.

### RECOMMENDATION(S)

- That from 1 April 2015 the Council should adopt the accounting policy of capitalising borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset; where costs are incurred in more than one financial year before an asset becomes operational; and where the budgeted prudential borrowing required to finance the asset is £4m or more.

### EXECUTIVE SUMMARY OF REPORT

- Under the Council’s current accounting policy of “expensing” borrowing costs, such costs arising when prudential borrowing is incurred for the acquisition, construction, or production of a qualifying asset are charged to the General Fund revenue budget in advance of an asset becoming operational.
- Adopting a policy of capitalising borrowing costs for qualifying assets would mean that they would form part of the cost of that asset, and would be charged to the revenue budget when the asset becomes operational as part of the financing costs. In some cases, the financing costs would in effect be met from rental income that would be receivable only when the assets were ready for use. The policy would avoid borrowing costs being charged to the revenue budget before receipt of the rental income in such instances.

<b>Confidential report</b> Please bold as appropriate	Yes	No
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### CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

**BACKGROUND**

6. Accounting policies are presented in the annual Statement of Accounts, and are approved when the statement itself is approved. However, the accounting policies can be approved in advance of approval of the statement. This report proposes a change to the treatment of borrowing costs incurred during the construction phase of new assets up to the point that assets become operational. Implementation of the policy would have implications for the Council's General Fund revenue budget, therefore this report has been presented at the earliest opportunity rather than waiting twelve months to recommend that the change should be implemented retrospectively.
7. Section 4.8 of the Chartered Institute of Public Finance and Accountancy's Code of Practice on Accounting in the United Kingdom (the Code) allows authorities to adopt a policy of capitalising borrowing costs incurred whilst an asset is being constructed or acquired. In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003. All authorities to which section 21 applies that are required to prepare a Statement of Account by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998 therefore have a statutory duty to comply with Code requirements.

**CAPITALISATION OF BORROWING COSTS**

8. IAS 23 "Borrowing Costs" requires borrowing costs in respect of qualifying assets to be capitalised. The Code permits (but does not require) authorities to select an accounting policy of expensing these costs. Where an expensing policy is adopted, as it has been by Chorley Council, the Code requires all borrowing costs (interest and other costs that an authority incurs in connection with the borrowing of funds, such as transactions fees) to be recognised as an expense in the year that they are incurred. In brief, this means that any borrowing costs incurred whilst an asset is being constructed or acquired would be charged to the General Fund's revenue budget, and in the Statement of Accounts would be recognised in the Comprehensive Income and Expenditure Statement within Financing and Investment Income and Expenditure.
9. The Council may include large capital projects in the Capital Programme which could take more than one financial year before the assets are operational. In some cases, the intention may be that the financing costs of the assets should be funded from rental income that would begin to be received only when the assets are completed. If the existing policy of expensing borrowing costs continues, the effect would be that interest and fees would be charged to the General Fund's revenue budget before any rental income is received to cover the financing costs. This would occur if the Council borrows in stages to fund the land assembly, construction or conversion phases of new assets, rather than funding the expenditure from internal cash balances. Temporary use of internal cash balances would help to reduce borrowing costs, but the cash available may not be sufficient in the case of large capital projects. Adopting the accounting policy of capitalising borrowing costs would avoid the revenue budget suffering costs before an asset is available for use, and this would be combined with the Minimum Revenue Provision "holiday" permitted by the Council's MRP Policy.
10. Where an authority has an accounting policy of capitalising borrowing costs, the costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. This is permitted when it is probable that they will result in future economic benefits or service potential to the authority and the costs can be measured reliably. Other borrowing costs are recognised as an expense. Broadly, this means that the Capital Programme budgets for qualifying assets would be increased to reflect inclusion of the borrowing costs; but that borrowing costs relating to previous capital

expenditure or not relating to qualifying assets would continue to be charged to the revenue budget.

11. To measure the borrowing costs to be capitalised, to the extent that the Council borrows funds generally and uses them for the purpose of obtaining a qualifying asset, it shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing cost that are outstanding during the period, other than the borrowing costs made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs to be capitalised during a period shall not exceed the amount of borrowing costs it incurred during that period. The Council shall cease capitalising borrowing costs when substantially all of the activities necessary to prepare the qualifying asset for its intended use (or sale) are complete.
12. Borrowing costs need not be capitalised for all capital schemes to be financed by prudential borrowing. This would not be necessary for lower value assets which come into use within one financial year. It is therefore recommended that the policy should apply only to
13. The disclosure requirement of the Code is that in the Statement of Accounts the Council shall disclose the amount of borrowing costs capitalised during the period; and their capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

**IMPLICATIONS OF REPORT**

14. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

15. The proposed change in accounting policy is permitted by the CIPFA Code of Practice on Accounting in the UK. The effect of the change would be to permit borrowing costs (fees and interest) to be added to the capital cost of large capital projects up to the point the qualifying assets become operational. This is desirable in the case of assets to be funded by rental income once they are completed and are operational, in order to avoid costs being charged to the General Fund revenue budget before the assets are in use.

**COMMENTS OF THE MONITORING OFFICER**

16. The legal basis of capitalising borrowing costs in these circumstances is explained in paragraph 7 of the report.

GARY HALL  
 CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
CIPFA Code of Practice on Accounting in the United Kingdom 2014/15	April 2014	Electronic document	Town Hall

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Michael Jackson	5490	9 September 2015	Change in Accounting Policy 2015-16.docx