



**MINUTES OF GOVERNANCE COMMITTEE**

**MEETING DATE** Wednesday, 20 September 2017

**MEMBERS PRESENT:** Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Danny Gee, Debra Platt and Kim Snape

**OFFICERS:** Gary Hall (Chief Executive/Statutory Finance Officer), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), James Thomson (Interim Financial Services Manager), Michael Jackson (Principal Financial Accountant), Dawn Highton (Principal Auditor) and Nina Neisser (Democratic and Member Services Officer)

**APOLOGIES:** Councillor Gordon France

**OTHER MEMBERS:** Peter Ripley (Independent Member), Mark Heap (Grant Thornton UK LLP) and Simon Hardman (Grant Thornton UK LLP)

**17.G.96 Minutes of meeting Wednesday, 21 June 2017 of Governance Committee**

**RESOLVED – That the minutes of the Governance Committee held on 21 June 2017 be held as a correct record for signing by the Chair.**

**17.G.97 Declarations of Any Interests**

There were no declarations of interest received.

**17.G.98 External Audit Findings Report 2016/17**

The Chair advised the Committee that the External Audit Findings Report 2016/17 would be considered first on the agenda.

The Committee received a report of the External Auditor on their audit findings for the authority for the year ending 31 March 2017 that highlighted key matters arising for the Council's financial statements.

The Auditor intended to issue an unqualified opinion on the financial Statements and Value for Money conclusion on 30 September 2017. One adjustment had been identified that amended the Council's reported financial position. However this was essentially a timing issue and did not reduce the level of resources available in 2017/18.

The key messages arising from the external audit of the Council's financial statements were;

- A £2.4m grant was incorrectly credited to the Comprehensive Income and Expenditure Statement (CIES) in 2016/17 as the conditions set out in the agreement with the Homes and Communities Agency (HCA) had not been met;
- One issue was identified where the Council decided not to amend as they concluded it did not have a material impact on the understanding of the financial statements;
- A small number of disclosure issues were also amended.

The External Auditors indicated that they would require a representation as to why Chorley Council chose not to amend the identified issue. This would be addressed in the Letter of Representation to be signed by the Chief Finance Officer and the Chair of Governance Committee.

Members were informed that to address the significant financial implications the council faced, risk management arrangements had been implemented. An initial risk assessment was undertaken in February 2017 and two significant risks were identified. Based on the work performed to address the significant risk, it was concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. Overall it was considered that the Council had a good set of accounts.

Members expressed concern with regards to the time taken to reach this level as the draft Statement of Accounts had been completed on 12 June 2017. External Audit informed the Committee that they had been working hard and still anticipated meeting the 30 September deadline.

Officers recognised that there had been a number of external and internal issues that had affected working towards meeting the deadline. Reassurances were made that discussions would be held following the deadline to assess this process and suggest improvements. It was agreed that this would be brought back to the next scheduled Governance Committee to ensure that this be mitigated for the next financial year.

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

#### **17.G.99 Statement of Accounts 2016/17**

The Chief Executive submitted a report for Committee approval of the audited Statement of Accounts (SOA) for its publication by 30 September 2017 under the requirement of the Accounts and Audit Regulations 2015. Once approved, the signed Statement would be published on the Council's website.

Members were informed that material changes to the SOA from the draft version published on 23 June 2017 related to the accounting treatment of a £2.404m capital grant from the Homes and Communities Agency (HCA); netting off the Bank Overdraft from Cash and Cash equivalents in Current Assets; and restating the 2015/16 figures for receivable rents in the Leases note. Other changes to the Statement were explained in the report.

It was understood that the Appointed Auditor intended to issue an unqualified audit opinion of the SOA; an economy, efficiency and effectiveness in use of resources (“Value for Money”) conclusion.

The Committee was advised that at the time of preparing the report and the 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 Chief Finance Officer in consultation with the Chair of the Governance Committee should approve any non-material amendments before recertifying the SOA. In the event that the Chief Finance Officer was of the opinion that the amendments were considered material, the Governance Committee would be reconvened to approve the new SOA.

It was reported that the main adjusted misstatement was in respect of the accounting treatment of a capital grant from the HCA, for the financing of the Primrose Gardens Retirement Living capital project. The £2.404m HCA grant was accrued in the 2016/17 accounts, the cash having been received in early April 2017.

To credit the grant to the Comprehensive Income and Expenditure Statement (CI&ES) in 2016/17, all conditions relating to the grant should have been met by 31 March 2017. As the conditions had not been met, the grant should not have been transferred via the Movement in Reserves Statement to Usable Reserves (Capital Grants Unapplied Reserve). Instead the accounting treatment at present agreed that it should have been credited directly to Balance Sheet account Grants Receipts in Advance - Capital. The HCA grant was still in the Council’s accounts for 2016/17, but it had been moved from Usable Reserves to Long Term Liabilities. Though this had the effect in 2016/17 of reducing both Net Assets and Total Reserves by £2.404m, the HCA grant remains available to finance capital expenditure from 2017/18 onwards.

Although the Council treated Cash and Cash Equivalents as being net of the Bank Overdraft, on the face of the Balance Sheet the Bank Overdraft was shown separately within Current Liabilities. It had subsequently been netted off Cash and Cash Equivalents within Current Assets. This adjustment by £0.834m did not affect Net Assets and Total Reserves.

The current version of the SOA 2016/17 included the AGS approved on 21 June 2017. The revised AGS for approval included a number of changes suggested by the external auditors. If approved, the AGS in the SOA would be replaced by the revised version prior to publication.

**RESOLVED;**

- 1. That the report be noted.**
- 2. Approval of the Statement of Accounts for 2016/17.**
- 3. Approval granted for the authorisation of the Chief Executive to sign off the Letter of Representation.**
- 4. That the AGS included within the SOA be updated to include any changes to the AGS as approved at the meeting.**

**17.G.100 Treasury Management Activity Mid-Year review 2017-18**

The Governance Committee received a report of the Chief Executive which indicated the Treasury Management performance and compliance with Prudential Indicators in the financial year 2017/18 to the end of July.

It was reported that compared to 2016/17, the main change had been the lower balance available to invest, which meant that it had not been possible to invest for longer periods in order to achieve higher interest rates. There were no changes proposed to the current list of Financial Institutions and Investment Criteria. Officers were not proposing changes to any prudential indicators at present and therefore it was recommended that the report be noted.

The Prudential Code required that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. The Treasury Management Annual Report 2016/17 concluded that the net borrowing would not exceed the CFR in 2017/18. It was understood that as there was a large margin between net borrowing and the CFR. The Operational Boundary for external debt was set at a value based on the CFR to allow additional external borrowing should cash balances be depleted, without breaching the Prudential Indicator. However, use for internal borrowing was the most effective use of the Council's cash balances while available, and so far in 2017/18 no new long term external borrowing had been taken.

The Principal Financial Accountant reported that the average interest earned was 0.18% to the end of July 2017, which exceeded the target of 0.13%. As in 2016/17, cash balances had been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget savings. To date the average interest earned had not exceeded the Capita suggested earnings rate of 0.25% for 2017/18.

Compared to the previous interest rates forecast, PWLB borrowing rates were slightly lower than expected. Gradual increases through to March quarter of 2020 were still forecast. If rates began to increase more steeply, it could become advisable to take additional borrowing sooner rather than later to achieve longer term savings.

Members were informed that to continue using regulated products such as money market funds (MMFs), Chorley Council would have to opt-up to Professional Client status. It was estimated that the Council would fail the minimum financial instrument portfolio size test of £10m and therefore would not be able to use MMFs from January 2018. It was anticipated that this would increase the likelihood of having to deposit cash in the Debt Management Office's Debt Management Account Deposit Facility at a low rate of interest, but with a high degree of security. Other local authorities could offer a slightly higher rate of interest than the DMO for short-term deposits, but there was no certainty of finding a council which required cash at the same time that Chorley Council needed to invest funds temporarily.

The Principal Financial Accountant notified the Committee of proposed changes to CIPFA's Treasury Management Code and Prudential Code. Several of the proposed changes were inevitably of a technical nature, and those incorporated into the Codes would be explained when implemented. It was agreed that training would be provided to Members of the Governance Committee to address the changes. At present, it was understood that the proposed changes would not affect Chorley Council and the existing capital expenditure plans.

Following queries, Officers reassured Members that the use of the Councils' Treasury advisors, Capita Asset Services, had many functions and benefits for the council, which included advising on technical accounting and providing recommendations and guidance. It was recognised that bigger organisations were able to employ their own

expertise however as a smaller organisation it was advised that Capita were one of the best on the market. Members were reminded that the council set its own policy based on government and CIPFA guidance whilst also being aware of other options available in order to provide alternatives if required. It was understood that the council were under a duty to report to the Governance Committee to get the best benefit from cash balances.

Members discussed other alternatives to PWLB borrowing including approaching other local authorities. Officers held concerns with borrowing from local authorities due to uncertain interest and only providing short-term as opposed to long-term borrowing. It was understood that national figures for expenditure indicated that PWLB was the biggest lender to local government authorities and provided the lowest rate of interest. However, it was agreed that Officers would continue to assess the alternative options available for the council to gain the best value for money.

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

#### **17.G.101 Annual Governance Statement - Amendment**

The Director of Policy and Governance submitted a report to inform Members of the Governance Committee of the proposed amendments to the Annual Governance Statement which had been suggested after consideration by external audit.

Members were reminded that at the Committee meeting on 21 June, the Governance Committee approved a draft Annual Governance Statement (AGS) which formed part of the council's Statement of Accounts.

Following approval and as part of the audit process, External Audit reviewed the AGS and suggested some amendments which were incorporated into the AGS document. The changes did not affect the conclusions of the AGS, that the Council had a strong robust system of corporate governance, but enhanced the document by providing additional supporting evidence which demonstrated the council's compliance with our governance framework.

It was noted that the AGS as drafted satisfied the requirements of the CIPFA SOLACE Framework, but the amendments would make it clearer how the Council discharges its obligations.

External audit made the following recommendations;

- a) Greater information should be provided concerning the role of the Section 151 Officer and Head of Shared Assurance Service;
- b) The Council's arrangements for counter fraud and anti-corruption should be given greater prominence;
- c) More information should be provided as to the communication between the Council and external audit;
- d) It should be made clear that the Governance Committee fulfils the functions of an Audit Committee;
- e) Greater reference should be made to partnership working;

In other areas it was suggested to provide additional examples of compliance to give a fuller picture of the steps the Council take. It was advised that if approved, the amended AGS would be appended to the SOA.

**RESOLVED – That the amended Annual Governance Statement be approved for adoption and signature by the Executive Leader of the Council and the Chief Executive.**

**17.G.102 Internal Audit Progress Report as at 28 July 2017**

The Head of Shared Assurance Services submitted a report to the Governance Committee advising Members of the work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Services for the period 1 April 2017 to 28 July 2017 and to comment on the outcomes as well as to give an appraisal of the Internal Audit Service's performance to date.

Members were informed that Internal Audit had been supporting the AGS by proactively providing advice and guidance. The report demonstrated that at this stage the Audit Plans were on target to be achieved and the majority of the performance indicators had either been achieved or exceeded.

The Governance Committee recalled that earlier this year, the Council procured a risk management system (GRACE), which allowed the continuous recording, monitoring and reporting of risks at all levels throughout the Council.

Since the implementation of GRACE in April 2017, Internal Audit had delivered training to 72 Chorley Council and Shared Services Officers. In addition, a further 10 external consultants who were assisting with the population of key project risk registers were also trained. Officers were currently in the process of delivering training to all members of the Senior Management Team (SMT) and developing the reporting arrangements at both corporate and service level.

It was agreed with SMT that Internal Audit would provide support with the development/enhancement of key risk registers including; the Corporate Risk Register, Corporate Plan Projects and Key Partnerships. Whilst these risk registers were at various stages of development, there were currently over 190 individual risks being continuously reviewed and monitored by the risk owners. The committee was assured that good progress was being made.

The Chief Finance Officer reminded the Committee of a previous issue regarding the CIL system. Members were reassured that controls put in place to mitigate this had improved the issue significantly in the past year.

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

**17.G.103 RIPA Application Update**

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

Chair

Date