



**Minutes of Governance Committee**

**Meeting date Wednesday, 28 July 2021**

**Members present:** Councillor Debra Platt (Chair), Councillor Hasina Khan (Vice-Chair) and Councillors Julia Berry, Karen Derbyshire, Alan Platt, Jean Sherwood and Charlotte Fitch (Independent Person)

**Officers:** Louise Mattinson (Director of Finance), Tony Furber (Principal Financial Accountant), Dave Whelan (Legal Services Team Leader), Howard Anthony (Performance and Partnerships Team Leader) and Matthew Pawlyszyn (Democratic and Member Services Officer)

**Apologies:** Councillors Sarah Ainsworth, Gordon France and Peter Ripley (Independent Person)

**21.G.30 Minutes of meeting Wednesday, 26 May 2021 of Governance Committee**

**Decision: The minutes of the meeting Wednesday, 26 May 2021 of the Governance Committee were approved as a correct record.**

**21.G.31 Declarations of Any Interests**

No interests were declared.

**21.G.32 2019/20 Audit Findings Report**

The Governance Committee welcomed Michael Green (Grant Thornton) to present the auditors finding following the audit of the 2019/20 financial statements.

The audit was undertaken against the backdrop of the Covid-19 pandemic with the audit work being performed remotely. This created a challenge but was overcome using technology.

The delivery of the Audit Opinion was imminent, it was anticipated to be an unqualified opinion on the statement, with an emphasis of matter paragraph; this would direct attention to certain aspects of the financial statements to ensure understanding of the issues and circumstances around the valuation of land and buildings.

In addition to the financial statements, a Value for Money Audit was performed. In 2019/20, two significant risk areas were identified; namely financial sustainability and the purchase of Logistics House.

The work on financial sustainability was concluded and there were no findings or issues to report whilst the work on the latter was still in progress.

No statutory duties had been exercised by the auditor.

The audit was performed to a materiality level of over £1,000,000, whilst any errors or misstatements identified over £51,000, and any errors within the remuneration disclosure of over £20,000, would be reported back to the committee. There were no errors in either area.

The significant audit risk that was identified for the year was Covid-19. Within the report, the impact of the pandemic was detailed, and procedures performed in response to this outlined. There were no other issues or concerns arising from Covid-19 to report.

A standard risk that featured in all audits performed was that of management override of controls, which are adjustments made by management that could potentially manipulate the financial statements. The auditors performed numerous tests against the risk and there were no matters or concerns to raise to the Committee.

A further risk was around the improper revenue recognition. Due to the Council's income stream, this was easy to verify and difficult to manipulate in a fraudulent manner. Multiple procedures were performed, and no issues or matters required bringing to the Committee's attention.

It was highlighted that the delay in producing the Financial Statements for 2019/20 was due to delays and issues in the valuation of land and buildings. There were some material adjustments identified and the value of properties had reduced by £10 million. The valuer had valued these at cost, instead of the CIPFA code guidance which requires valuation based on assets in use. The approach was challenged, and the Council engaged a new valuer who delivered the revised figure that resulted in the adjustment.

There was significant risk around the valuation of the net pension liability, this was underpinned by numerous estimates, judgments, and assumptions with a greater risk of error than other areas of the Financial Statements. Assurances were received from the Lancashire Pension Fund and the pension fund actuary, and no issues or misstatements were identified other than the material uncertainty.

Logistics House was a focal area of the audit. The property was purchased by the Council for £34 million during the 2019/20 financial year. The initial valuation of the property reflected a reduction in value from the purchase price. Management challenged that reduction, and the valuation was re-performed, following which the value was increased. This was verified by a further external valuer.

Originally, Logistics House was classified as an operational asset. This was challenged on the basis that the asset was purchased to secure future income streams and was more appropriately an investment property. It was reclassified in the amendment financial statements.

The Value for Money audit work was still ongoing.

The fees for the 2019/20 audit would be finalised in due course as the additional work was ongoing and then the auditors would discuss this with management before coming back to Committee with this, to be formally approved as a Public Sector Audit Appointment.

**Decision: The report was noted.**

### **21.G.33 2019/20 Statutory Accounts**

Louise Mattinson (Director of Finance) presented the Statement of Accounts for 2019/20. Prior to the Governance Committee, Members underwent training that explained the accounts in further detail. The Statement of Accounts were expected to have been published 30 November 2020 but due to delays experienced, e.g. in obtaining valuations of property, this had not been achieved.

It is a legal requirement to produce, present and approve the accounts; this demonstrates the council's accountability to the public, residents, businesses and central government.

One adjustment that has yet to be incorporated into the financial statements presented, relates to the rental income through to the 31 March 2020 in respect to Logistics House; this was agreed by the Committee.

**Decision:**

**1. That the Committee should approve the audited Statement of Accounts for 2019/20 (Appendix A), subject to any amendments which in the opinion of the Director of Finance (Section 151 Officer) are minor in nature, such minor amendments to be defined as non-material to the financial position of the authority. The Director of Finance will exercise this delegation in consultation with the Chair of Governance Committee. In the event that the Director of Finance is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.**

**2. That the Committee should authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation (Appendix B).**

### **21.G.34 Charity and Trust Account**

There are 5 Charity and Trust accounts that the Council is responsible for; four have a small balance with minimum assets, the lowest at £1,700 and the highest at £5,400. The one exception is the account 'Proceeds of sale from the Free Library' which has assets of £130,000. Very few transactions took place during the year.

**Decision: That the accounts presented in Appendices A to E be approved**

### **21.G.35 Management Responses to the External Auditors Planning Inquiries**

Louise Mattinson (Director of Finance) explained that prior to Grant Thornton producing their Audit Plan for the 2020/21 Accounts audit, the Council was asked a series of questions to inform the process.

Questions covered events, issues, transactions or circumstances that would have an impact on the accounts for 20/21. It was noted that Covid-19 had a significant impact, not just financially but on the entire operation and governance of the Council.

The contents of the Appendices A and B were discussed, which contained the questions raised by the auditors and the responses provided by Management, along with an overview of the key assumptions made in the accounts and the basis of these.

**Decision: The Governance Committee, reviewed and approved the management responses to the auditors inquires, as attached.**

### **21.G.36      2020/21 Audit Plan**

The Committee welcomed Georgia Jones (Grant Thornton). She confirmed to the Committee that she was taking over as Engagement Lead for 2020/21.

She outlined the identified risks and the work proposed to mitigate the risks.

It was possible that the Council would have to prepare group accounts as the Council owned a property company. An assessment of the transactions would need to be completed to assess its effect on the Council Accounts. If the impact was material, group accounts would be necessary.

Identified risks were similar to 2019/20. These included management override of controls, which is a mandatory risk to be reviewed under auditing standards, valuation of land and buildings including investment properties, and the valuation of net pension fund liability.

The materiality levels are similar to last year.

2020/21 included a new auditing standard which focused on accounting estimates which increased the focus on this area of work to gain assurance. This is to ensure that all estimates are reasonably based on evidence and assessment by management.

Other areas, included in the audit scope are the narrative report and the governance statement.

The Value for Money audit work is not yet complete for 19/20 but once this is done, the results of the audit will allow the risk assessment to be reassessed for 2020/21. If any significant weakness are discovered, the Committee will be informed.

**Decision: Report was noted.**

### **21.G.37      Treasury Management Annual Report 2020/21 And Quarter One Monitoring 2021/22**

Tony Furber (Principal Financial Accountant) explained that the 2020/21 was a year unlike any other. The base interest rate was 0.1%. Cash flow patterns were unusual due to the inflow and outgoings of £'millions for Business Support Grants.

Due to the unusual cash flow and low interest rates, the Council possessed more cash balances than usual however there were fewer opportunities to invest it, with more competition to secure such investments. The situation was common for nearly all Councils.

Chorley Council typically keep money for a short amount of time which increased the difficulty to meet the earnings target. In 2019/20, the target was 0.75% with an actual result of 0.63%. The target for 2020/21 was 0.1% and the Council came close at 0.09%. The average daily balance was £30.8mill with a total of £12,740 interest earned. Base interest rates were unlikely to be changed for the foreseeable future.

The pandemic impacted other areas covered in the report. The Capital Programme was significantly impacted with a total spend of £9mill for the year and did not reach levels expected. Of the £9mill, £7mill was directly financed from capital receipts, grants and revenue contributions, leaving £2mill of underlying borrowing requirement. The Council did not enter into any further external long-term borrowing.

Upon question from Members, Tony confirmed that there was not a method of refinancing existing borrowing without paying a premium.

**Decision: The report was noted.**

#### **21.G.38 Strategic Risk Update 2021-22**

Howard Anthony (Performance and Partnerships Team Leader) presented the Strategic Risk Update. The document had been updated with the latest assessment of the risks facing the council. The revised document totalled 19 high risks and 7 medium level risks. Of the 19 high level risks, 3 were new.

It was explained that the table at paragraph 15 included red lettering to indicate new narrative, and a strike through identified those words removed.

**Decision: The report was noted.**

#### **21.G.39 RIPA Application Update**

No RIPA Applications were made.

#### **21.G.40 Work Programme**

**Decision: The Work Programme was noted.**

Chair

Date

