

REPORT OF GOVERNANCE COMMITTEE

1. This report summarises the business that were considered by the Governance Committee at its meeting on 25 June 2014. We welcome a number of new Members that had been appointed to Governance Committee this year, including Councillor Goldsworthy who has taken up the Vice Chair role.

Internal Audit Annual Report 2013/14

2. We received a report summarising the work undertaken by the Internal Audit Service during 2013/14 financial year and gave an opinion on the adequacy and effectiveness of the control environment on the Council as a whole and individual service areas. The report also gave us an appraisal of the Internal Audit Services performance, including an evaluation of the effectiveness of the Council's system of Internal Audit.
3. As the majority of the reviews undertaken had received a substantial or adequate control assurance rating. It was the Internal Audit's opinion that the Council continues to operate in a strong control environment.
4. Key performance data for the Internal Audit Service showed that the majority of the authority's indicators were on or above target. Only two areas varied significantly from the agreed targets and the Committee were provided with explanations.
5. The Committee were also informed of examples where the work of Internal Audit had added value. These included reviews on CCTV and IDEA interrogation software. Another key achievement for the team included retaining of the ISO 9001 accreditation.

Internal Auditing Standards

6. The Head of Shared Assurance Services presented a report comprising information to enable 'those charged with governance' and 'management/section 151 officer' to provide assurances being sought by Grant Thornton in respect of fraud and corruption as part of the Council's 2013/14 accounts.
7. Given the assurances requested were similar to the evidence being collated by Internal Audit to support the Governance Statement and in the interest of transparency, it was agreed with the external auditors that responses to their letters were provided following consideration at this meeting.
8. We were satisfied with the explanation given regarding correspondence received from the Equality and Human Rights Commission indicating a breach of legal duty and noted that Internal Audit, having reviewed specific information were satisfied that the Council's arrangements were such that positive assurances could be given in the response to Grant Thornton so we agreed that the Chair of Governance Committee and Section 151 statutory chief finance officer sign the assurance letters.

Chorley Council Audit Plan

9. The Committee received the External Audit Plan for the Council as at 31 March 2014, that had been submitted by Grant Thornton, the authority's external audit providers. A risk based

audit of the Council had been undertaken that focused on those areas where there was a potential risk of material misstatement in the accounts and no specific risks had been identified for Chorley. The two risks that were listed in the report were generic to other Local Authorities and we were assured that the necessary controls for the authority already existed.

10. Interim audit work was currently being undertaken in advance of the final accounts audit fieldwork and at this stage there were no significant issues to report and it was explained to Members that the Value for Money (VfM) conclusion was requirement to ensure that the Council had out in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources and focused on securing financial resilience.

Treasury Management Annual Report 2013/14

11. We received and considered the Report of the Chief Executive updating us on the Council's treasury management strategy. Part of the changes in the regulatory environment, concerning treasury management was a greater onus on Members to scrutinise policy and activity.
12. The Committee were updated on the Prudential and Treasury Indicators and reported that the return on investments totalled 1.14% which had exceeded the benchmark. Details of the borrowings were given and we were updated on the number of issues that included the conclusion of the situation relating to the Icelandic investments.
13. We were advised that the Council is required to consider, as a minimum, there treasury reports. In addition the Minimum Revenue Provision Policy for 2014/15 and revised Prudential Indicators were presented to Council in November 2013 as it had been necessary for the Council to approve changes to the MRP Policy and Prudential prior to the purchase of the Market Walk Shopping Centre.
14. Estimated borrowing at the end of 2013/14 was £30.263m and surplus cash available for investment was £15.000m, giving an estimated net figure of £15.263m compared to the estimated Capital Finance Requirement of £32.518m. The level of borrowing in 2013/14 reflected Council approval to purchase Market Walk. However, it had proved possible to achieve savings in financing the acquisition by using £10m internal cash balances and taking on £13.341m loans from PWLB.
15. In response to a query, the Chief Executive explained that this had been a decision he'd taken based upon the business model considered and approved by Council. The Chief Executive had felt, that with interest rates for cash investments remaining low, it was better to use cash balances to avoid borrowing at rates that could have exceeded 4%, compared to investment at as little as the 0.25% paid by the Debt Management Office. The Chief Executive had been delegated to make these decisions on behalf of the Executive Cabinet.
16. The Council had now reached a conclusion with regards to the Icelandic Investment. Recovery of the balance of investment had been expected to take several years and would have involved exchange rate losses and incurring of legal fees. To minimise the risks associated with the recovery process, the Council had decided to participate in the auction of Landsbanki claims, and received auction proceeds of £0.728m. The total debt recovered was £1.856m (93%) of the original investment.

Statement of Accounts 2013/14

17. The Committee received a report of the Chief Finance Officer giving sight of the draft Statement of Accounts (SAO) for 2013/14 that would be signed and authorised for issue by the Chief Financing Officer at the end of June. The report also gave advice on the processes leading up to their formal submission for the approval of Members following the completion of the external audit.
18. We were informed that a training session would be provided for all Members of the Governance Committee before the finalised Statement of Accounts were presented to the Committee that would provide greater understanding of the processes and promote effective debate.
19. The report discussed the main parts of the statements and sought to explain significant changes from the previous year. It also advised about the statutory requirements for signature, audit, inspection and publication of accounts. The categorisation of the Market Walk Shopping Centre within the Investment Properties section of the Balance Sheet was still subject to agreement with the external auditor. Therefore there may be a need for the asset to be reclassified and figures amended when the SAO was submitted for approval.
20. The Statement of Accounts 2013/14 included two “unadjusted misstatements” that had been reported to Committee relating to capital expenditure of £0.228m regarding a leisure asset under Property, Plant and Equipment and Section 106 commuted sums totalling £0.493m that had been included against short-term creditors instead of long-term.
21. A number of major issues had affected the Council’s financial position during 2013/14 that included the implementation of the new Business Rates Retention, the purchase of the Market Walk Shopping Centre and the Pension Fund. The pension fund deficit had reduced to £32.676m; the main reason for the reduction was the £10.127m actuarial gain, which compared to the £6.158m loss the previous year. Members noted that this figure appeared to be quite volatile and had changed significantly over the past few years.
22. We asked for more detail to be included in the Statement concerning the figures relating to the money used to purchase the Market Walk Shopping Centre to provide greater clarity of the use of the £10m cash balances and how this had helped to achieve savings by not borrowing at higher rates of interest.
23. The balance sheet and cash flow statements showed the turnover of cash and final cash position as at 31 March 2014. The Council’s Treasury Management Strategy was the key document for effective day to day management of cash resources and set out policies for the investment of surplus cash. The Council had managed, in a very difficult environment to maintain a healthy financial position. The Medium Term Financial Strategy envisaged no relaxation of the pressures, and forecasted budget shortfalls over the coming years.

Members Code of Conduct: Amendments to Arrangements for Dealing with Complaints

24. The Committee received a report seeking authority to recommend to full Council, amendments to the adopted procedure for dealing with complaints made under the code of conduct for elected members of the Council. The report also asked us to give delegated authority to the Council's Monitoring Officer to draft future amendments to the arrangements before submitting to full Council for approval.
25. The proposed amendments would improve the clarity of the process and provide the Monitoring Officer with the opportunity of dealing with unfound complaints on receipt or to informally resolve complaints at an earlier stage. The arrangements had been in place for approximately two years and having had some experience of using procedures when dealing with complaints, the Monitoring Officer had highlighted areas for improvement to the early resolution and local resolution stages and provided some clarity about the role of the Independent Person.

Annual Governance Statement

26. The Head of Governance 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. The draft 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 Executives (SOLACE).
27. It was explained what arrangements the Council would take in the forthcoming financial year to build and strengthen our corporate governance arrangements. Following advice from our Internal Audit Service it was intended to include a review section in future years to show continuity of the Council's Governance arrangements.
28. The Annual Governance Statement would be signed off by the Leader and Chief Executive of the authority and the Committee considered that the Statement should also be signed by the Chair of Governance Committee to evidence the Council's commitment to these arrangements extended across all political groups.

Standards Hearings Update

29. The monitoring Officer submitted a confidential report that informed the Committee of the nature and treatment of standards complaints. The report also sought confirmation as to the type of complaints that were being received and the approach that had been taken by the Monitoring Officer to resolve them.

Recommendation

30. To note the report.

Councillor Paul Leadbetter
Char of Governance Committee

DS