



**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