

## **REPORT OF GOVERNANCE COMMITTEE**

1. This report summarises the business transacted at the Governance Committee meeting held on 22 June 2016.

### **GOVERNANCE COMMITTEE – 22 JUNE 2016**

#### **Draft Statement of Accounts 2015/16**

2. The Chief Finance Officer presented the Committee with the draft Statement of Accounts (SOA) for 2015/16 before they were signed and authorised for issue by the end of June 2016. The SOA could not be signed until the Executive Cabinet approved transfers to reserves and financing of the capital programme at its next meeting. The report also advised about the process leading up to the formal submission of the SOA for approval by Members following completion of the external audit and new statutory requirements arising from the Accounts and Audit Regulations 2015.
3. The Accounts and Audit Regulations 2015 came into force on 1 April 2015. The main impact of the regulations are changes to the year-end closedown process and external audit arrangements that are 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.
4. The Committee expressed concern over what action would be taken differently this year to ensure that these audited set of accounts would be signed off by the end of June 2017. Members were informed that reviews had taken place and action logs created to mitigate any difficulties faced last year reoccurring and granted assurance that the Council would deliver on this target. The report was noted.

#### **Treasury Management annual Report 2015/16**

5. The Committee received the Treasury Management Annual Report detailing the Council's performance and compliance with Prudential Indicators for the financial year ended March 2016. The return on investments for the year was 0.44% which, although not high. Exceeded the benchmark of 0.396%. The report also detailed the Council's borrowing and investments as at 31 March 2016. 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.
6. Revised Prudential and Treasury Indicators for 2015/16 were included in the report "Treasury Strategies and Prudential Indicators 2016/17 to 2018/19", presented to Special Council of 1 March 2016. Where relevant, comparisons with 2015/16 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.
7. Total borrowing at 31 March 2016 was £14.300m (excluding accrued interest), £12.800m of which was from PWLB, and £1.500m was a temporary loan from another local authority. Cash balances (net of bank overdraft) invested at year-end were £0.822m, which meant that borrowing net of investments was £13.478m. This was a lower than estimated net figure of £15.022m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not

taken. The net borrowing figure is £20.019 less than the Capital Financing Requirement quoted above this figure representing the use of the Council's own cash to finance capital expenditure rather than taking additional external loans.

8. It was explained to the committee that the current strategy had allowed the Council to take out more loans however, rather than rushing to borrow this would be deferred and an update provided in the mid-year report. Members were informed that the internal cash balances being utilised for borrowing would soon be depleted and external borrowing would have to replace this in future, although this had not occurred in 2015/16. The report was noted.

### **Governance Committee Update**

9. The authority's External Auditors provided the Committee with a report on progress made in delivering their responsibilities to the council. The report also included a summary of relevant emerging national issues and development. It was reported that everything was on track with regards to the 'progress against plan' and 'outputs delivered'. Works being undertaken on the audit of the 2015/16 final accounts and Value for Money (VfM) conclusion were also on track and scheduled to be reported to Committee in September 2016. The Committee discussed this date moving forwards and it was suggested that a report be issued prior to the meeting.
10. The Committee's attention was drawn to the article regarding Joint Venture Companies (JVC) which was considered to be evolving the way in which local government protects front-line services. It was advised that the new breed of JVC's between public sector bodies could be more successful at staying and working together. It was reported that there was an increased number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of public culture. The Committee queried how the partnerships transpire and were informed that this is variable depending on the desired outcome of the venture. The report was noted.

### **Chorley Council Audit Plan 2015/16**

11. The External Auditors provided the Committee with an overview of the planned scope and timing of the audit. The report allowed the Committee to understand what the External Auditors consider as the requirements to bring the plan together and outlined the risks and consequences of the work being carried out. Members were notified of a recent session held with finance staff at which Oldham audit were invited to share advice on how to obtain an earlier closedown.
12. Members were informed that the Value for Money (VfM) criteria was no longer set by the audit commissions, but was now set by the Audit office. It was reported that following the initial Value for Money risk assessment there were no significant risks identified. Grant Thornton would continue to review this arrangement, including a review of the Annual Governance Statement before the issue of the auditor's report.
13. The results of the interim audit work produced positive conclusions in which the internal audit service provided an independent and satisfactory service to the Council. The review of the internal audit's reports did not identify any material weaknesses which impact the audit approach or which would be likely to adversely impact the Council's financial statements.
14. With regards to business rate comparisons it was expressed that local authorities are in consultation regarding what we would like to see introduced in the system and a Lancashire-wide discussion would be taking place in the upcoming weeks. Officers granted assurance over concerns regarding

the potential risks in relation to the unknown and ensured that plans would be in place to mitigate the reduction of loss between plans and implementation. The report was noted.

### **Draft Annual Governance Statement**

15. The Director of Policy and Governance provided a report reminding the Committee of regulatory framework requiring the Council to continuously review its system of governance and to formally publish an annual statement alongside its annual finance statements. The Committee considered the draft statement which had been produced in accordance with guidelines issued by the Chartered Institute of Public and Financial Accountancy (CIPFA) and the Society of Local Authority Chief Executive (SOLACE).
16. 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. The Committee were informed that the self-assessment assurance had been amended to make it more user friendly to subsequently increase transparency. Members drew attention to the theme of Information Management regarding the incompatibility of Sharepoint and were informed that due to the lack of functionality the Council requires from the system, alternative feasible programs were being pursued.
17. The Committee agreed for the Annual Governance Statement to be formally signed off by the Leader, Chief Executive and Chair of Governance Committee before being submitted for external audit alongside the 2015/16 financial statements.

### **Changes to Arrangements for Appointment of External Auditors**

18. The Committee received a report of the Head of Shared Assurance Services that provided an update on the work in progress to establish arrangements for the appointment of the Council's External Auditor beyond the 2017/18 financial year when the current contract with Grant Thornton ended.
19. The report indicated that in 2017 the Council needed to make a choice between various options for appointing its external auditor that were detailed in the report. Although the Council has until December 2017 to make an appointment, in practical terms this means one of the options would need to be in place by the spring in order that the contract negotiation process could be carried out during 2017. The report was noted.

### **Compliance with International Auditing Standards**

20. The Head of Shared Assurance Services submitted a report to enable the Committee, as those "charged with governance" and the Chief Executive on behalf of "management" to provide a range of assurances sought by the external auditors, as part of the Council's 2015/16 accounts. The specific assurances sought by Grant Thornton were set out in two letters appended to the report.
21. 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 response to their letters would be provided following consideration at this meeting.
22. Clarification was sought on the 'matter' referred to in relation any actual or potential litigation or claims that would affect the financial statements and were informed that this related to the recent

land searches claim which have now been completed subject to the finalisation of costs. It was agreed that the Chair of Governance Committee and the Chief Executive sign the assurance letters requested by Grant Thornton.

### **Internal Audit annual report 2015/16**

23. The Committee received a report of the Head of Shared Assurance Services that summarised the work being undertaken by the Internal Audit Service during the 2015/16 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 services 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 action that had been agreed with management to further improve controls with the areas audited.
24. The variation (42 days) between the planned (345 days) and actual time (387 days) spent on the audits undertaken and contingency is due to a substantive investigation relating to Community Infrastructure Levy/Section 106. The reviews of the key financial systems were in the main, completed with the remaining work finalised in quarter one of 2016/17. During 2015/16 a total of 19 systems/areas were reviewed, 15 of which were critical and 4 which were major systems. Members observed that the vast majority of areas reviewed were awarded an amber assurance rating, with 13 out of the 15 critical systems reviewed during 2015/16 receiving a score of 6 (substantial assurance). It was also noted that the red controls assurance ratings awarded only one audit, Community Infrastructure Levy/Section 106, which received a score of 9 (limited assurance). Therefore, it was concluded that the Council continues to operate within a strong control environment.
25. Members were informed that the Council would participate with the Lancashire District Councils Audit Group in undertaking reciprocal peer reviews. This entailed that over the next twelve months Chorley Council would be participating in a review of the Internal Audit Services of Fylde Council and Preston City Council. It is planned that the two above Councils will carry out the review of our compliance with the Standards in March 2018. The report was noted.

### **Strategic Risk Register Update Report**

26. 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', six as 'medium risk' and four 'low risk'. One risk had reduced following successful work to manage high profile consultations that have now progressed to delivery stages.
27. One risk had been increased to the highest level to reflect the impact of recent budget cuts to partner services. Members queried how these 'new risks' were defined and sought assurances on what action the Council was taking to mitigate these risks. Members were reassured that Chorley Council had responded to the cuts, particularly from Lancashire County Council by allocating funding, an example of this being the revised bus routes. Members also indicated reservations over the risks of reorganisation which exceeded the risks surrounding the mitigation of cuts and stressed the importance of good performance. The report was noted.

### **Governance Committee Skills and Knowledge Report**

28. The Committee received a report of the Chief Executive that informed the Committee of the results of the Skills and Knowledge questionnaire that had recently been undertaken with members of the Committee to identify what level of understanding the membership was perceived to have. The questionnaire was completed individually and was a self-assessment approach.
29. An evaluation of the results revealed that Members felt that their level of understanding gained by current training methods was not sufficient for them to fulfil their role on Governance Committee effectively and that their overall level of understanding of the Committee's roles and functions could be improved upon. Subsequently it was considered that current in-house training methods could be revised. There was a general acceptance that a frequently changing membership, largely down to changes in line with Council elections and political group appointments made the consistency of knowledge within the Committee difficult to maintain.
30. The Committee provided feedback on previous sessions, gave suggestions for improvements and agreed to undertake a number of training sessions that would take place a few weeks prior to Committee meeting throughout the year.

### **Section 106 agreement/Community Infrastructure Levy Update**

31. The Committee received a report of the Head of Shared Assurance Services that provided an update on the current position regarding Section 106 agreements and Community Infrastructure Levy (CIL) following a substantive investigation undertaken by Internal Audit following the identification of missed trigger points within the process. The report highlighted the work that had been undertaken, outlined current arrangements and actions that had been taken to ensure robust systems were now in place and operating effectively.
32. It was reported that to date, 50 out of the 65 agreements have been invoiced, totalling £1,016,660. The remaining 15 agreements could not be pursued for a variety of differing reasons that included; non-progression of the original planning application, the replacement of supplemental agreements which did not contain commuted sums, or developments that had not yet commenced. With regards to CIL, to date, 38 of the 54 CIL Liability Notices had been issued to developers, with invoices subsequently raised for £145,000. Further work confirmed that the remaining 16 planning applications were not liable for CIL and therefore a notice was not required.
33. Officers granted assurance to the Committee that they were confident that effective systems of control such as, appropriate checks and balances to avoid an absence of due process were now in place and would be monitored closely going forwards.

### **Recommendation**

34. That the report be noted.

COUNCILLOR PAUL LEADBETTER  
CHAIR OF GOVERNANCE COMMITTEE

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