

**MINUTES OF GOVERNANCE COMMITTEE**

**MEETING DATE** **Wednesday, 21 June 2017**

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

**OFFICERS:** Gary Hall (Chief Executive/Statutory Finance Officer), Chris Sinnott (Director (Policy and Governance)), James Thomson (Principal Management Accountant), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), Kate Howcroft (Performance and Partnerships Officer), Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor) and Nina Neisser (Democratic and Member Services Officer)

**APOLOGIES:** Councillor Alan Cullens

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

**17.G.85 Minutes of meeting Wednesday, 22 March 2017 of Governance Committee**

**RESOLVED – That the minutes of the Governance Committee held on 22 March 2017 be held as a correct record for signing by the Chair.**

**17.G.86 Declarations of Any Interests**

There were no declarations of any interest.

**17.G.87 Draft Statement of Accounts 2016/17**

The Chief Finance Officer submitted a report to the Governance Committee which presented the draft Statement of Accounts (SOA) for 2016/17 before they would be signed and authorised for issue by the end of June 2017. 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 statutory requirements arising from the Accounts and Audit Regulations 2015.

Before presenting the report the Interim Financial Services Manager informed the Committee that there was an error in the report. The report indicated that the SOA was finalised on 12 June 2017, this was past the target date of 30 May due to issues

getting the cash flow to balance. However there was a further delay that meant the SOA was only finalised on 15 June 2017. This delay was caused by new discussions that arose with the HCA regarding the designation of a large Capital Grant towards the Primrose Gardens project.

The closure of accounts in 2016/17 had been a noticeable improvement when compared to previous years. In order to achieve the earlier completion of the accounts in 2016/17 a review and streamlining of the year-end closedown process, including the external audit arrangements, was undertaken. Budget holder training had also been delivered and was well-received. Each member of the finance team had clear roles and workloads that were well understood early on in the closure process. Bottlenecks and shortfalls in skills were identified and dealt with before they posed the potential to delay closure.

Following queries, Members were informed that the deadline for closure of accounts would be the end of May in 2017/18 onwards and this had been brought forward in line with statutory government requirements as a way to provide clarity on the finance position of all the local authorities. Members attached preference to the quality of the SOA and were reassured that the SOA was accurate. Mark Heap (Grant Thornton) advised that there was no ultimate sanction for not meeting the deadline, but rather it was an indication that the authority was underperforming. The group were satisfied that progress had been made this year and it was advised that once audited, a report would be published.

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

#### **17.G.88 Treasury Management Annual Report 2016/17**

The Chief Finance Officer submitted a report the Governance Committee that indicated the Treasury Management performance and compliance with Prudential Treasury Indicators for the financial year ended 31 March 2017. The return on investments for the year was 0.29%, which exceeded the benchmark of 0.24%. The report also detailed the Council's borrowing and investments as at 31 March 2017.

Revised Prudential and Treasury Indicators for 2016/17 were included in the report "Treasury Strategies and Prudential Indicators 2017/18 to 2019/20", presented to Special Council on 28 February 2017. Where relevant, comparisons with 2016/17 indicators in the 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 (CFR) for the preceding year plus any anticipated increase in the current and next two years.

The Council's 2016/17 Capital Programme had been reported to Executive Cabinet and Council at intervals throughout the year and an analysis of capital expenditure for 2016/17 was due to be presented to the Executive Cabinet meeting of 22 June 2017. Members were informed that the capital expenditure for 2016/17 (including Revenue Expenditure Funded from Capital under Statute, and land acquired by exchange) was £11.037m, compared to the estimate of £14.563m when the prudential indicator for the year was revised. The revised Capital Financing Requirement (CFR) estimated for 2016/17 was £39.544m; therefore the actual CFR of £39.287m was £0.257m less than estimated.

Total borrowing at 31 March 2017 was £18.537m (excluding accrued interest), £11.537m of which was from the Public Works Loan Board (PWLB), and £7.000m was temporary borrowing from other local authorities. Cash balances (net of bank overdraft) invested at year-end were £0.955m (excluding accrued interest receivable), which meant that borrowing net of investments was £17.582m. This was lower than the estimated net figure of £24.115m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not taken. The new borrowing figure was £21.705m less than the revised CFR figure; this figure represented the use of the Council's own cash to finance capital expenditure rather than taking additional external loans.

In practice, the likelihood of an immediate increase in rates diminished during 2016/17, and use of internal cash balances rather than new external loans continued. On 31 March 2017 the 25-year PWLB rate was 2.67% and there was no immediate prospect of a sharp increase. Members were advised that due to the Council's capital investment plans, additional long-term borrowing would be required during 2017/18 as reflected in the current Treasury Strategy.

Following discussion, Members were reassured that the required additional long term borrowing was likely to meet the CFR limit but due to the balance of accounts would never exceed this limit. It was reported that significant savings had been made through internal cash balances, which had ultimately reduced external borrowing. The Committee were reassured that these rates would continue to be monitored.

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

#### **17.G.89 Charity and Trust Accounts 2016/17**

The Chief Finance Officer submitted a report presenting the accounts for the year ended 31 March 2017 for charities and trusts for which the Council is the sole trustee. Figures relating to the trusts were not material, and it was suggested that inclusion of the note in the statement would not improve users' understanding of the Council's financial position.

The Council's Statement of Accounts 2016/17 did not include the previous Trust Funds disclosure. As an alternative, figures were presented in the report, which included more detail about each charity or trust therefore provided an opportunity to review and approve the accounts for each of the charities or trusts.

Excluding the note from the statement meant that the external auditors had not been obliged to audit it; however there was no statutory requirement for the accounts to be audited. Furthermore, the note to the accounts had figures rounded to the nearest thousand pounds, which meant that low value transactions were not visible.

It was advised that it would be more beneficial to the Council to address this separately for future use and it was therefore not considered a priority to be included in the Statement of Accounts for 2016/17. In response to concerns, Members were reassured that officers would present and discuss the potential options available to the Council regarding this following the Council meeting scheduled for July.

**RESOLVED – That the accounts presented in Appendix A and E of the report be approved.**

## **17.G.90 Annual Governance Statement 2016/17**

The Director of Policy and Governance submitted a report presenting the draft Annual Governance Statement (AGS) to the Governance Committee for review and approval. The draft AGS was properly drafted in accordance with the guidance issued by CIPFA and SOLACE to be published alongside the annual financial statements once approved.

The Monitoring Officer notified the Committee that the assessments which informed the preparation of the AGS demonstrated that the Council had strong governance arrangements with few identified areas for improvement. The format of the AGS was substantially the same as previous years however it was noted that in line with the update CIPFA guidance, the new core principles adopted in the Council's Code for Corporate Governance in March 2017 were used to provide the measure against which the Council assessed itself. Coinciding with these guidelines, the document had become more readable and accessible for the public to understand but also ensured continuity remained.

The report highlighted that all governance issues previously agreed for improvement for the year 16/17 had been completed however; information management, risk management and corporate policies had been carried over for continuation in 17/18. Equality and diversity was added to further embed equality and diversity throughout the council. Members were informed that Information Management was moving forward with the Customer and Digital Strategy due to be presented to Executive Cabinet in June 2017.

The proposed areas for improvement as identified in report were issues that had been highlighted as needing improvement; the issues were not in themselves significant. They were areas with suggested partial compliance with requirements or where there was insufficient evidence to demonstrate full compliance. There were no areas of significant none compliance by the Council. Subsequently, the group were satisfied that there were no significant issues and assurances were made that steps would be made in the coming year to address the issues to further enhance the Council's governance arrangements.

**RESOLVED – That the draft Annual Governance Statement be approved and referred to the Executive Leader of the Council and the Chief Executive for signature.**

## **17.G.91 Strategic Risk Register 2017**

The Director of Policy and Governance submitted a report updating the Committee on the Strategic Risk Register (SRR) which included 15 strategic risks to the Council, including actions in progress as well as new actions planned to further mitigate identified risks.

The Performance and Partnerships Officer informed the Committee that the SRR was the vehicle by which the Council aimed to identify and address and potential risks to the organisation and the delivery of its functions which therefore needed to be managed strategically. The SRR was a live document due to the continually changing political, economic and financial environment which meant it was updated regularly to reflect any new or emerging strategic risks facing the Council.

Members were informed of the introduction of the Council's risk management system; the GRACE system, which meant that all organisational risk registers were centrally stored. The introduction of the system saw an updated risk matrix which scored on a 4x4 matrix rather than the 3x3 matrix as was previously used. This matrix was considered a more comprehensive tool on which to record and evaluate risk. Following the introduction of this system, all of the risks were re-assessed and re-scored on the 4 x 4 matrix based on the likelihood of the risk occurring against the impact for the organisation if it did occur.

The risk register was continually reviewed and currently, the majority of risk categories remained stable with six of these identified as 'high risk', six 'medium risk' and three 'low risk'. Four risk levels had increased this year. Two risk levels were increased to reflect the large levels of investment and change being undertaken in the borough over the coming year and potential resident views regarding this. One risk level was increased to reflect higher risks with regards to implementing new ways of working and alternative business models for the council and one had been rated more highly due to recent changes to UK threat levels and heightened risk of cyber-attacks. No new risks were identified. With regards to these four increased risks, Members were reassured that although it may appear a higher number, the score was at the equivalent level on the new 4x4 matrix.

In response to Members concerns regarding the increased figures due to the implementation of the GRACE system, Members were reassured that a risk of 16 could be mitigated and officers would look further into achieving this. It was agreed that to prevent further concern, the Committee would be updated on the progress and that an estimation figure based on potential mitigation would be included.

**RESOLVED – That the strategic risks, actions in progress and actions planned to further mitigate the strategic risks as set out in the report be noted.**

#### **17.G.92 Compliance with International Auditing Standards**

The Head of Shared Assurances submitted a report to the Governance Committee to provide a range of assurances being sought by the external auditors, Grant Thornton, as part of their audit of the Council's 2016/17 accounts.

Grant Thornton recently wrote to the Chief Executive and the Chair of the Governance Committee requesting information to assist with their audit of the Council's 2016/17 financial statements. 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 letter would be provided following consideration at this meeting.

Similar requests for assurance were made in respect of the 2015/16 financial statements and therefore the information provided in this year's responses was in effect an update of the information which was supplied last year. Having reviewed the specific information being sought, the Chief Executive was satisfied that the systems in place were robust and Internal Audit was satisfied that the Council's arrangements were such, that positive assurances could be given.

**RESOLVED – That the report be noted and the Chair of the Governance Committee and the Chief Executive be enabled to sign the assurance letters requested by Grant Thornton.**

## **17.G.93 Internal Audit Annual Report 2016/17**

The Head of Shared Assurance Services submitted a report that summarised the work undertaken by the Internal Audit Service during the 2016/17 financial year. The report provided 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's performance, including a review of the Council's internal control system.

The report indicated that the Council had delivered on all projects planned apart from the Payroll Project and the Health and Safety Review which were not undertaken. The Payroll Project was cancelled due to the continuation of the current arrangements and Health and Safety review was deferred due to a revised risk assessment process which was currently being developed. Therefore this review would be undertaken as part of the 2017/18 Internal Audit Plan.

It was reported that there had been a 42 day shortfall in number of planned days for both Chorley Council and Shared Services which was offset by a period of sickness absence by a member of the Internal Audit Team.

Members were advised that individual audits were awarded on separate controls assurance ratings and were reminded that the GRACE system, which used a 4x4 matrix to measure the control ratings, had been introduced. During 2016/17 a total of 20 systems/areas were reviewed, 11 of which were critical and 8 were major systems and 1 minor system. The vast majority of controls were awarded an amber assurance rating. Of the 11 critical systems reviewed during 2016/17, 10 received a score of 6 (substantial assurance). Furthermore, of the red controls assurance ratings awarded only one audit, Information Governance received a score of 9 (limited assurance). Officers were satisfied that when the individual ratings were aggregated, the Council continued to operate within a strong control environment.

In response to queries, Members were reassured that a rating of 6 was considered the best rating for a critical system. Following discussion regarding the amber rating for safeguarding, Members were reassured that the areas which needed to be developed further (non-front facing departments) were being addressed. However, the key areas where safeguarding was needed most had robust systems in place to protect this. Members were also advised that a review of fuel consumption was under control and there were numerous projects in place to monitor this and progress forward.

It was reported that all of the Key Performance Indicators were on target apart from the Audit of Health and Safety which had been deferred to 2017/18 and the Audit of S106/CIL which remained in progress. Overall, retention of standards demonstrated that Audit continued to seek improved and more efficient working practices to maintain a high quality service.

The committee concluded that the 2016/17 Internal Audit Programme of work had been delivered successfully and Members were assured that the Council's governance and control environment continued to be effective. It was anticipated that the introduction of the Governance, Risk and Control Self-Assessment (GRACE) software, which was in the process of being implemented, would continue to strengthen the current risk management arrangements further.

**RESOLVED – That the Internal Audit Annual Report for 2016/17 be noted.**

**17.G.94 RIPA Application Update**

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

**17.G.95 Any urgent business previously agreed with the Chair**

Chair

Date