

REPORT OF GOVERNANCE COMMITTEE

1. The report summarises the business transacted at the Governance Committee meeting held on 21 June 2017.

GOVERNANCE COMMITTEE – 21 JUNE 2017

Draft Statement of Accounts 2016/17

2. The Chief Finance Officer presented the Committee with the draft Statement of Accounts (SOA) for 2016/17 for approval before being authorised for issue by the end of June 2017. The report 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.
3. Members were made aware of difficulties in meeting the earlier final deadline and this had been compounded by discussions around the designation of a large Capital Grant towards the Primrose Gardens Project. The External Audit representative present advised that there was no ultimate sanction for not meeting the deadline.
4. The closure of accounts in 2016/17 had been a noticeable improvement 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 that potential to delay closure.
5. Members were informed that the deadline for closure of accounts had been brought forward to the end of May in 2017/18 onwards in line with statutory government requirements. The Committee was satisfied that progress had been made this year and it was advised that once audited, a report would be published. The report was noted.

Treasury Management Annual Report 2016/17

6. The Committee received the Treasury Management Annual Report detailing the Council's performance and compliance with Prudential Indicators for the financial year ended 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.
7. 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 made 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.

8. 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.
9. It was explained to the Committee that the likelihood of an immediate increase in rates diminished during 2016/17, and use of internal cash balances rather than new external loans continued. Significant savings had been made through internal cash balances, which had ultimately reduced external borrowing. However, due to the Council's capital investment plans, additional long-term borrowing would be required during 2017/18. It was estimated that this borrowing was likely to meet the CFR limit but due to the balance of accounts would never exceed this limit. The report was noted.

Charity and Trust Accounts 2016/17

10. 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.
11. 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 providing 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.
12. 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. The Committee were reassured that officers would present and discuss the potential options available to the Council regarding this following the Council meeting scheduled for July. Members approved the accounts presented in appendix A to E of the report.

Annual Governance Statement 2016/17

13. The Director of Policy and Governance provided 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 statement alongside its annual finance statements. The Committee considered the draft Annual Governance Statement (AGS) which had been produced in accordance with the guidance issued by the Chartered Institute of Public and Financial Accountancy (CIPFA) and the Society of Local Authority Chief Executive (SOLACE). The format of the Annual Governance Statement (AGS) was substantially the same as previous years however the document had become more readable and accessible for the public to understand whilst ensuring continuity remained.

14. Agreed improvements were detailed within the report that would build and strengthen the Council's corporate governance arrangements in relation to three themes; information management, risk management, and corporate policies which had been carried over from 16/17 for continuation in 17/18. Equality and Diversity was added to further embed these values within 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 AGS demonstrated that the Council had strong governance arrangements and there were no areas of significant non-compliance by the Council.
15. 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 2016/17 financial statements.

Strategic Risk Register 2017

16. The Committee received a report of the Director of Policy and Governance that provided an update 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. Members were informed of the introduction of the Council's new risk management system; the GRACE (Governance, Risk and Control Self-Assessment) system, which scored on a 4x4 matrix and provided a more comprehensive tool on which to record and evaluate risk.
17. The risk register is 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.
18. Officers granted reassurance that although figures appeared higher, the scores were equivalent on the newly implemented GRACE system and therefore a risk score of 16 could still be mitigated. Officers would look further into achieving this and provide a progress update which would include an estimation figure based on potential mitigation. The report was noted.

Compliance with International Auditing Standards

19. 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 being sought by the external auditors, as part of the 2016/17 accounts. The specific assurances sought by Grant Thornton were set out in two letters appended to the report.
20. Given that the assurances requested were similar to evidence being collated by Internal Audit to support the Annual Governance Statement 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.

21. It was agreed that the Chair of the Governance Committee and the Chief Executive sign the assurance letters requested by Grant Thornton.

Internal Audit Annual Report 2016/17

22. The Committee received 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.
23. Members were informed 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 the 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.
24. It was reported that there had been a 42 day shortfall in the number of planned days to actual days for both Chorley and Shared Services which was offset by a period of sickness absence by a member of the Internal Audit Team. Members 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, the red controls assurance ratings awarded only one audit, Information Governance, which received a score of 9 (limited assurance).
25. Officers and Members were satisfied that when the individual ratings were aggregated, the Council continued to operate within a strong governance and control environment. The report was noted.

Recommendation– to note the report.

**COUNCILLOR PAUL LEADBETTER
CHAIR OF GOVERNANCE COMMITTEE**