

Report of the Governance Committee

1. This report summarises the business undertaken at the Governance Committee meeting held on 28 July 2021.

2019/20 Audit Findings Report

2. We welcomed Michael Green, Grant Thornton to present the finding following the audit of the 2019/20 financial statements. The audit was performed against the backdrop of the Covid-19 pandemic.
3. The delivery of the Audit Opinion is imminent and is anticipated to be an unqualified opinion on the statement with an emphasis of matter paragraph. This directs attention to certain aspects of the financial statements to ensure full understanding of the issues and circumstances around the valuation of land and buildings.
4. A Value for Money Audit was performed. In 2019/20, two significant risk areas identified, which are financial sustainability and the purchase of Logistics House.
5. The work on financial sustainability has concluded and there are no findings or issues to report. The work on the purchase of Logistics House is ongoing. No statutory duties have been exercised by the auditor.
6. The audit performed to a materiality level of over £1,000,000, no errors were identified.
7. The significant audit risk identified as affecting the Council in 2019/20 is Covid-19. The impact of the pandemic is detailed within the reports, with an outline of the response.
8. A standard risk that features in all audits is that of management override of controls, which are adjustments made by management that could potentially manipulate the financial statements. Numerous tests against the risk performed and no matters or concerns were raised to Committee.
9. A further standard risk is around improper revenue recognition. Due to the income stream of the Council, it is easy to verify and difficult to manipulate in a fraudulent manner. No issues or matters were raised to Committee.
10. The delay in the production of the Financial Statements for 2019/20 is due to delays and issues with valuation of land and buildings. On receipt of the valuations, some adjustments were identified which resulted in the reduction in value of some of the properties in the accounts by approximately £10 million. The properties had been valued at cost rather than applying the CIPFA code of guidance which advises the valuations are based on 'assets in use'.
11. The auditor explained that there is significant risk around the valuation of the net pension liability; this valuation is underpinned by numerous estimates, judgments and assumptions. Due to this, there is a greater risk of error than in other areas of the Financial Statements. Assurances have however been received from the Lancashire Pension Fund and the pension fund actuary on the assumptions used. No issues or misstatements were identified other than the material uncertainty.
12. Logistics House was originally classified as an operational asset, this was challenged on the basis that the asset was purchased to secure future income revenue and was more appropriately observed as an investment property and therefore was reclassified in the financial statements.
13. Value for money audit work is ongoing.
14. The fees for the 2019/20 audit will be finalised in due course as work is ongoing. Discussions with management will take place on the value of the fee before returning the figure to the Committee for formal approval.
15. We noted the report.

2019/20 Statutory Accounts

16. We welcomed Louise Mattinson, Director of Finance to present the Statement of Accounts for 2019/20.
17. The accounts were expected to be published 30 November 2020; this was not achieved due to the delays outlined in the previous report from Grant Thornton.
18. It is a legal requirement to produce, present and approve the accounts to demonstrate accountability and transparency.
19. One adjustment to be made to the financial statements relates to the rental income through to 31 March 2020 in respect to Logistics House.
20. We decided that:
21. The Committee should approve the audited Statement of Accounts for 2019/20 (Appendix A), subject to any amendments which in the opinion of the Director of Finance (Section 151 Officer) are minor in nature, such minor amendments to be defined as non-material to the financial position of the authority. The Director of Finance will exercise this delegation in consultation with the Chair of Governance Committee. In the event that the Director of Finance is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.
22. That the Committee should authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation (Appendix B).

Charity and Trust Account

23. The Council is responsible for five Charity and Trust Accounts. Four have a small balance with minimum assets, with the lowest at £1,700, and the highest at £5,400. One exception is the account 'proceeds of sale from the Free Library, with assets of £130,000. Very few transactions took place during the year.
24. We approved the accounts presented in Appendices A to E.

Management Responses to the External Auditors Planning Inquiries

25. Director of Finance, Louise Mattinson, explained that the Council was asked a series of questions to inform the development of the Audit Plan produced by Grant Thornton for 2020/21.
26. Questions covered areas such as events, issues, transactions, or circumstances that would impact on the accounts for 20/21. Covid-19 has had a significant impact, not just financially but on the entire operation and governance of the Council.
27. We reviewed and approved the management responses to the auditor's inquiries.

2020/21 Audit Plan

28. We welcomed Georgia Jones, Grant Thornton the Engagement Lead for 2020/21 to present the Audit Plan.
29. The risks and work proposed to mitigate the risks were identified and outlined.
30. It is possible that the Council will have to prepare group accounts due to the ownership of the property company. An assessment of the transactions will be completed to assess the effect on Council accounts. If the impact is material, group accounts will be necessary.

31. Risks identified are similar to 2019/20. These include management override of controls, valuation of land and buildings including investment properties, and the valuation of net pension fund liability.
32. The materiality levels are similar to the previous year.
33. 2020/21 includes a new auditing standard with a focus on accounting estimates to gain assurance that all estimates and assessments are based on evidence.
34. The Value for Money audit work is incomplete for 19/20 but once completed, an updated risk assessment will take place for 2020/21. If any significant weakness is discovered, the Committee will be informed.
35. We noted the report.

Treasury Management Annual Report 2020/21 and Quarter One Monitoring 2021/22

36. We welcomed Tony Furber, Principal Financial Account, who explained that the Treasury Management and cash flow in 2020/21 was unique. The base interest rate was historically low at 0.1%, and the cash flow patterns of the Council were unusual due to the significant sums that were paid to the Council for onward payment as Business Support Grants.
37. With the unusual cash flow and low interest rates, the Council possessed higher cash balances than usual, however there were fewer investment opportunities as more councils were competing to invest their surplus balances with greater competition.
38. Chorley Council typically retains money for a short period of time which added to the difficulty to meet the interest earnings target. In 2019/20, the target was 0.75% with an actual result of 0.63%. The target for 2020/21 was 0.1% and the Council achieved 0.09%. The average daily balance was £30.8million with a total of £12,740 interest earned. Base interest rates are unlikely to be changed for the foreseeable future.
39. The pandemic impacted upon other areas within the report. The Capital Programme was significantly impacted with a total spend of £9 million for the year and did not reach the levels expected. Of the £9 million, £7 million was directly financed from capital receipts, grants and revenue contributions, leaving £2 million of underlying borrowing requirement. The Council did not enter into any further external long-term borrowing.
40. We noted the report.

Strategic Risk Update 2021-22

41. We welcomed Howard Anthony, Performance and Partnerships Team Leader to present the Strategic Risk Update. The updated document contained the latest assessment of risk. The revised document totaled 19 high risks and 7 medium risks. Of the 19 high level risks, 3 were new.
42. We noted the report

RIPA Application Update

43. No RIPA Applications were made

Recommendation

44. To note the report.

Councillor Debra Platt

Chair of Governance Committee

MP