

Minutes

Corporate Governance Group

25th July 2019



Present

Councillors	Present	Councillors	Present
P Euesden	Yes	R van Dulken (Chairman)	Yes
D Hume	Yes	D Wallace	Yes
H Johnson (Vice-Chairman)	Yes	T Walsh	Yes
D Mann	Yes	Mrs L Walters	Yes
Miss V Santomauro	Yes		

In attendance:

Chris Fleetham	Corporate Director (Finance)
Jessica Mann	Governance and Members Officer
Angie Mitchell	Audit, Insurance and Fraud Manager
Phil Myers	Financial Services Manager
Rhonin Turner	Governance and Members Apprentice
Trevor Wilson	Head of Finance

Emma Etherington	BDO (External Auditors)
Aphrodite Lefevre	BDO (External Auditors)
Francesca Palmer	BDO (External Auditors)

1 **MINUTES**

DECISION: That the Minutes of the meeting of the Governance Committee held on the 24th April 2019 were accepted and signed by the Chairman.

2 **PUBLIC QUESTION TIME**

INFORMATION: There were no questions asked, or statements made.

3 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

4 **STATEMENT OF ACCOUNTS 2018-19 AND THE EXTERNAL AUDITOR'S AUDIT COMPLETION REPORT**

INFORMATION: In order to ease the management of the meeting, Members agreed to reorder the Agenda to enable Item 8, "Statement of Accounts 2018-19 and the External Auditor's Audit Completion Report," to be considered first.

The Council's accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code is based on International Financial Reporting Standards (IFRS), except where these were inconsistent with specific statutory requirements. The Code constitutes a 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.

Members were advised that the key change in the Code for 2018/19 was the adoption of IFRS9 Financial Instruments. Under IFRS9, changes had been made to the categories used for the Council's financial instruments (e.g. investments) and changes in the fair value of pooled funds was now recognised in the Surplus or Deficit on the Provision of Services (as reported in the Comprehensive Income and Expenditure Statement). This change potentially meant that unrealised gains or losses on these investments would directly impact on General Fund balances; however, under new statutory regulations issued by the Ministry for Housing, Communities and Local Government (MHCLG), any such gains/losses were to be deferred for up to a period of 5 years ending on 31st March 2023 or, if earlier, when shares or units were sold.

The Council's External Auditor, BDO LLP (BDO), commenced their final audit of the accounts on 3rd June 2019. During the audit, the Council agreed to a number of changes made to the draft accounts. It was anticipated that the auditor would issue an unqualified opinion on the accounts, and that the final accounts would be published on/before the statutory deadline of 31st July 2019.

An update was also provided to Members as to the current status of the outstanding matters in respect of the financial statements and use of resources for the year ended 31st March 2019; as of the reporting date, the following matters remained outstanding until further notice:-

- Receipt of letter of representation.
- Completion of BDO Manager and Director reviews.
- Completion of work on Valuations of PPE and Investment property.
- Completion of Subsequent events review.
- Receipt of remaining investment confirmations.

DECISION:

1. The draft External Auditor's Audit Results Report for the year ended 31st March 2019 was received and noted.
2. The certification of the Letter of Representation by the Corporate Director and Chair of the Corporate Governance Group was approved.
3. The Council's Statement of Accounts 2018/19, subject to the changes being made as agreed with the External Auditor was approved.

REASON FOR DECISION: To comply with the Accounts and Audit Regulations that Members approve the Council's Statement of Accounts with the benefit of the External Auditor's report to the Corporate Governance Group.

5 **KEY FINANCIAL INDICATORS 30TH JUNE 2019**

INFORMATION: Members considered a report on the Key Financial Indicators which provided information on performance for the financial year to 30th June 2019.

DECISION: Members accepted the report of the Key Financial Indicators as of 30th June 2019.

REASON FOR DECISION: To provide evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues that may arise.

6 **INTERNAL AUDIT CHARTER - UPDATED**

INFORMATION: Consideration was given to a report on the updated Internal Audit Charter which reflected both the revised Committee structure and the requirements of the Public Sector Internal Audit Standards (PSIAS).

The PSIAS required an Audit Charter to be in place which would be reviewed periodically and presented to the Corporate Governance Group for approval. The Charter specified the purpose, authority and responsibility of the Council's Internal Audit function.

DECISION: The updated Internal Audit Charter was approved.

REASON FOR DECISION: To ensure that there is an Internal Audit Charter which complies with the Public Service Internal Audit Standards (PSIAS).

7 **INTERNAL AUDIT UPDATE, INCLUDING PROGRESS AGAINST AUDIT PLAN 2019-20**

INFORMATION: Consideration was given to a report which provided Members with an update on the progress against planned audit work and other matters which affected the provision of the Council's Internal Audit Service.

Comment was made on the audit recently implemented in respect of the Council's business continuity. At the time that the report was composed, a status of "Limited Assurance" was assigned against this matter; however, it was stressed to Members that since this time, significant progress had been made towards improving the Council's resilience in relation to its business continuity, and that a more positive outcome was expected in future.

DECISION: Members noted the progress against the Revised Internal Audit Plan 2019/20.

REASON FOR DECISION: The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Corporate Governance Group, being the Committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

8 **OPERATIONAL RISK MANAGEMENT**

INFORMATION: Members considered a report which summarised the different types of Operational Risks that were currently being encountered across the organisation.

Operational Risks related to those risks identified by managers and staff which were likely to be experienced in the day-to-day work environment.

An audit of Risk Management was undertaken by Internal Audit as part of the 2018/19 Audit Plan. Whilst the overall assurance given to the Council's risk management approach was Significant Assurance, some weaknesses in the arrangements had been identified. With regard to operational risks, the report concluded that these were not all subject to regular review and that key aspects of some of the risks were not clear. It was relayed that the findings were under consideration by Management, but it was anticipated that actions and training would be determined and delivered, as appropriate, as part of the Business Planning process for 2020/21, which was due to commence in Autumn 2019.

In response to a request from a Member, it was agreed that in future reports, a financial impact value would be provided, as appropriate, under the "consequence" of the operational risks (e.g. as had been specified against the Town Hall service unit area regarding loss of income).

Further to a query from a Member, officers agreed to confirm whether the potential impact of climate change on the delivery of the Council's individual services was identified as a risk within the Strategic Risk Register.

DECISION: Members noted the Operational Risks and the Action Plans for managing the high rated risks.

REASON FOR DECISION: For Members of the Corporate Governance Group to be assured that the Council's strategic and operational risks, with a high risk rating, are being actively managed.

9 **TREASURY MANAGEMENT ANNUAL REPORT 2018-19**

INFORMATION: Members considered a report on the Council's Treasury Management Annual Report 2018-19. The Council's Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Full Council on 19th February 2018 as part of the overall Budget and Council Tax Setting report. A mid-year report was considered by Full Council on 10th December 2018. Both of these reports were first reviewed by the Governance Committee (now the Corporate Governance Group).

Members were informed that actual capital spend was £11.409m, which was higher than originally anticipated in TMSS. The increase was largely attributed to a number of decisions made on projects under the District Investment Strategy (DIS), including the acquisition of land for the proposed Horizon 120 employment site.

It was noted that the Council's Capital Financing Requirement (CFR) had increased in the year from £8.791m to £12.215m, although the Council's borrowing and other debt liabilities had reduced from £9.861m to £8.499m. The difference between the CFR and debt represented the extent of "internal borrowing" being undertaken to finance capital expenditure in the short-term. The reduction in external borrowing was due to annual repayments made on finance leases, and the repayment of £1m to Essex County Council. Members were advised that a consequence of internal borrowing was a reduction in the Council's cash balances and therefore investments.

Across the financial year the Council's investment balances averaged £58.343m, with a range of between £42.259m and £68.267m. The total amount invested at 31st March

2019, was £46.527m and the report provided further details of the sources of cash for these investments.

The report contained details of the Council's long-term pooled fund investments, which were increased by the addition of two new diversified funds and a placement of £1m in each. This took the total amount invested in long-term pooled funds to £18m as at 31st March 2019. The total market valuation (or fair value) of the Council's pooled funds was £19.308m, which represented an unrealised gain of £1.308m on the amounts invested, which was £373,000 higher than the valuation at 31st March 2018.

With regard to investment activity, the Council's treasury management advisors, Arlingclose, benchmarked this on a quarterly basis. As at 31st March 2019, the Council's position compared favourably on a number of indicators, including income and total returns which were both higher, whilst also maintaining a relatively high level of credit quality on short-term investments.

Total investment income was £1.158m (an overall return of 1.98%) which was £343,000 over budget due to a combination of higher cash balances and increased market interest rates. Dividends from long-term pooled funds were £866,000, a 5.24% return, whereas short-term investments contributed £292,000 of interest, which equated to a return of 0.70%.

It was reported that the Council held direct property investments with a market value of £36.304m as of 31st March 2019, which largely comprised industrial land and units, shops, offices and other commercial property. The net rental income of properties leased to third parties was £2.234m, which represented a return of 6.3% on the value of assets. A new investment property in Silver End was acquired by the Council during the year, and the overall market value of investment property increased by £1.05m, due mainly to rent reviews and changes to lease terms that resulted in improved yields.

The Council also had a number of loans and deposits made for service reasons. The amount outstanding on these was £327,000 at 31st March 2019. The largest single loan outstanding of £200,000 was due to be repaid in 2019/20, and a mortgage loan of £47,000 had since been redeemed early by the borrower at the end of April 2019.

Finally, it was reported that the Corporate Director for Finance had confirmed that all treasury management activities undertaken during 2018/19 were in full compliance with the CIPFA Code of Practice and the Council's approved TMSS. It was also noted that the Council continued to employ Arlingclose Ltd as its treasury management advisors.

DECISION: That acceptance of the Treasury Management Annual Report 2018/19 be recommended to Cabinet, prior to its submission to Full Council.

REASON FOR DECISION: The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services, which requires that the Council receives an annual report on the treasury management function. This report is to be considered first by the Corporate Governance Group in order to exercise its responsibility for scrutiny over treasury management activities. The report will then be considered by Cabinet before submission to Full Council with the benefit of any proposed changes and/or comments of the Corporate Governance Group.

CORPORATE GOVERNANCE GROUP PROGRAMME OF WORK

INFORMATION: Consideration was given to a report on the programme of planned work for the Corporate Governance Group during the upcoming year, of which included a brief summary of the scope of each report expected. It was advised that ad-hoc reports could be added during the year where requested by Members, the External Auditor (BDO) or officers.

DECISION: That Members:-

- a) Noted the Corporate Governance Group programme of work for 2019/20; and
- b) Identified any training needs to enable them to effectively discharge their duties.

REASON FOR DECISION: To receive a draft programme of the work and reports which will be undertaken and presented to the Corporate Governance Group over the upcoming 12 months.

The meeting commenced at 7.15pm and closed at 9:14pm.

Councillor R van Dulken
(Chairman)