

Committee:	Audit Committee	Agenda Item No.:	8.
Date:	21 st May 2013	Status	Open
Subject:	Key Issues of Financial Governance		
Report by:	Director of Corporate Resources		
Other Officers Involved	Assistant Director Finance and IT		
Director	Director of Resources		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council.		

RELEVANT CORPORATE AIMS

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

TARGETS

All.

VALUE FOR MONEY

Effective financial governance arrangements are a key element in securing value for money across all Council Activities.

Executive Summary:

1. The Key Issues of Financial Governance report is intended to track progress in the implementation of previous recommendations from both External and Internal Audit and to inform the Audit Committee of progress in addressing those recommendations. It constitutes a standing item on all agendas of the Audit Committee.

Key Issues of Financial Governance – Main Report

2. The purpose of this report is to update Members of the Audit Committee with progress against the major issues where further progress or ongoing monitoring is required. In particular the report outlines issues raised by both External and Internal Audit in order to monitor progress in resolving any issues that have been identified and for evaluating the overall progress of the Council's financial governance arrangements. Within the body of the report officers have set out four issues which have been agreed by previous

meetings to this Audit Committee to constitute Strategic Issues of Financial Government.

3. In addition to the Strategic Issues which are outlined below the External Auditor reports raise a number of issues of detail and progress against these detailed recommendations is tracked in Appendices 1 and Appendix 2 to this report. The two appendices set out the detailed recommendations which were made by the Council's External Auditors in their Annual Governance Letter of September 2012, the Annual Audit Letter of October 2012, and the Interim Governance Report of June 2012. Issues within the Interim Governance Report and the Annual Governance Report will be marked as completed within the Appendices as they are resolved.
4. With regard to the Strategic Issues which are summarised below the table provides an outline of the issue and an update of the current position. Given that these are Strategic Issues the responsibility for addressing them rests with the Director of Corporate Resources and other Members of SAMT. Resolution of the issues is also dependent upon securing the support of elected Members. The appropriate role for the Audit Committee would appear to be that of monitoring and evaluating progress and where appropriate securing further action from officers.

Issue Raised	Progress to date including target dates.
<p>1. Take effective steps to balance the Council's budget over the period of the Medium Term Financial Plan.</p>	<p>Current indications are that the Council will achieve its full targeted level of savings of some £0.975m in respect of the current financial year (2012/13), which will mean that no call on General Fund balances will be required in order to balance the budget. For 2013/14 there is an overall savings target of £0.884m of which some £0.615m has been identified with the measures to secure these savings currently in the process of implementation. A report on progress to date will be taken to Executive in June. With respect to the residual amount of £0.269m it is proposed the options to address this shortfall are managed by developing a package to secure both the £0.269m together with the financial shortfall of some £0.724m with respect to 2014/15. A savings strategy is planned to be agreed for implementation during the summer of 2013.</p>
<p>2. To secure further improvements in financial reporting with respect to the Council's published accounts.</p>	<p>The Council has improved the quality of its financial accounts as demonstrated in the Annual Governance Report for 2011/12. The improvements secured in 2011/12 will provide a firm foundation for further improvements. A number of improvements have been delivered by the Accountancy Section and work is now underway to prepare the 2012/13 Statement of Accounts.</p>
<p>3. The Council's financial management arrangements need to improve in areas such as budget management and monitoring, budgetary control by costs centre managers, reconciliations and financial reporting of the budget and major projects to Members.</p>	<p>The Council has managed its budgets well during 2012/13 with effective financial management being supported by regular and timely quarterly monitoring reports. These reports cover the General Fund, HRA, Capital and Treasury Management activity in an integrated manner to provide an overall position statement for Members. Outside of these reports regular Medium Term Financial Plan updates are submitted to Members tracking the progress made by the Council against savings targets and individual work streams.</p> <p>To improve budgetary control arrangements officers have commenced quarterly Performance, Risk and Finance monitoring meetings with each Directorate where key managers discuss the year to date information presented.</p> <p>The Accountancy Section has:</p> <ul style="list-style-type: none"> • Undertaken an early budget review for 2012/13

	<ul style="list-style-type: none"> • Introduced a new approach to budget preparation with cost centre managers • Improved processes for monitoring the use of grants and reserves. • Introduced a savings log to record progress achieved against targets. • Introduced a new form for budget transfers (virement). The authorisation of any budget transfer is only undertaken by the Chief Accountant and the Assistant Director of Corporate Resources. • Commissioned new financial reports from the Financial Management System that enable multi-year reports on budgets to be run that inform and control the three year MTFP. • Undertaken a redistribution of tasks and responsibilities within the Section coupled with the secondment of a member of staff from NEDDC accountancy section. • The Capital Accountant has maintained close monitoring of the capital programme which should ensure that all capital expenditure transactions are correct for 2012/13 <p>The timeliness of reconciliations has been a target improvement during the year however this has been secured against a background of changing financial systems with more complex requirements and pressure on staff resources which has resulted in a limited number of reconciliations not being completed in line with agreed timescales. Senior management has taken action to address the limited number of incidences as a matter of urgency.</p> <p>Any major projects will be subject to approval of a detailed business case which will be appropriately reported to Executive/Council.</p>
<p>4. To improve the Council's Internal Control arrangements, and to strengthen the culture of financial management and budgetary control across the authority.</p>	<p>This Key Issues of Financial Governance report, together with reports from Internal and External Audit should enable the Audit Committee to monitor the progress that is being made in respect of securing improvements in our internal control arrangements. The Directors are required to report back to the Audit Committee on a regular basis concerning Internal Audit reports.</p>

	<p>The second part of this item re the culture of financial management and budgetary control is covered through the actions detailed in the section above. These measures introduced by the Accountancy Section during the year have all had a positive impact on improving the culture of financial management and budgetary control of the organisation.</p> <p>The regular staff bulletins and road-shows from the Chief Executive all go to reinforce the financial management arrangements and keep staff informed of the Council's financial position.</p>
<p>5. To ensure that issues around the Council's contractual arrangements are resolved and that good quality arrangements remain in place.</p>	<p>A working group of officers has been established to improve co-ordination between departments and to monitor progress. Details of creditor payments over £500 are being actively monitored. Overall the Council is making good progress in addressing these issues. Internal Audit will review the position in respect of 2012/13 in June 2013.</p>

Recommendations:

6. It is recommended that Audit Committee considers
 - (i) the Strategic Issues of Financial Governance as set out in the table contained within the main body of the report
 - (ii) the more detailed issues raised by External Audit as set out within the attached Appendices'
- and raises any issues of concern which it may have with progress to date.

Reasons for Recommendations

7. To allow the Audit Committee to consider the progress that has been secured in improving the Council's financial governance arrangements.

Director of Corporate Resources

May 2013.

APPENDIX 1
PROGRESS IN RESPECT OF ISSUES ARISING FROM THE ANNUAL GOVERNANCE REPORT 2011/12

Recommendation 1	
Review arrangements for monitoring delivery by external contractors to ensure that controls are appropriate to the level of risk.	
Responsibility	Director of Corporate Resources
Priority	High
Date	September 2012
Comments	This is included as one of the Strategic Issues within the main body of the report. The issues identified within the report which arose in respect of 2011/12 are now either resolved or in the process of resolution. Given the time required to procure alternative arrangements some of the Council's longer term reforms will not be in place until April 2013, however, in these cases appropriate interim measures have been put in place. The position in respect of 2012/13 will be addressed by the employee training programme which was completed in Autumn 2012, monitoring items of expenditure over £500 (to be undertaken on a quarterly basis) by the Corporate group which has been established to monitor contractual arrangements, and by a further Internal Audit review of this area of work which will be undertaken at the end of the current financial year.

Recommendation 2	
Ensure the contingent liabilities memo is circulated and responses noted as standard part of accounts preparation processes.	
Responsibility	Asst Director Finance and IT
Priority	High
Date	30 th September 2012
Comments	This action has been completed. This will be addressed by inclusion within the accounts closedown timetable in respect of 2012/13.

Recommendation 3	
Ensure that the Housing property by property records are sufficiently robust to support your accounting treatment in future years and that total capital expenditure as recorded in the ledger can be reconciled to total expenditure per Housing records.	
Responsibility	Asst Director Finance and IT / Principal Accountant
Priority	Medium
Date	Ongoing to March 31 st 2013
Comments	The final accounts for 2011/12 highlighted that the housing capital expenditure records do not provide adequate detail to meet the requirements of current accounting standards. Changed procedures have been introduced to ensure full compliance in 2012/13 and future years.

Recommendation 4	
Ensure staff in all departments are trained to code invoices correctly.	
Responsibility	Director of Corporate Resources
Priority	High
Date	November 2012
Comments	<p>The Accountancy Section has provided ongoing guidance and advice to cost centre managers during 2012/13 regarding the coding of invoices. To improve the guidance and support offered to cost centre managers the duties of the individual employees of the Accountancy Team have been redistributed. This coupled with the improved budgetary control arrangements maintained from the Accountancy Section have identified particular areas where invoice coding was an issue.</p> <p>The early review of budgets by the Accountancy Section resolved a number of issues surrounding repairs and maintenance budgets and where coding of revenue expenditure against capital budgets had taken place. The continual application of these controls and the removal of certain capital budgets have improved the position within the Council.</p>

Recommendation 5	
Update your instructions to the Valuer for 2012/13 to specify the approach to DRC to be adopted	
Responsibility	Asst Director Finance and IT / Principal Accountant
Priority	High
Date	October 2012
Comments	The Valuation Instruction was sent in October 2012 and discussion with the valuer has been undertaken to ensure that the approach adopted is appropriate.

Recommendation 6	
Further develop your approach to the calculation of impairment allowances by including collection rates in your assessment of the likelihood of collection.	
Responsibility	Asst Director Finance and IT / Chief Accountant
Priority	Medium
Date	Ongoing to March 2013
Comments	The Council will consider its approach to setting an appropriate doubtful debt provision as part of the final accounts process for 2012/13.

Recommendation 7	
Train all departmental staff in the importance of adhering to budgetary control processes.	
Responsibility	Senior Finance Team
Priority	High
Date	November 2012
Comments	<p>The changes introduced during the year by the Accountancy Section have ensured that budgetary control is improved throughout the Council. In particular the following controls and actions have been introduced:</p> <ul style="list-style-type: none"> • Undertaken an early budget review for 2012/13 • Introduced a new approach to budget preparation with cost centre managers • Improved processes for monitoring the use of grants and reserves. • Introduced a savings log to record progress achieved against targets. • Introduced a new form for budget transfers (virement). The authorisation of any budget transfer is only

	<p>undertaken by the Chief Accountant and the Assistant Director of Corporate Resources.</p> <ul style="list-style-type: none"> • Commissioned new financial reports from the Financial Management System that enable multi-year reports on budgets to be run that inform and control the three year MTFP. • Undertaken a redistribution of tasks and responsibilities within the Section coupled with the secondment of a member of staff from NEDDC accountancy section. • The Capital Accountant has maintained close monitoring of the capital programme which should ensure that all capital expenditure transactions are correct for 2012/13 • Introduced quarterly Performance, Risk and Finance meetings with key managers of each Directorate • Re-commenced the Capital Monitoring Group
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Recommendation 8	
Ensure authorisation of the use of reserves is formally controlled.	
Responsibility	Senior Finance Team
Priority	High
Date	Ongoing
Comments	The Use of Reserves and holding accounts to finance in year revenue expenditure was identified as an issue during the 2011/12 accounts closedown process. The Accountancy Section took action to ensure that these transactions were correctly recorded in the final accounts. Our improved financial monitoring and authorisation procedures should effectively remove this risk with respect to the 2012/13 accounts.

Recommendation 9	
Continue to monitor implementation of agreed recommendations from our interim governance report for 2011/12 via the Key Issues of Financial Governance Report.	
Responsibility	Director of Corporate Resources
Priority	High
Date	Ongoing
Comments	The Key Issues of Financial Governance report is a standing item on the agenda of the Audit Committee and progress against these issues were originally reported to the Audit Committee meeting in June 2012 will continue to be monitored until the recommended actions are completed.

Recommendation 10	
Review management response to governance of contracts report and monitor implementation of agreed actions.	
Responsibility	Director of Corporate Resources
Priority	High
Date	September 2012
Comments	This will be monitored by way of the Key Issues of Financial Governance report, supported by the involvement of the Director of Corporate Resources in the officer contract manager group.

Recommendation 11	
Ensure all relevant information is considered when reviewing sources of evidence to support the annual governance statement	
Responsibility	Director of Corporate Resources
Priority	High
Date	March – May 2013
Comments	This will be reviewed as part of the preparation for the Published Accounts in respect of 2012/13.

Recommendation 12	
Monitor management response to virement and ordering process issues raised by Internal Audit.	
Responsibility	Senior Finance Team
Priority	High
Date	Ongoing
Comments	Budget Transfers (Virement) are now only allowed on the basis that they have been authorised by Senior Finance Officers and relevant cost centre/department managers.

Recommendation 13	
Update the related party transactions note to include more detailed information.	
Responsibility	Asst Director Finance and IT / Chief Accountant
Priority	High
Date	September 2012
Comments	The Statement of Accounts 2011/12 was updated to incorporate this more detailed information. Future year procedures will be amended in line with those utilised in 2011/12.

Recommendation 14	
Ensure the detailed rent arrears report is run at the year end and retained until the audit process is complete	
Responsibility	Chief Accountant / Principal Accountant / Housing Officers
Priority	High
Date	To be actioned 31 st March 2013
Comments	The requirement to collect and maintain this information will be incorporated into the Close Down Timetable in respect of the 2012/13 Accounts.

Recommendation 15	
Train departmental staff to ensure that standards of documentation retained are sufficient to support items included in your statements of account.	
Responsibility	Senior Finance Team
Priority	High
Date	Ongoing during 2012/13
Comments	As the closedown of accounts for 2012/13 are prepared the Accountancy Section will obtain appropriate working papers from departments to support items included in the Statement of Accounts.

Recommendation 16	
Review your approach to submitting data on RO / CIPFA forms. This should allow more meaningful use of comparative benchmarking data to feed into evaluation of options, and plans for efficiency savings. (repeat recommendation)	
Responsibility	Senior Finance Team / Principal Accountant
Priority	High
Date	September 2012
Comments	The review has already been undertaken in respect of the data provided within the 2011/12 RO forms and the 2012/13 RA returns. The RA and RO forms are cleared by the Assistant Director of Corporate Resources before submission.

Recommendation 17	
Continue to monitor implementation of agreed vfm recommendations from our interim governance report for 2011/12 via the Key Issues of Financial Governance Report	
Responsibility	Director of Corporate Resources
Priority	High
Date	Ongoing
Comments	These agreed recommendations will be incorporated within the Key Issues of Financial Governance Report and will be retained on that report until the Audit Committee agrees that the underlying issue has been resolved.

APPENDIX 2**PROGRESS IN RESPECT OF ISSUES ARISING INTERIM GOVERNANCE REPORT JUNE 2012**

Recommendation 1 – Completed	
Ensure progress on implementing all relevant recommendations is reported in the Key Issues of Financial Governance report to Audit Committee.	
Responsibility	Director of Corporate Resources
Priority	High
Date	In place since October 2011 and ongoing.
Comments	The Key Issues of Financial Governance is now a standing item on all Audit Committee agendas.
Recommendation 2 – Completed	
Review the accounting treatment of Creswell Leisure Centre in the 2011/12 statements of account and consider the implications, if any, for the 2010/11 statements of account	
Responsibility	Asst Director / Chief Accountant
Priority	High
Date	June 2012
Comments	This issue has been given appropriate consideration and resolved as part of the closure of the 2011/12 accounts. In the view of officers there is clear evidence to support the view that the Council is the beneficial owner of the asset concerned.
Recommendation 3 – Completed	
Carry out a review of your property records to ensure that your assets are correctly recorded and accounted for.	
Responsibility	Chief Accountant / Principal Accountant
Priority	High
Date	June 2012
Comments	This work has been undertaken as part of the process of closing the Council's accounts in respect of 2011/12. Further work will be undertaken over the course of the current financial year to continue the process of quality assuring the Council's asset records.

Recommendation 4 – Completed	
Report the HRA reform related overnight counterparty limit breach to members.	
Responsibility	Director of Corporate Resources
Priority	High
Date	September 2012
Comments	This was reported to Members as part of the Treasury Management Outturn report in respect of 2012. The issue concerned arose specifically in relation to the HRA reform arrangements and is unlikely to reoccur.
Recommendation 5	
Include reports on the progress on recovery of your Icelandic Investments in treasury management reports to members.	
Responsibility	Director of Corporate Resources
Priority	High
Date	September 2012 – Ongoing
Comments	The position was clearly set out within the Council's Accounts in respect of 2011/12. Further detailed reports have been provided as part of the monitoring reports in respect of the Council's Treasury Management Strategy.
Recommendation 6	
Ensure material control account reconciliations are performed promptly at least monthly and are subject to independent evidenced review.	
Responsibility	Chief Accountant / Senior Accountancy Assistant
Priority	High
Date	Currently in place and ongoing
Comments	The Council's major reconciliations have been maintained throughout the close down period when workloads are at their most challenging. Further work is planned to improve the quality and to simplify the full range of Council reconciliations. Given pressures of work on staff and in particular work around the implementation of new systems which required the development of revised reconciliation procedures progress on improving the presentation has been slower than was envisaged.

Recommendation 7 – Completed	
Perform the more detailed creditors control account reconciliation as part of routine month end procedures.	
Responsibility	Chief Accountant / Senior Accountancy Assistant
Priority	High
Date	Currently in place and ongoing
Comments	This reconciliation has been reviewed and improved and is considered to be fit for purpose.
Recommendation 8 – Completed	
Act promptly on any future separation of duties issues reported to you.	
Responsibility	Director of Corporate Resources
Priority	High
Date	Ongoing
Comments	Any future separation of duties issues will be managed appropriately.
Recommendation 9 – Completed	
Ensure independent authorisation of the daily investment and borrowing sheets as part of your routine treasury management processes.	
Responsibility	Assistant Director / Principal Accountant (HRA – Capital)
Priority	High
Date	In place and ongoing
Comments	Controls are now in place.
Recommendation 10 – Completed	
Review the design and operation of treasury management controls as a matter of urgency.	
Responsibility	Assistant Director / Principal Accountant (HRA – Capital)
Priority	High
Date	In Place (Completed Sept 2012)
Comments	Controls are now in place.

Recommendation 11 – Completed	
Ensure staff performing reconciliations understand the processes they are undertaking and the need to report any breaches to more senior staff immediately.	
Responsibility	Director of Corporate Resources / Asst Director
Priority	High
Date	In place and ongoing.
Comments	Senior Officers have worked with staff to ensure they understand the processes being undertaking.
Recommendation 12 – Completed	
Update the schedule of control account reconciliations to include all control account reconciliations required.	
Responsibility	Chief Accountant / Senior Accountancy Assistant
Priority	High
Date	In place and ongoing.
Comments	Completed.
Recommendation 13 – Completed.	
Consider introducing checks of the rents uprating process prior to loading into Academy.	
Responsibility	Asst Director / Principal Accountant (HRA – Capital)
Priority	Medium
Date	1 st Quarter 2013
Comments	This has been undertaken as part of the budget and rent setting process for 2013/14.
Recommendation 14 – Completed	
Consider introducing checks of the benefits uprating process prior to loading into Academy	
Responsibility	Asst Director (Customer Services / Revenues) / Benefits Manager
Priority	High

Date	1 st Quarter 2013
Comments	A sample of transactions will be independently checked as part of the benefits uprating process in respect of 2013/14.
Recommendation 15 – Completed	
Review the items included in the HRA special services line against SERCoP and Code of Practice requirements.	
Responsibility	Chief Accountant – Principal Accountant (HRA – Capital)
Priority	High
Date	June 2012 ongoing
Comments	This has been undertaken as part of the accounts closure process in respect of the 2012/13 financial year.
Recommendation 16 – Completed	
Review all grants received in 2011/12 against Code of Practice Requirements	
Responsibility	Chief Accountant / Principal Accountant (x2)
Priority	High
Date	June 2012
Comments	This has been undertaken as part of the accounts closure process.
Recommendation 17 – Completed	
Ensure balance sheet disclosures are supported by a consideration of the relevant conditions or restrictions relating to amounts received.	
Responsibility	Assistant Director / Chief Accountant
Priority	High
Date	June 2012
Comments	This has been undertaken as part of the accounts closure process.
Recommendation 18	
Review the approach to the bank reconciliation process.	
Responsibility	Assistant Director / Chief Accountant
Priority	High

Date	June 2012 and ongoing
Comments	The approach has been reviewed and officers are of the view that the current reconciliation does verify the financial ledger to the bank account. The review did, however, conclude that the reconciliation used was overly complex and in need of simplification. Officers are seeking to introduce a revised reconciliation process. The implementation of other financial systems has delayed the planned work in this area.
Recommendation 19 – Completed	
Review the approach to the payroll reconciliation process.	
Responsibility	Assistant Director / Chief Accountant
Priority	High
Date	June 2012 initial / Completion December 2012
Comments	While Officers accept that the current payroll reconciliation is complex it is considered to achieve its purpose. A further review will be undertaken during 2012/13 in order to secure a simplification of the current reconciliation. Complete.
Recommendation 20	
Review the use of the Academy costing system to identify whether this is a productive use of staff time.	
Responsibility	Chief Accountant – Principal Accountant (HRA – Capital)
Priority	Medium
Date	December 2012
Comments	Officers will review the current process to consider whether the value of the management information produced justifies the level of work required to provide the information. Still Outstanding
Recommendation 21 - Completed	
In agreeing the new approach to managing member conduct:	
<ul style="list-style-type: none"> ■ clarify the approach to the use of the other action option throughout the process ■ improve the clarity of decision notices where appropriate to explicitly state that there has been breach of the code. 	

Responsibility	Solicitor to the Council (Monitoring Officer) / Deputy Monitoring Officer
Priority	Medium
Date	Sept 2012
Comments	The revised procedures for member's code of conduct and dealing with allegations of breach are being determined at the moment in line with good practice and having taken soundings from other Monitoring Officers in Derbyshire. The system will not include "other action" as this was a part of the old statutory system which ended in June 2012. In relation to decision notices, we are able to design our own (rather than relying on those dictated to us) and will therefore make them as clear as possible to those receiving them.
Recommendation 22	
<p>In considering major projects in the future, ensure that:</p> <ul style="list-style-type: none"> ■ risk management of major projects is linked to the formal risk management framework and is an integral part of reporting to members and identifies the potential implications and how these are being mitigated. ■ sufficient financial information is made available to members at each stage of the decision making process. Where commercial sensitivity exists ensure that the information is presented in a way that protects sensitive data whilst still providing members with sufficient information to enable them to make informed decisions. ■ In considering the achievement of VFM and best value ensure that: <ul style="list-style-type: none"> ■ net rather than gross benefits are considered; and ■ sufficient work is done at the initial options appraisal to demonstrate that the preferred option does present best value. 	
Responsibility	Director of Corporate Resources / Senior Alliance Management Team
Priority	High
Date	Ongoing, in respect of future projects.
Comments	The Council will continue to seek to ensure that Members receive appropriate advice concerning major projects. This will be undertaken as part of the strategic objective of improving the quality of the Council's financial reporting.