

Committee:	Audit Committee	Agenda Item No.:	11.
Date:	26 <sup>th</sup> July 2013	Status	Open
Subject:	Draft Statement of Accounts Including Annual Governance Statement 2012/13		
Report by:	Director of Corporate Resources		
Other Officers Involved	SAMT, Accountancy team.		
Director	Director of Corporate 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**

Strategic Organisational Development.

### **VALUE FOR MONEY**

Effective closure of the Accounts in line with the required timescale is a key element in promoting value for money within an authority

## **1 Purpose of the report**

- 1.1 To note the provisional outturn position in respect of 2012/13 as set out within the proposed introduction to the Accounts provided by the Chief Financial Officer.
- 1.2 To note that in line with the Accounts and Audit Regulations 2011 that the Chief Financial Officer will sign off the draft Statement of Accounts on behalf of the Council. The draft Statement of Accounts will be submitted for External Audit on the 30th June 2013.
- 1.3 To obtain final approval for the Annual Governance Statement 2012/13 which will be published alongside the Council's Statement of Accounts.
- 1.4. To allow the Audit Committee to consider the draft Statement of Accounts before they are submitted for Audit.

## **2 Background Information**

- 2.1 An amendment to the Accounts and Audit Regulations which came into force in April 2010 significantly changed the process of preparing local authority accounts. In previous financial years local authorities were required to prepare a draft Statement of Accounts within a three month period of the close of the financial year in question (by the end of June). The draft Statement of Accounts was then formally approved by a committee of the Council, before being submitted for External Audit. A final audited version of the accounts incorporating all changes agreed with the external auditors then had to be approved by a committee of the Council before the end of the September (within 6 months of the year end).
- 2.2 The procedures that are now in place are more in line with those which apply to company accounts and Members will now only be requested to approve the annual accounts after the findings of the independent external audit are known. At the end of June the draft accounts will be signed off by the Chief Financial Officer, with the audited accounts being brought back to the meeting of this Committee on the 24 September 2013 for approval on behalf of the Council.
- 2.3 The section below sets out some key details regarding the outturn position in respect of the financial year 2012/13, which is reflected in the draft Statement of Accounts.

## **3 Summary of Results**

- 3.1 A summary of the financial outturn in respect of 2012/13 is provided within the Explanatory Foreword to the Statement of Accounts by the Chief Financial Officer. A copy of the proposed Foreword is attached as Appendix 1 to this report. It should be noted that a further report detailing the variances between the budgeted and the outturn position will be taken to the July meeting of Executive. That report will include detailed explanations of any significant variations between the outturn position and the budget, and will outline any impact of the closure of the 2012/13 Accounts on the approved Medium Term Financial Plan.
- 3.2 It should be noted that within the published accounts themselves - which are the main focus of this report - that the variances between budget and outturn are masked by the fact that the published accounts include pensions (IAS19), capital charges (depreciation, impairment, gain or losses on disposal of assets) and other accounting adjustments which need to be reflected in the Council's accounts in line with the Code of Practice on Local Government Accounting and International Financial Reporting Standards (IFRS) requirements. While these adjustments are required to reflect good accounting practice and to provide comparable figures with other financial statements (including other local authorities) they do make the published accounts less useful as an internal management review and control tool within the authority. Members should also note that the figures provided within this report remain subject to External Audit.
- 3.3 A draft pre audit version of the Statement of Accounts will be provided for information at Appendix 3. This Statement will be circulated following on from the main report in order to enable some supporting details to be incorporated within the Audit Committee draft. The fact that the draft version is available for the meeting of Audit Committee does demonstrate that the Council has complied with its Accounts

closedown procedure and has built into the timetable appropriate time for checking the Statement of Accounts.

#### **4 Annual Governance Statement**

- 4.1 The proposed Annual Governance Statement for 2012/13 is attached as **Appendix 2**.

#### **5 Legal Issues**

- 5.1 The Statement of Accounts is required to be prepared by the 30<sup>th</sup> June each year. The Council has now completed the accounts and they will be signed off by the Chief Financial Officer on the 30<sup>th</sup> June 2013 which will secure compliance with the Council's legal obligations.

#### **6 Financial Implications**

- 6.1 The financial implications are set out within the body of the report. Further reports will be brought back to Members setting out the detailed variances in respect of the 2012/13 outturn, and that report will consider whether the evidence from the outturn position will provide the opportunity for budgets in respect of 2013/14 and future years as set out within the Medium Term Financial Plan to be amended.
- 6.2 Members should note that the budgets against which we have monitored the 2012/13 Outturn were those agreed within the Council's Medium Term Financial Plan. The Medium Term Financial Plan gave careful consideration to both the affordability of the budgets that were approved, and to ensuring that the level of balances remained adequate for purposes of enabling sound financial management. The fact that the outturn position for 2012/13 indicates that these financial targets have been achieved, gives the Council a firm foundation from which to achieve the service delivery and financial targets approved within the Medium Term Financial Plan.

#### **7 Equalities Issues, Human Resource Implications, Environmental Considerations, Crime and Disorder / Community Safety Implications**

- 7.1 There are no direct implications.

#### **8 Risk Management**

- 8.1 There are no issues concerning Risk Management arising directly out of this report

#### **9. Reasons for Recommendations**

- 9.1. To ensure that the Council's draft Statement of Accounts are appropriately approved by the Council, including in particular the endorsement by the Audit Committee of the Annual Governance Statement.

#### **10 Recommendations**

- 10.1 That the Director of Corporate Resources in his capacity as Chief Financial Officer be authorised to sign off the draft 2012/13 accounts on behalf of the Council.
- 10.2 That the Audited Statement of Accounts 2012/13 be brought to this Committee at its meeting on 24 September 2013 for approval on behalf of the Council.
- 10.3. That the Committee note and approve the final version of the Annual Governance Statement in respect of 2012/13 which is attached as **Appendix 2** to this report.
- 10.4 That the Committee note the Explanatory Foreword from the Chief Financial Officer which it is intended to incorporate within the Council's Statement of Accounts.

**Background Documents**

**Location**

Final Account Working Papers

Accountancy Section

# APPENDIX 1

## **Introduction by the Director of Corporate Resources**

As the Council's Chief Financial Officer, it is my pleasure to provide this foreword to Bolsover District Council's Statement of Accounts for 2012/13. The Statement of Accounts covers the period 1 April 2012 to 31 March 2013 and this foreword provides a summary of the position of each of the main accounts of the Council and highlights specific issues regarding the Council's financial position as at 31 March 2013.

## **General Fund**

The Council's main revenue account is known as the General Fund. This shows the cost of all services with the exception of Council Housing. The General Fund budget is supported by the council tax which in 2012/13 was held at 2011/12 levels. The council tax freeze meant that Bolsover District Council's Band D Council Tax charge was £158.15 for the year.

It was always clear that the 2012/13 financial year would present a challenge to the Council to demonstrate strong financial control whilst maintaining high quality services for the residents of Bolsover. The 2012/13 budget was the second year in which the Council has been required to operate within the financial settlement established by the Government's Comprehensive Spending Review of Autumn 2010. Bolsover District Council suffered a reduction in Government Grant of £0.727m in 2012/13 which together with other financial costs resulted in a budget shortfall at the outset of the year of £1.496m. Due to the scale of the grant cuts the Council qualified for Transition Grant (£1.93m) from the Government to assist the Council with the costs of achieving efficiency and savings targets. The budget agreed in the February of 2012 set the Council some challenging financial targets. While an appropriate range of savings measures had been agreed it was crucial that these were implemented and generated financial savings during the course of the year.

During the year the following major changes were introduced in order to protect services whilst delivering the necessary financial savings:

- The third phase of the Strategic Alliance work was commenced which saw the two councils (Bolsover District Council and North East Derbyshire District Council) combine the Assistant Director management level with effect from April 2012.
- A Service Review programme for Corporate Resources and Street Scene was ongoing during the financial year.
- A joint Environmental Health Service was in place from March 2012.
- The Council completed the transfer of the Kissingate Leisure Centre to Shirebrook Parish Council.
- The asset rationalisation plan saw the relocation of the Council's main administration base from Sherwood Lodge, Bolsover to The Arc, Clowne.

Across the Council departments reviewed the manner in which they delivered services and re-engineered processes and procedures in order to generate efficiency savings.

A range of secondments between Bolsover District Council and North East Derbyshire District Council were approved and a number of officers undertook a “shared” role across the two Councils as vacant posts arose.

A vacancy freeze was maintained throughout the year.

A combination of the above actions together with effective budget monitoring and a Member led efficiency process ensured the necessary savings were identified and achieved with minimal impact upon service delivery. The revised budget process demonstrated that the financial position would ensure there was no call upon General Fund balances and as the budget monitoring progressed it became clear that the ongoing efficiency measures and careful budget management would deliver an under spend in the year. The Council was therefore able to meet all its efficiency and savings targets, draw less from the Transition Grant than planned and put £0.053m into the General Fund balances at the year end. This means that the balance on the General Fund Reserve has been increased to £1.442m, which is now at a more appropriate level for the Council.

While the financial position of the General Fund continues to improve it needs to be recognised that the current level of balances is adequate rather than generous and that against the background of ongoing reductions in the level of Government funding it is crucial that the Council continues to maintain robust budgetary control and secure its ongoing savings targets.

### **The Housing Revenue Account (HRA)**

The Housing Revenue Account is a legally separate account, which ring fences all council house rents. Rental income is then used to meet the costs of managing and maintaining the Council’s housing stock. The Council continues to operate in accordance with the Government rent restructuring criteria which required an average increase in rents to our tenants of 9% for 2012/13.

The HRA Self Financing reform was agreed and implemented on 28 March 2012 with 2012/13 being the first year of operation for the reformed system. The changes took the Council out of the national subsidy system which required a commitment to pay over annual negative subsidy (£5.3m in 2011/12) based on an estimated rent surplus. This was replaced by the costs of financing of the loan that was undertaken to buy the Council out of the subsidy system. For BDC the additional loan that was borrowed to meet the Self Financing settlement in March 2012 was £94.386m. The Council borrowed £88m to cover the settlement from the Public Works Loan Board with the balance from utilising positive cash flows from reserves and balances. The PWLB loans secured better interest rates than anticipated and the interest savings were utilised to commence the debt repayment earlier than originally planned (£1m) and set up an earmarked reserve to finance new housing projects £1m.

The outturn for the Housing Revenue Account was a net surplus of £0.752m which was in line with the revised budget. This leaves the HRA balances at £1.776m. During 2013/14 the Council’s Medium Term Financial Plan is aiming to further increase the level of HRA balances by £0.024m. This should see the level of HRA balances at a figure of £1.800m which will give the Council a more robust financial position - which is appropriate under the self financing regime - from which to manage its housing stock for the benefit of our tenants.

## **Capital expenditure and resources**

The Council has invested £10.932m on capital schemes in the year. The main capital schemes delivered in 2012/13 by the Council were:

- Project Horizon (The relocation of the Council's administration accommodation to Clowne) £5.057m
- Shirebrook Enterprise Centre (The Tangent) £1.867m
- Investment in the Council's housing stock of £2.779m;
- Private Sector Disabled Facilities Grants and Home Improvement Grants of £0.202m
- Vehicle Replacement £0.403m
- Other capital schemes £0.624m

The capital programme was financed in the year utilising major repairs reserve, grants, operating leases, prudential borrowing, revenue contributions and usable capital receipts from asset sales. Prudential Borrowing was used as a temporary measure pending securing capital receipts which it is anticipated will be received in the 2013/14 financial year.

## **Treasury Management**

At 31 March 2013, the Council had a total capital financing requirement of £115.799m. This is a net increase in the year of £3.084m. The net increase reflects prudential borrowing of £5.008m and debt repayments of £1.924m. The main element of the prudential borrowing relates to the acquisition and refurbishment of the new Council offices at Clowne (£4.907m) and replacement vehicles via finance lease of (£0.101m). The level of debt repayment reflects the Council's commitment to repay the HRA self financing loan over the 30 period of the business plan (£1m), the debt outstanding on council house sales (£0.393m) alongside the approved scheduled debt repayments in the year.

To meet the capital financing requirement the Council has external debt from loans from the PWLB (£107.100m) and from finance leases (£0.173m). The remainder is effectively financed from utilising Council reserves and balances (£8.526m). The amount of interest paid by the Council in 2012/13 amounted to £3.722m and interest earned on balances during the year amounted to £0.152m.

## **Assets**

During 2012/13 the main changes with regards to the Council's assets arose from the transfer of the Kissinggate Leisure Centre and land to Shirebrook Parish Council, the sale of 26 council dwellings, the demolition of 26 Tarran properties and the completion of 19 new build Council dwellings at Langwith Junction.

Asset valuation changes have no impact on the Council Tax Payer or Housing Tenants but show as an increase or reduction in the net worth on the Council's Balance Sheet

## **Reserves and Balances**

The Council holds usable reserves and balances totalling £13.184m. These include general reserves of £3.219m (General Fund and Housing Revenue Account general reserves discussed earlier). Additionally, the Council has £2.496m that relates to unapplied revenue and capital grants, earmarked general fund revenue reserves of

£4.509m, earmarked HRA reserves of £1.056m, useable capital receipts of £0.019m and £1.885m major repairs reserve at 31 March 2013.

## **Collection Fund**

In 2012/13, £20.044 million of Business Rates income was raised, of which £19.950m was paid over to the Government. The Council received £5.514m of redistributed non-domestic rates.

The Collection Fund Account has a deficit balance of £0.046m at 31 March 2013. The deficit will be collected from the precept authorities during 2013/14. The Council's share of the deficit is £0.008m.

## **Pension Fund Reserve**

The Council's position with regard to the pension fund administered on its behalf by Derbyshire County Council has seen an increase in the liabilities of £14.771m and an increase in the fair value of assets of £7.201m. The net movement is an increase in liability of the fund of £7.57m. The increase in the net liability is mainly caused by actuarial losses on assets and liabilities. Together with the Crematorium pension deficit the fund shows a net increase in the pension liability of the Council by £7.573m to £40.053m at 31 March 2013.

## **Planned Future Developments**

The Council plans its finances over the medium term (three years) and regularly reviews its spending plans in light of changing priorities, external factors and projected financial forecasts to ensure that they remain robust and sustainable over the longer term.

## General Fund

The Government's spending review of 2010 meant that the Council has seen a reduction in its revenue grants of £0.299m in 2013/14 with further reductions of £0.832m anticipated for 2014/15. Given the work that has already been undertaken the Council is confident of delivering the required savings needed to balance the budget in 2013/14 and is considering how the 2014/15 savings will be delivered. Some of the savings areas being delivered in 2013/14 by the Council are:

- Asset Management - Consolidation of the savings secured from Project Horizon together with a further review of the Council's remaining assets
- Leisure Services - Programme to deliver savings on operational costs
- Develop and implement an Income Generation Strategy
- Completion of the Street Scene and Garage Review
- Extend the scope of the work undertaken through the Strategic Alliance
- A peer review of the Strategic Alliance including the Council's growth strategy and corporate aims.

The Council is also mindful of the following areas that will impact upon its financial position in 2013/14 or the near future:

- The impact of first year of both the new Business Rates retention scheme and the Localised Council Tax Benefits are being monitored closely both to manage in year expenditure and to inform our financial planning concerning future years.
- The impact on services arising from the Governments Welfare Reforms during 2013.



- The Governments 2013 comprehensive spending review is anticipated to require further grant reductions to local government
- The result of the Actuarial revaluation of the Derbyshire Local Government Pension Scheme is due to be announced in October/November of this year and will impact on the Councils contributions to the pension fund from April 2014. Early indications are that further increases in contributions may be required.

### Housing Revenue Account

As part of the HRA 30 year business plan the Council has agreed to undertake a full stock condition survey during 2013/14 in order to gather more robust data on the condition of the housing stock. Future investment plans will be informed by the information secured by this survey.

The Council has also committed to build 35 new dwellings New Houghton which will be a mix of 20 bungalows and 15 houses.

### **Summary**

While 2012/13 has been difficult year in financial terms there is a clear awareness throughout the Council of the challenges that the authority is facing. A strong and effective culture of financial management across the authority is being developed which it is anticipated will enable us to deliver both a balanced financial outturn together with a reduction in the underlying level of expenditure whilst maintaining standards of service. We will continue to work to ensure that this progress is maintained in 2013/14 and future years against the background of a more challenging financial environment for local government. As a Council we are determined to work with and to meet the needs and expectations of local residents, our tenants and our key partners.

Finally, we realise the value of closing our accounts promptly to provide up to date financial information on which to base our future plans. It needs, however, to be recognised that preparing these accounts becomes increasingly complex every year as the requirements of good accounting practice continue to grow more stringent. The staff involved in this process, deserve credit for ensuring that these financial statements have been produced in a timely and professional manner.

**Bryan Mason**  
**Chief Financial Officer**

# APPENDIX 2

## BOLSOVER DISTRICT COUNCIL DRAFT GOVERNANCE STATEMENT

### Scope of Responsibility

Bolsover District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Bolsover District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Bolsover District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Bolsover District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

A copy of the authority's code is on our website at [www.bolsover.gov.uk](http://www.bolsover.gov.uk) or can be obtained from the Council's Governance Team. This statement explains how Bolsover District Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

### The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Bolsover District Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at Bolsover District Council for the year ended 31 March 2013 and up to the date of approval of the Annual Report and Statement of Accounts.

### The Governance Framework

The key components of the systems and processes that comprise the authority's governance arrangements include the following:

Bolsover District Council sets out its objectives within its Corporate Plan which is linked to both the Community Strategy and to a range of other Strategies and Plans. Bolsover District Council has a formal constitution in place which sets out the roles and responsibilities of both Members and Senior Managers. The Constitution is available on the Council's website and is reviewed on an on-going basis. Policy and decision making is by means of an Executive Structure with Executive Member Portfolio holders. There are 3 Scrutiny Committees aligned to the Council's Corporate Plan Targets, together with a Budget Scrutiny Committee made up of all scrutiny members and an over arching Scrutiny Management Board. The Council also has both an Audit Committee which provides independent challenge and assurance regarding financial governance and risk management, and a Standards Committee which has responsibility for overseeing the operation of the Members Code of Conduct.

Bolsover District Council takes a number of steps to help ensure compliance with established policies, procedures, laws and regulations. There is a comprehensive corporate induction process, with a variety of awareness raising and training events being undertaken for both employees and Members. All staff have access to key policies and procedures which are readily accessible on the intranet. Formal Codes of Conduct are in operation for both Members and Officers. The Council has adopted a formal Anti Fraud and Corruption policy characterised by zero tolerance, with this approach informing the Council's governance and internal control arrangements. To support these high standards of openness and probity the Council has in place an effective complaints policy and procedures together with a whistleblowing policy.

The District Council has a Risk Management Strategy and associated framework in place, which is reviewed on a regular basis with independent assurance provided by the Audit Committee. The Council has embedded Risk Management by ensuring the provision of appropriate training, by regular reviews of the Strategic Risk Register, by incorporating the Service Risk Registers within the Service Planning process, and by requiring that all Committee Reports include a Risk assessment. The Risk Management Framework includes a quarterly reporting process which is integrated with our Performance and Financial management arrangements.

Bolsover District Council has a number of mechanisms in place for ensuring the economical, effective and efficient use of resources, and to ensure that we secure continuous improvement in the manner in which our functions are exercised in order to comply with the requirement to provide best value. Effective use of resources is ensured by a robust range of mechanisms including a range of consultation with local residents and other stakeholders, a well developed corporate and service planning process, by the careful consideration of service performance and development in order to ensure that our services are targeted at addressing priority requirements. Economy and Efficiency are ensured by good procurement practice, and by services which are responsive to customer requirements and operated in line with good practice.

A Scheme of Delegation sets out the powers of Senior Officers, while the Financial Regulations and Contract Procedure Rules are an integral part of the Constitution. The performance against budget is monitored on a continuous basis with cost centre managers having access to the financial ledger, while the accountancy team provide monitoring reports on a monthly basis. The Council is moving to a position where its quarterly

reporting process is delivered through quarterly meeting with all Directorates where Performance, Finance and Risk are considered. Our approach is intended to ensure that any significant budget variances or performance issues are identified at the earliest opportunity. Formal monitoring reports are taken to Executive, with these reports then being forwarded to Budget Scrutiny and Audit Committees.

Performance Management is at the core of our managerial arrangements with quarterly reports on Corporate Plan Performance being provided to Executive. The Council monitors progress against a range of performance targets which incorporate both national and local priorities. Performance Targets together with key operational priorities are set out within the Corporate Performance Management Framework and supporting Service Plans. These in turn are linked to the Council's Corporate Plan and supporting Plans and Strategies to help ensure that our resources are utilised for the achievement of agreed priorities.

The District Council contributes to the delivery of the Community Strategy for our residents through the Corporate Plan and the range of associated Plans and Strategies. The Council updates its Service Planning Framework on a regular basis and reports publicly to ensure our residents are kept informed regarding progress on those issues which they view to be critical to the wellbeing of our community. Reports which are available to residents include those of all formal meetings - including Scrutiny - which are available on the website, articles in the Council's newsletter 'In Touch' which is distributed three times a year, briefings to the local press and public consultation. Progress against the Council's key priorities is reported to Executive on a quarterly basis as part of the suite of Performance reports.

The District Council, working with our local community and key partners has agreed a vision and core values which are supported by a range of 6 corporate aims which were set out within the Council's Corporate Plan for 2011 - 15 as follows:

- Community Safety - Ensuring that communities are safe and secure.
- Customer focussed services – Providing excellent customer focused services
- Environment - Promoting and enhancing a clean and sustainable environment;
- Regeneration - Developing healthy prosperous and sustainable communities;
- Social Inclusion - Promoting fairness equality and lifelong learning;
- Strategic Organisation Development - Continually improving our organisation;

These aims provide a focus for the development of partnership working, delivery of our services, and for planned improvements and rationalisation of the services which are currently provided. The emphasis on progressing these aims is illustrated by the fact that all reports to Committee set out which of the Corporate Aims they are seeking to promote, while the Council undertakes an ongoing review of its services through the service planning process and by the review processes which include Performance Management by Executive and the work of the Scrutiny function.

## **Review of Effectiveness**

Bolsover District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The arrangements for the provision of internal audit are set out within the Council's Financial Regulations which are part of the Council's Constitution. The Chief Financial Officer is responsible for ensuring that there is an adequate and effective system of internal control relating to both the Council's accounting and its other systems of internal control as required by the Accounts and Audit Regulations 2011. As required by the CIPFA Statement on the Role of the Chief Financial Officer in Local Government the Council's Chief Financial Officer is professionally qualified, reports directly to the Chief Executive and is a full member of the Corporate Management Team.

The internal audit provision has from the 1<sup>st</sup> April 2007 been independently managed by the Head of the Internal Audit Consortium. This is an arrangement for the provision of Internal Audit on a consortium basis by Bolsover, Chesterfield and North East Derbyshire, with the service being hosted by Chesterfield Borough Council on behalf of the three authorities. The Internal Audit function operates in accordance with both the CIPFA Code of Practice for Internal Audit in Local Government 2006 and with the CIPFA Statement on the Role of the Head of Internal Audit (2010). The work to be undertaken is set out within the Audit Plan. This Audit Plan is prepared by the Head of the Consortium and is prioritised in order to reflect the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. Audit work involves reviews of the main financial systems, scheduled visits to Council establishments and fraud investigations. The annual work plan is discussed and agreed with the Council's Section 151 officer, and with the Audit Committee. It is also shared with KPMG the Council's external auditor. This is part of a process of liaison intended to ensure that the work of internal and external audit is complementary and that duplication is avoided. The Internal Audit reports which arise out of the process include an assessment of the adequacy of internal control, and set out recommendations which are aimed to address those areas where potential for improvement has been identified. These are submitted to the relevant officers within the Council who are required to implement any accepted recommendations. The outcome of the process is reviewed by the Chief Financial Officer, by the Council's Corporate Management Team (SAMT) and by the Audit Committee.

The Council's review of the effectiveness of the system of internal control is informed by:

- There is a Constitution in place which provides a formal Governance framework, with decisions taken in an open and accountable fashion. Internally, those decisions are subject to Scrutiny, and the Council has an active Standards Committee;
- The Council has suitably qualified and experienced officers undertaking the statutory roles of Head of Paid Service (Chief Executive), Monitoring Officer and Section 151 Officer.
- Assurances from the responsible Directors based on management and performance information, officer assurance statements, Scrutiny reports and the outcome of internal reviews including those looking at joint services.
- The work undertaken by the Internal Audit consortium during the course of the year;
- The work undertaken by the external auditor as reported in their Annual Audit and Inspection letter and in the Annual Governance Report;

In addition to giving appropriate consideration to the Council's internal Governance arrangements it needs to be recognised that that Council is working in a number of partnership arrangements. We are operating a range of shared services both with our Strategic Alliance partner North East Derbyshire and with a range of other local authorities including Chesterfield and Bassetlaw. We also have an active Local Strategic Partnership which engages with a range of local partners. We are a full member of the Sheffield City

Region Local Enterprise Partnership while other partnerships include that with D2N2 the Derby, Derbyshire, Nottingham and Nottinghamshire Local Enterprise Partnership, the Community Safety Team and local NHS bodies where partnership working supports the delivery of services to local residents. Where the Council has entered into partnership arrangements it seeks to ensure that these promote the Council's vision and core values and that they are subject to appropriate governance and performance management arrangements. This assurance is gained by ensuring that the Council's involvement within partnerships, or any significant change to those partnership arrangements is formally approved by the Council. The outcomes of partnership working are considered within the Council's Performance, Finance and Risk Management framework with any issues identified being reported to the Council where appropriate.

### **Significant Governance Issues.**

The Council's External Auditors KPMG restrict their comments to the Published Accounts and as to whether the Council provides Value for Money. KPMG replaced the Audit Commission as the Council's auditors in November 2012. The most recent review of the Council by external audit was provided by the Audit Commission – the Council's previous auditors - in its Annual Audit Letter relating to the 2011/12 Accounts. This letter which was reported to the Council meeting on 17 October 2012 gave an unqualified opinion in respect of the published accounts. However, the letter also reported that the External Auditors had issued an adverse Value for Money conclusion which concluded that the Council had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The adverse value for money conclusion issued by external audit at the close of the 2011/12 financial year was one element in a range of criticism of the Council's Governance arrangements. These issues were summarised in a critical Annual Governance Report 2011/12 issued in September 2012. During the 2011/12 financial year the Audit Commission also issued a very critical report concerning the governance of contracts. It needs to be recognised that both External and Internal Audit were very critical of aspects of the Council's management arrangements during 2011/12. While significant progress in improving the quality of the Council's Published Statement of Accounts was acknowledged the overall tone of the Annual Governance Report 2011/12 was critical with the External Auditor's concluding that:

- The Council could not demonstrate that it had adequate arrangements in place to secure value for money.
- Arrangements for the Governance of contracts were weak.
- Financial control in the Council had fallen below the required standard in areas such as budgetary control.
- Project Management arrangements were weak especially in respect of risk management and initial options appraisals.
- The improvement that was required in the quality and timeliness of information used to measure performance against corporate target had only partially been achieved.

In addition to the criticisms of External Audit Internal Audit undertook some 28 separate audits reviewing internal control arrangements during 2011/12. Of these some 9 areas were judged to be marginal while 4 areas were unsatisfactory. On this basis almost 50% of the areas considered had internal control arrangements which fell below a desirable level. Given the extent of the weaknesses identified during 2011/12 the Council has sought to address these areas in 2012/13. In view of the extent of the issues that were identified it could not have been expected that all of the areas of concern would have been fully

resolved in 2012/13. The Council is, however, of the view that significant progress has been secured in addressing these concerns. In particular our financial management and budgetary control arrangements are now robust and the Council is on target to secure a balanced budget in respect of 2012/13 despite commencing the year with a significant level of savings to be identified. We are in the process of embedding improved arrangements for managing finance, performance and risk, whilst significant progress has been made in resolving issues around the governance of contracts. The Audit Committee is playing an effective role in monitoring the governance arrangements of the Council with regular updates being provided concerning the position in respect of identified weaknesses, while the Budget Scrutiny Committee has helped ensure that Elected Members are fully informed of the Council's financial position.

While there is clear evidence that the Council has moved to address the weaknesses that have been identified internal audit reports during 2012/13 have continued to identify weaknesses in internal control in a number of areas. While there is evidence that the position has improved since 2011/12 of the 22 reports issued in 2012/13 ten were judged to be marginal, with one judged to be unsatisfactory. On this basis some 50 % of the areas considered had internal control arrangements which fell below the desired level. It is, however, important to note that the assessments in respect of the core financial areas were all of an acceptable standard, the number of unsatisfactory conclusions reduced, while in a number of the areas evaluated as marginal it has proved relatively straightforward to put in place measures which mean that a satisfactory assessment would now be appropriate. The one remaining unsatisfactory report was that in respect of gas servicing. While the Audit report did identify some significant improvements in the arrangements for gas servicing it remains the case that not all of the gas servicing inspections met the legal requirement of being undertaken within the specified 12 months period. The Council has taken immediate steps to address this situation following on from the audit which was concluded in April 2013.

While further work is still required and the position in respect of internal control during 2012/13 remained far from satisfactory the Chief Financial Officer is of the view that the Council has made significant progress in addressing its internal control arrangements during 2012/13 and that the overall internal control arrangements remain sufficiently robust for him to place reliance upon them. There is, however, a clear requirement to ensure that the improvement drive is continued during 2013/14 to ensure the Council can have an appropriate level of confidence in its internal control arrangements.

The effectiveness of the Governance framework has been overseen by the Council's Audit Committee which has considered all of the key reports concerning the Council's Governance arrangements. It has requested that updates be brought to all meetings of the Committee regarding the progress in addressing the key areas of weakness that have been identified. The reports of External Audit are considered by full Council.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee that the arrangements whilst in need of further improvement continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

In addition to the issues relating to governance outlined above at a Strategic Level the key issue for the Council is that as a result of the Comprehensive Spending Review of Autumn 2010 the underlying financial pressures on Council have increased significantly. In the local government financial settlement in respect of both 2011/12 and 2012/13 Bolsover District Council was one of the eight English Authorities which suffered the maximum grant

loss. While in recognition of the scale of grant losses the Council is eligible for both Transition and Efficiency grant it has been required to secure savings of £1.758m in respect of 2011/12, £0.975m for 2012/13, £0.884m for 2013/14 and £0.724m for 2014/15. In order to secure the necessary savings the Council will need to continue to reduce staffing numbers and to reorganise processes and procedures both of which have the potential to impact significantly on the Council and the services it provides. The Council is aware of these risks and is seeking to manage them appropriately. Given the scale of the efficiencies that are necessary the internal control environment, levels of performance and service delivery more generally continue to require careful monitoring during the course of the current financial year.

With effect from April 2011 the Council entered into a Strategic Alliance with a neighbouring authority North East Derbyshire District Council. Joint working arrangements have made significant progress and the two Councils now operate with a joint Management team down to third tier level. Joint Working is now operational within most services, although only Environmental Health is operating on the basis of a fully shared service. While one of the key reasons for entering into this partnership is to achieve the efficiency savings that both Councils need to secure arising out of the Comprehensive Spending Review of Autumn 2010, the Strategic Alliance is also seen as a key mechanism for managing the risks to governance arrangements that both Councils will face as a result of the significant reduction in their funding resources.

The areas identified for improvement are currently the subject of a Corporate Action Plan (including target dates), with progress against that Action Plan being reported as a standing item to the Council's Audit Committee. Within this Action Plan the key issues that have been identified are as follows:

1	The Annual Governance Letter from the External Auditors in respect of the 2011/12 Financial Accounts noted improvements in the presentation of the final accounts, although further work remained outstanding to secure accounts of the required standard. While the accounts were unqualified the Council did receive a qualified VFM conclusion. This was indicative of a range of wider failings in the culture of financial and performance management. These wider issues included budgetary control, project management and the measuring / reporting of performance.	The Council has continued to work to improve its financial and performance management. Further improvements in accounting arrangements have been secured and financial management across the Council has been strengthened. Given the extent of the issues that have been identified while significant progress has been secured during 2012/13 further work will be necessary during 2013/14 in order to embed arrangements which are fit for purpose.
2	With respect to the work undertaken by both External and Internal Audit there continues to be a number of areas identified where the Council's internal control arrangements require	Again the Council has continued during 2012/13 to address the issues that have been identified. While the outcome of the work of Internal Audit continues to identify a significant range of internal control issues across the authority, there has been a



	<p>improvement. External Audit work resulted in a critical report concerning the governance of contracts which was focussed on procurement arrangements applicable in both 2010/11 and 2011/12. With respect to the Internal Audit reviews undertaken during 2012/13 out of 22 audits 1 was classified as unsatisfactory and 10 as marginal. This followed on from the position in 2011/12 where 15 were assessed as satisfactory or better, 7 were marginal and 4 unsatisfactory. This indicates that the Council needs to address a wide range of underlying issues in order to secure satisfactory arrangements for financial governance.</p>	<p>steady trend of improvement which if maintained will result in a more favorable assessment from Internal Audit during 2013/14. While the Council has addressed its financial and performance management culture during 2012/13 the improvements have not yet been embedded and it is important that the Council maintains its proactive stance in addressing the issues that have been identified. This pro-active approach to internal control is particularly important given that the ongoing requirement to secure financial savings means that our internal control arrangements remain subject to changes arising from wider organisational restructuring.</p>
3	<p>Whilst the Council's budget is balanced over the period of the Medium Term Financial Plan it should be noted that the budget is balanced on the basis that significant efficiency savings will be secured during the period of that Plan. If these efficiencies are not secured then the Council will be forced to reduce expenditure in a relatively uncontrolled fashion which will impact upon the quality of services to local residents, and potentially on the internal control environment.</p>	<p>In setting its Medium Term Financial Plan the Council agreed a range of measures to deliver the efficiency gains necessary to operate within the underlying level of resources available to the Council. Achievement of these measures is monitored on a regular basis by Executive. While appropriate steps have been taken it needs to be recognized that the efficiency targets are challenging and will require further reductions in staff numbers and budgets.</p>
4	<p>In addition to the Council's financial position being challenged our level of balances on the General Fund and Capital Programme remain at what the Medium Term Financial Plan has indicated is a minimum level.</p>	<p>The Council is taking appropriate action to bring our underlying level of expenditure back into line with the underlying level of resources. This work will need to continue during 2013/14 and over the period of the current Medium Term Financial Plan. Managing within agreed budgets will enable the Council to continue the process of increasing its financial balances so that they are in excess of minimum levels.</p>

We propose over the coming year to take steps to address the above matters to ensure that our governance arrangements are robust. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Eion Watts  
Leader of the Council

Wes Lumley  
Chief Executive

**APPENDIX 3**

**Draft Statement of Accounts – To Follow.**