

Committee:	Audit Committee	Agenda Item No.:	6.
Date:	10 th December 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 concerning 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. Appendix 1 to the report sets out four issues which have been agreed by previous meetings to this Audit Committee to constitute the main Strategic Issues of Financial Government.

3. The Strategic Issues which are outlined below are consistent with the conclusions of the External Auditors (KPMG) report on the outcome of the 2012/13 Audit. The key messages which appear to emerge from that report are as follows:
 - That the authority has significantly improved the quality of its published accounts and accounting arrangements during 2012/13. While the accounts are now clearly fit for purpose it is important that the improvement in our accounting arrangements is maintained and therefore it is recommended that the requirement to maintain and secure continued improvement on current standards remains a key strategic issue for the Audit Committee to monitor. While overall there is clearly a significant improvement in respect of the Council's accounts KPMG have recommended that action is taken to improve the timeliness and operation of existing management review procedures over the draft accounts.
 - The Council whilst maintaining good progress in protecting its financial resilience needs to move to address the identified shortfalls in respect of both 2014/15 and 2015/16. The External Auditors report concludes that "Looking ahead, the financial outlook remains challenging and the authority must continue to develop, implement and monitor savings plans."
 - The Council needs to complete its programme of work in respect of the management of contracts to ensure that all outstanding issues are satisfactorily resolved. While generally good progress has been made in both our accounting and financial management arrangements it remains the case that Internal Audit work has continued to identify too many areas where our existing internal control arrangements are classified as marginal. It is a key priority of the Council that we continue to progress work to secure improvements in Internal Control.
 - Finally, KPMG comment on the fact that the retirement of the Consortium's Head of Internal Audit is currently being addressed under Acting Up arrangements rather than by a permanent solution. The advice of External Audit is that a longer term solution is necessary to ensure that internal audit have adequate capacity. This recommendation needs to be considered against the report which appears elsewhere on this agenda concerning progress against the Internal Audit Plan.
4. More recently KPMG have issued their Annual Audit Letter 2012/13 which was discussed at the Council meeting on 25th November 2013. Given that this is a key document for the Audit Committee to consider a copy is attached as Appendix 2 to this report.
5. 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 requiring further action from officers.

Key Issues of Financial Governance - Summary

6. While there remain issues for the Council to address as outlined within the External Auditor's report it is clear that the report is significantly better than those in respect of 2010/11 and 2011/12. There is a clear trend of improvement but it is important that the Council continues with measures that consolidate this improvement, to ensure it is sustainable and to address any outstanding issues. In the view of the Director of Corporate Resources the issues in respect of the Council's accountancy and financial management arrangements have effectively now been addressed. The key area in which further improvement is now necessary is in the area of internal control where in the previous financial year (2012/13) some 10 out of 33 Internal Audit reports were considered to be marginal, with one classified as unsatisfactory. Further improvements in this area are clearly necessary and will be a priority during the 2013/14 financial year.
7. In light of the outcome of the year end report provided by KPMG and the Council's own improvement plans there are a range of measures in place or planned designed to address the issues of financial governance faced by the Council. These may be summarised as follows:
 - A training programme will be arranged in the Autumn of 2013 for all cost centre managers which will cover a range of core competencies such as financial management, risk, performance, procurement, data protection, etc. We will also look to organise some more specialist procurement training through the Nottingham and Derby Procurement Unit. While the accountancy team have continued to work to enhance financial competency across the Council the training programme has now been delayed until the early part of the new calendar year.
 - We will work with the Nottingham and Derby Procurement Unit in order to review our processes and procedures in respect of procurement.
 - The capacity and resilience of the Accountancy team is being enhanced by supporting a member of staff through a training programme leading to a CCAB accountancy qualification.
 - The Accountancy team will continue to work with cost centre managers in order to secure further improvements in accounting arrangements.
 - The work of Internal Audit will be incorporated into the existing Quarterly Performance and Financial management framework to ensure that recommendations are fully implemented and that the profile of the importance of internal control is raised within the Council. This will both help secure the improvements in internal control required by the Council whilst helping ensure Internal Audit remain fully compliant with the new United Kingdom Public Sector Internal Audit Standards.
 - Finally, we will continue to monitor the position with respect to the impact of the temporary managerial arrangements operating within

Internal Audit and will ensure that Internal Audit is adequately resourced.

Future Key Issues of Financial Governance reports will update the Audit Committee in respect of progress against the actions detailed above.

8. The revised Strategic Key Issues of Financial Governance are set out in Appendix 1 which is given below.

Recommendations:

9. It is recommended that Audit Committee considers the Strategic Issues of Financial Governance as set out in the table contained within the main body of the report and whether these reflect the key issues facing the Council, and raises any issues of concern which it may have with progress to date.

Reasons for Recommendations

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

APPENDIX 1

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 £0.884m in respect of the current financial year (2013/14), which will mean that no call on General Fund balances will be required in order to balance the budget. The latest report on the budget position appears elsewhere on this agenda. The latest budget figures in respect of 2014/15 and 2015/16 indicate a shortfall of £0.75 and £1m respectively (£1.75m in total). The Council is currently in the process of finalising a review of senior management and will be considering further options to ensure that our underlying level of expenditure remains inline with the resources available to the Council.</p>
<p>2. To secure further improvements in financial reporting with respect to the Council's published accounts and in the Council's financial management arrangements.</p>	<p>The Council has continued to improve the quality of its financial accounts as demonstrated by the External Audit reports in respect of both 2011/12 and 2012/13. The improvements secured to date provide a firm foundation for consolidation of progress and to address a small number of residual issues. After a significant range of changes some 2 years ago the team is now well established and is well placed to secure further improvements especially in respect of work with service managers over the current financial years to deliver the improved financial management required against the increasingly challenging financial position facing local authorities. In particular appropriate training programmes are in place for all members of the team.</p>
<p>3. To improve the Council's Internal Control arrangements, and to strengthen the culture of effective management and</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, and Internal Audit will have a more prominent role in the Council's Performance Management arrangements</p>

<p>budgetary control across the authority.</p>	<p>during 2013/14. A comprehensive training programme will be delivered to all cost centre managers during the first quarter of 2014, and measures will be taken to strengthen the communications around the importance of internal control and the Council's wider financial position.</p> <p>We will monitor the position with respect to the managerial arrangements operating within Internal Audit and will ensure that Internal Audit is adequately resourced to meets the new requirements of Public Sector Internal Audit Standards.</p>
<p>4. To ensure that issues around the Council's contractual arrangements are resolved and that good quality arrangements remain in place.</p>	<p>Officers are continuing to monitor the position with respect to the Council's contractual arrangements and are working to ensure that recent progress is consolidated.</p> <p>Officers will work with the Nottingham and Derbyshire Shared Procurement Unit to secure improvements in procedures and processes.</p>