

**Bolsover District Council**

**AUDIT COMMITTEE**

**20<sup>th</sup> May 2014**

**KEY ISSUES OF FINANCIAL GOVERNANCE**

**Report of the Executive Director - Operations**

**Purpose of the Report**

The purpose of the Key Issues of Financial Governance report is to track progress concerning 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.

**1 Report Details**

1.1 This report seeks to update Members of the Audit Committee concerning the main issues of financial governance 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 these issues and to evaluate the overall progress of the Council's financial governance arrangements. Appendix 1 to the report summarises the four issues which have been agreed by previous meetings to this Audit Committee to constitute the main Strategic Issues of Financial Government.

1.2 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 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 2012/13 accounts are clearly fit for purpose it is important that the improvement in our accounting arrangements is maintained. Accordingly it is recommended that the requirement to sustain the improvement on current standards remains a key strategic issue for the Audit Committee to monitor. While 2012/13 witnessed a significant improvement in respect of the Council's accounts KPMG recommended that action is taken to improve the timeliness and operation of existing management review procedures over the draft accounts.
- Whilst the Council has maintaining good progress in protecting its financial resilience it needs to move to address the identified financial shortfalls in respect of 2014/15 onwards. 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 has previously been considered by the Audit Committee in the context of the periodic reports concerning progress against the Internal Audit Plan.

1.3 With regard to the Strategic Issues that have been agreed these are summarised in the table below which provide an outline of the issues together with an update of the current position. Given that these are Strategic Issues the responsibility for addressing them rests with the Chief Financial Officer together with the wider management team. Resolution of the issues is also dependent upon the active support of elected Members. The role adopted by the Audit Committee has been that of monitoring and evaluating progress and where appropriate requiring and supporting further action from officers.

1.4 While there are significant issues to address there is a clear trend of improvement. It is, however, important that the Council continues with measures that consolidate this improvement, ensure it is sustainable and addresses any outstanding issues. In the view of the Chief Financial Officer the key area in which further improvement are necessary concerns that 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 were clearly necessary and were agreed as a priority for the 2013/14 financial year. At this point in time of the 29 audits that have been undertaken some 16 were evaluated as good, with 10 satisfactory leaving 3 as marginal. Currently some three reports remain to be issued together with an updated evaluation of the position in respect of Gas Servicing and Contracts. On the basis of current evidence it therefore seems likely that a significant improvement in the outcome of internal audit reports will be secured against the position in 2012/13. This improvement is considered to be indicative of an underlying improvement in the Council’s internal control arrangements.

1.5. In the light of the outcome of the 2012/13 yearend report provided by KPMG together with the Council’s own improvement plans there are a range of measures in place which are designed to address the issues of financial governance faced by the Council. These may be summarised as follows:

- A training programme is being undertaken in the spring of 2014 for all cost centre managers which will cover a range of core competencies such as financial management, risk, performance, procurement, etc. This training programme has been delayed as a result of other issues arising during the latter half of 2013. However, the quarterly performance and finance meetings are now well established and provide an important opportunity to ensure that best practice is in operation across the full range of Council activities.
- Our procurement arrangements have been revised and we have secured appropriately qualified and experienced support from Chesterfield Royal Hospital Trust.
- The capacity and resilience of the Accountancy team is being enhanced by ensuring appropriate training arrangements are in place.
- The timetable for production of the accounts has been developed in order to allow sufficient time for appropriate management review procedures to be undertaken.
- The Accountancy team will continue to work with cost centre managers in order to secure further improvements in accounting / financial management arrangements.
- The work of Internal Audit has been 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.

- 1.6 The revised Strategic Key Issues of Financial Governance are set out in Appendix 1 which is provided below.

## **2 Conclusions and Reasons for Recommendation**

### **Conclusions**

- 2.1 The report is intended to provide information to allow the Audit Committee to consider the progress that has been secured in improving the Council's financial governance arrangements. While the evidence provided within the report indicates

that the Council's financial governance arrangements are continuing to improve some key Internal Audit reports are awaited while the conclusion of External Audit on the Statement of Accounts 2013/14 will not be provided until September 2014.

### **Reasons for Recommendations.**

- 2.2 To allow the Audit Committee to undertake its function of undertaking an ongoing independent review of the Council's financial governance arrangements.

## **3 Consultation and Equality Impact**

### **Consultation.**

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

### **Equalities.**

- 3.2 This report does not have any direct implications for Equalities issues.

## **4 Alternative Options and Reasons for Rejection**

- 4.1. Given that the Council has a clear commitment to improving its financial governance arrangements it is appropriate that a formal reporting mechanism is in place to the Audit Committee. This approach is in line with good professional practice and accordingly other options have not been actively considered. While there are options as to the format of this report the current format has been brought before the Audit Committee for a period in excess of two years and has been amended to reflect the views of the Committee. Over this period there has been a systematic improvement in the Council's Financial Governance arrangements which indicate that the approach adopted has assisted in securing the necessary outcomes.

## **5 Implications**

### **5.1 Finance and Risk Implications**

#### **Financial**

There are no additional financial implications for the Council as a result of this report.

#### **Risk**

This report is intended to assist in ensuring that the Council has robust financial governance Arrangements in place. As such it is a key mitigation against any failure or weakening in these arrangements which would have a significant impact upon both the Council's financial performance and its service delivery arrangements.

### **5.2 Legal Implications including Data Protection**

There are no Legal or Data Protection issues arising directly from this report.

### 5.3 **Human Resources Implications**

There are no Human Resources issues arising directly out of this report.

### 6 **Recommendations**

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

### 7 **Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	All.
<b>Links to Corporate Plan priorities or Policy Framework</b>	Robust financial Governance arrangements underpin the effective operation of the Council and its ability to secure the full range of Corporate Plan Priorities.

### 8 **Document Information**

<b>Appendix No</b>	<b>Title</b>
N/A	
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
External Audit Reports :	
KPMG “Annual Audit Letter 2012/13 (Council 27 <sup>th</sup> November 2013)	
Report to those Charged with Governance ISA 260” (Audit Committee 26 <sup>th</sup> September 2013).	
Internal Audit Consortium:	
“Summary of Progress on the Internal Audit Plan 2013/14” (Audit Committee 4 <sup>th</sup> February 2014).	

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Report Reference –

## APPENDIX 1

<b>Issue Raised</b>	<b>Progress to date including target dates.</b>
1. Take effective steps to balance the Council's budget over the period of the Medium Term Financial Plan.	The Council will achieve its full targeted level of savings of some £0.884m in respect of 2013/14. The latest budget figures as set out in the MTFP show a cumulative shortfall of some £2.2m over the period 2014/15 to 2016/17. Officers are currently working on plans to address the shortfall of £0.447m in respect of the current financial year and are of the view that a balanced budget will be secured by the end of the year. It is important, however, that the Council continues to progress its growth and transformation strategies to enable it to address the identified shortfall of some £2.2m over the period of the current MTFP.
2. To secure further improvements in financial reporting with respect to the Council's published accounts and in the Council's financial management arrangements.	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 to deliver the improved financial management required against the increasingly challenging financial position facing local authorities. Appropriate training programmes are in place for all members of the team. On the basis of work to date Officers consider that good progress is being made in preparing the 2013/14 Statement of Accounts.
3. To improve the Council's Internal Control arrangements, and to strengthen the culture of effective management and budgetary control across the authority.	<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 have a more prominent role in the Council's Performance Management arrangements during 2013/14.</p> <p>A comprehensive training programme will be delivered to all cost centre managers during the spring 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</p>

	<p>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>While a limited number of Audit reports remain outstanding the work to date as set out in section 1.4 of this report does indicate a significant reduction in the number of audit reports where service areas are evaluated as being marginal. This supports the view that the internal control environment is improving.</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. A further review will be undertaken by Internal Audit over the next few weeks to provide independent assurance concerning the current position.</p> <p>Officers have successfully arranged new procurement arrangements by way of a shared service hosted by the Chesterfield Royal Hospital. This has provided the Council with access to a pool of qualified and experienced procurement officers.</p>