

**Bolsover District Council**

**AUDIT COMMITTEE**

**22<sup>nd</sup> September 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. Given that reports elsewhere on the Agenda include the report from the external auditor (KPMG) concerning the 2013/14 Financial Statements and related issues, together with an update report from Internal Audit concerning progress on the Internal Audit Plan the outcome of those reports is reflected within this report. The Key Issues of Financial Governance are set out in Appendix 1 which in the view of the Chief Financial Officer constitute the main Strategic Issues of Financial Governance currently facing the Council.

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 2013/14 Audit. The key messages from that report are as follows:

- While the auditors have identified some issues where they have made adverse comment these are relatively minor. In overall terms the Council has continued to make further progress in its accounting arrangements which consolidates and builds upon the improvements secured in the 2012/13 final accounts. The issues raised by External Audit in respect of the Accounts cover the methodology adopted in the calculation of the provision for NNDR (Business Rate) appeals. Officers have accepted the recommendation made which will be applied with respect to the 2014/15 financial statements. The second comment covered the interpretation of IAS 19 on employee benefits. In both cases our interpretation and approach was in line with that adopted by a number of local authorities and while we accept the validity of the Auditors recommendations the approach adopted whilst not in line with best

practice was not an unreasonable one. It should be noted that the one recommendation made in respect of the previous year has been effectively implemented in respect of the 2013/14 Statement of Accounts.

- The Council needs to continue with its programme of work in respect of the management of contracts to ensure that all outstanding issues are satisfactorily resolved. The recent Internal Audit report in respect of Procurement evaluated the internal controls which were operating in this area as being marginal. Appendix 1 to this report outlines the steps that are being taken by Management in response to the issues that have been identified.
- The Annual Governance Statement for 2013/14 outlined the progress that has been made in respect of improving the Council's internal Control arrangements as evidence by the reduction in the number of critical Internal Audit reports from 13 in 2012/13 to a figure of 3 in 2013/14. The report from the Head of the Internal Audit Consortium which appears elsewhere on this agenda identifies that in the current financial year one of six areas reviewed has fallen into the marginal category. It is a key priority of the Council that we consolidate and to build upon the improvements that have been secured.
- 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:

“Against a background of reduced funding and continued demand pressures it will become increasingly difficult to deliver savings in a way that secures long term financial and operational sustainability.”

- Within the report of the Head of the Internal Service provided elsewhere on this agenda it is noted that the progress made against the agreed Audit Plan in the first half of the year has been slower than originally envisaged. While Internal Audit are working to bring the delivery of the Audit Plan back into line before the end of the financial year Officers will continue to monitor the position to ensure the effective delivery of the agreed Plan.

The issues identified above are all incorporated within the Action Plan set out in Appendix 1.

- 1.3 With regard to the Strategic Issues that have been agreed these are summarised in the table below which provides 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 one of monitoring and evaluating progress and where appropriate requiring and supporting further action from officers.
- 1.4 While there remain 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.

1.5. In the light of the outcome of the 2013/14 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 in the process of being concluded for all cost centre managers which covers a range of core competencies such as financial management, risk, performance, procurement, etc. In addition, 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 Accountancy team will continue to work with cost centre managers in order to secure further improvements in accounting / financial management arrangements. The Chief Financial Officer will seek to ensure that the Quarterly Finance, Performance and Risk meetings place an increased emphasis on the measures necessary to improve our financial governance 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 delivery of the Internal Audit Plan.

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 it is important that this progress is maintained and outstanding issues are resolved.

## **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

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| <b>Is the decision a Key Decision?</b><br>(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>   | None Directly.  |
| <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

| Appendix No  | Title          |
|--|----------------|
| 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 2013/14 ISA 260” (Audit Committee 22 <sup>nd</sup> September 2014).   |                |
| Internal Audit Consortium:   |                |
| “Summary of Progress on the Internal Audit Plan 2014/15” (Audit Committee 22 <sup>nd</sup> September 2014).  |                |
| Report Author  | Contact Number |
| Executive Director – Operations (Chief Financial Officer)  | 2431           |

## 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>The Council has achieved its full targeted level of savings of £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. The Council has secured the capital receipt in respect of the sale of Sherwood Lodge and is making good progress in securing long term tenants for the Arc, both of which are critical projects to secure long term financial sustainability.</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 2012/13 and 2013/14. The improvements secured to date provide a firm foundation for consolidation of progress. The Accountancy Team is 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.</p>   |
| <p>3. To improve the Council's Internal Control arrangements, and to strengthen the culture of effective 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. Internal Audit have undertaken a more prominent role in the Council's Performance Management arrangements since April 2013.</p> <p>A comprehensive training programme is being delivered to all cost centre managers during the summer 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 work to ensure that the agreed Audit Plan is delivered by the year end. The reduction in the number of Internal Audit reports where areas have been assessed as marginal between 2012/13 and 2013/14 supports the view that the internal control environment is improving.</p> |

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|--|---|
| <p>4. To ensure that issues around the Council's contractual arrangements are resolved and that good quality arrangements remain in place.</p> | <p>The recent review by Internal Audit has concluded that managerial arrangements in this area whilst improved remain marginal. A number of measures have been put in place in order to secure further improvement which can be summarised as follows:</p> <ul style="list-style-type: none"> <li>• A training programme including a significant element concerning procurement contracts is in the final stages of being delivered.</li> <li>• The Council has entered into a shared service arrangement with Chesterfield Royal Hospital in order to secure access to specialist procurement advice.</li> <li>• All recommendations made in the Internal Audit report will be implemented.</li> <li>• There will be an increased emphasis on Procurement issues as part of the Quarterly Finance, Risk and Performance meetings.</li> </ul> |
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