

Bolsover District Council

AUDIT COMMITTEE

23rd September 2015

KEY ISSUES OF FINANCIAL GOVERNANCE

Report of the Executive Director – Operations

This report is public

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 this Agenda (Item 5) include the report from the external auditor (KPMG) concerning the 2014/15 Financial Statements and related issues, together with an update report from Internal Audit concerning progress on the Internal Audit Plan (Item 8) 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 2014/15 Audit. The key messages from that report concern firstly the quality of the Statement of Accounts where the external auditors are of the view that they will be in a position to issue an unqualified opinion on the Statement of Accounts by the 30th September. Secondly, the auditors have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. While the overall conclusions are a satisfactory outcome it is important to consider the report in more detail in order to identify those areas where improvement is required.
- 1.3. As regards the Council's accounting arrangements the following section seeks to summarise the current position.

- With respect to the quality of the Council's Statement of Accounts the report of the External Auditors demonstrates that progress has been maintained in securing improvements to our accounting arrangements. Within the External Auditors report the position is summarised as follows:

“We are pleased to report that our audit of your financial statements has not identified any material adjustments. Overall, the quality of the financial statements was goodBolsover District Council has good processes in place for the production of the accounts and good quality supporting working papers.”

- At this stage the main objective appears to be that of maintaining current standards. Given that the Statement of Accounts is a key document for the Council which needs to be provided in line with challenging timescales it is important that the Council maintains a focus on providing high quality accounts. Accordingly it is suggested that it remains one of the Key Issues where this Committee monitor the position on a regular basis. It is perhaps useful at this stage to recognise the key role of the accountancy team which has led in securing this improvement in the quality of the Council's accounts.

1.4. With regard to the value for money conclusion there is still further work to be undertaken before the Council is in a satisfactory position. Whilst the issues identified are consistent with the Council providing value for money to local residents further improvements are necessary to secure arrangements that are “good” rather than “fit for purpose”. The issues identified are as follows:

- 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. Although progress is being maintained the most recent Internal Audit report continues to evaluate the internal controls 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. Audit Committee should note that a further training session led by the Procurement Team from the Chesterfield Royal Hospital is scheduled to take place this autumn with a total of six training sessions being provided for cost centre managers.
- While the Council continues to make good progress in protecting its financial resilience by securing its in year savings targets the Medium Term Financial Plan continues to identify savings requirements on the General Fund in the order of £1m p.a. over the next two financial year. It is noted that progressing the economic development objective agreed by the Council will need to be effectively managed. In addition the External Auditors report notes that the proposed changes concerning rent levels on social housing will have a detrimental impact on the financial sustainability of the HRA which need to be addressed.

1.5. In addition to the issues raised within the External Auditors report the Audit Committee will also have noted the report on the Head of the Internal Audit Consortium concerning the progress on the 2015/16 Audit Plan. At what is the halfway stage of the year the Council has already received three internal audit reports where the internal controls operating in a particular area of work have been assessed as marginal. Given that the Council only received a total of 3

marginal reports in both 2013/14 and 2014/15 this is a clear indication that we need to continue to work to maintain standard of internal control.

- 1.6. With regard to the Strategic Issues that have been agreed these are summarised in the table below (Appendix 1) 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.

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 maintaining and improving the Council's financial governance arrangements. While the evidence provided within the report indicates that the Council's financial governance arrangements are robust and 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 three 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**

Is the decision a Key Decision? (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
District Wards Affected	None Directly.
Links to Corporate Plan priorities or Policy Framework	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	
<p>Background Papers (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)</p>	
<p>External Audit Reports :</p> <p>“Report to those Charged with Governance 2014/15 ISA 260” (Audit Committee 23rd September 2015).</p> <p>Internal Audit Consortium:</p> <p>“Summary of Progress on the 2015/16 Internal Audit Plan” (Audit Committee 23rd September 2015).</p>	
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 achieved its full targeted level of savings in respect of 2014/15 and on the basis of current information is well positioned to secure a balanced budget in respect of the current financial year where a savings target of £0.350m has been identified. However, the shortfalls in respect of 2016/17 and 2017/18 are both in the region of £1m. The position in respect of these latter years is made more difficult by the fact that the actual grant settlement will not be provided until the Autumn Statement towards the end of 2015. Against this background it is important that the Council continues to progress its growth and transformation strategies to secure financial sustainability and enable it to address the identified shortfall.</p> <p>In addition to the position in respect of the General Fund as outlined above the Council in common with all social landlords will be required to implement a 1% p.a. rent reduction over the next four years. This policy together with changes in right to buy and the welfare system will have a detrimental impact on the Council's HRA and we will need to ensure that a robust 30 year business plan remains in place.</p> <p>Progress in both these areas will continue to be reported as part of the Council's quarterly budget monitoring process.</p>
<p>2. To improve the Council's Internal Control arrangements.</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 was delivered to all cost centre managers during the summer of 2014, with further training sessions planned for the autumn of 2015.</p> <p>Progress reports from the Head of Internal Audit to this Committee will continue to highlight where areas have been assessed as marginal in respect of internal control.</p>
<p>3. 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"> • A training programme including a significant element concerning procurement contracts has been delivered, with a further set of

	<p>training to be delivered over the autumn.</p> <ul style="list-style-type: none"> • The Council is using the contract data required under the Transparency Agenda as the basis for securing improvements in our managerial arrangements. • The Council has entered into a shared service arrangement with Chesterfield Royal Hospital in order to secure access to specialist procurement advice. • All recommendations made in the Internal Audit report are being implemented. • Procurement issues will continue to be a standing item within the Quarterly Finance, Risk and Performance meetings.
<p>4. To Consolidate the improvement that has been secured in the Council's financial reporting arrangements with respect to the Council's published accounts.</p>	<p>The Council has continued to improve the quality of its financial accounts with the Audit report in 2014/15 indicating that our arrangements are robust. That standard needs, however, to be maintained which will require appropriate training and development arrangements.</p> <p>The position will continue to be monitored as part of the Key Issues of Financial Governance report.</p>