

**Bolsover District Council**

**AUDIT COMMITTEE**

**18<sup>th</sup> January 2016**

**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. The Committee has recently considered the report from the external auditor (KPMG) concerning the 2014/15 Financial Statements and related issues, while the previous meeting included 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 2014/15 Audit. The key messages from that report concern firstly the quality of the Statement of Accounts where the external auditors were in a position to issue an unqualified opinion on the Statement of Accounts by the 30<sup>th</sup> September. Secondly, the auditors 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 the detail of the report does identify areas where improvement is required and helps clarify where we need to focus efforts to ensure that existing standards are maintained.
- 1.3. As regards the Council's accounting arrangements 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 was previously agreed by this Committee that the position would continue to be monitored on a regular basis. It is important 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.
- While the Council continues to make good progress in protecting its financial resilience by securing the required 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 three financial years. 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. These issues are considered in more detail in the draft Medium Term Financial Plan 2016/17 to 2018/19 which appears elsewhere on this agenda.

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 brought to the previous meeting . At this 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. As requested at the previous meeting of this Committee the Director of Operations will update Members on progress in implementing the recommendations arising from the Internal Audit report on Health and Safety.

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 support the Audit Committee in undertaking its function of providing 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**

<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>	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**

<b>Appendix No</b>	<b>Title</b>
1	Key Issues of Financial Governance Update
<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 :

“Report to those Charged with Governance 2014/15 ISA 260” (Audit Committee 23rd September 2015).

“Annual Audit Letter” (Audit Committee 14th December 2015).

Internal Audit Consortium:

“Summary of Progress on the 2015/16 Internal Audit Plan” (Audit Committee 14th December 2015).

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## KEY ISSUES OF FINANCIAL GOVERNANCE: UPDATE

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 will secure a balanced budget in respect of the current financial year. On the basis of the details contained in the draft MTFP report – provided elsewhere on this agenda – the shortfall in respect of next year 2016/17 should be relatively easily resolved. The report does, however, identify a shortfall of some £1m over the final two years of the MTFP, which need to be addressed at the earliest opportunity. 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 has a significant detrimental impact on the Council's HRA and the Council 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>Comprehensive training programme have been delivered to all cost centre managers during the summer of 2014, with a further programme completed during 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</p>	<p>The most 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</p>

<p>arrangements are resolved and that good quality arrangements remain in place.</p>	<p>to secure further improvement which can be summarised as follows:</p> <ul style="list-style-type: none"> <li>• Two training programmes including a significant element concerning procurement contracts have been delivered.</li> <li>• The Council is using the contract data required under the Transparency Agenda as the basis for securing improvements in our managerial arrangements.</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 are being implemented.</li> <li>• Procurement issues will continue to be a standing item within the Quarterly Finance, Risk and Performance meetings.</li> </ul>
<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>