

Bolsover District Council

AUDIT COMMITTEE

21st SEPTEMBER 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. Given that reports elsewhere on this Agenda (Item 5) include the report from the External Auditor KPMG concerning the 2015/16 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 financial issues 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 2015/16 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 work to date leads to the conclusion that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. While the overall conclusions is a very satisfactory outcome for the Council the detail of the report does identify a limited number of areas where improvement is required and helps clarify where we need to focus efforts to ensure that existing standards are maintained.
- 1.3. With respect to the Council's accounting arrangements the report of the External Auditor is a very positive one. On page 7 of their report KPMG summarise the position as follows:

“We received complete draft accounts on 31 May 2016 ahead of the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.

As in previous years the quality of the accounts and working papers was high. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.”

Further details of the audit findings are given on Page 14 of the KPMG report which appears as Item (5) of this Agenda. Against the background of the assessment of the 2015/16 Statement of Accounts main objective appears to be that of maintaining current standards. Given the reputational impact of a critical External Audit report and the additional costs that may be incurred for arrangements which do not meet the auditors requirements it is clearly important that the Council maintains its current high standards in this area. In addition the production of a high quality Statement of Accounts is usually a reliable indicator that the wider financial arrangements within an authority are operating effectively. On that basis it would seem appropriate that the Audit Committee continue to monitor the quality of the process for producing the Annual Accounts on a regular basis.

- 1.4 With regard to the value for money conclusion and the associated risk areas whilst current arrangements are operating well and are fit for purpose, they will need to continue to evolve in the light of changing circumstances if the Council is to continue to secure a positive assessment. The main issue identified was as follows:
 - 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 well in excess of £1m over the next three financial years. In addition to the currently identified savings target the report noted that there are a range of risks or financial uncertainties that are currently facing the authority which will need to be effectively managed if the Council is to secure continued financial sustainability.
- 1.5 With regard to the work of Internal Audit the position in respect of last financial year 2015/16 was reported to the meeting of this Committee on 16th May. On the basis that the Council received a total of 3 marginal reports in 2013/14, 2014/15 and 2015/16 this is an indication that standard of internal control are being maintained. At this stage of the financial year the update report from Internal Audit (Item 8 on this agenda) identifies one area where internal control is assessed as ‘marginal’. A more detail report of the Action Plan in respect of the recommendations made within the report on Taxi Licensing will be brought to the next meeting of this Committee.
- 1.6 Given that the latest report from Internal Audit on Contractual Arrangements resulted in a satisfactory assessment and it is no longer a separately identified value for money risk for External Audit it is suggested that this issue of concern be removed from the Key Issues of Financial Governance as identified in Appendix 1. On the basis that Audit Committee agrees that it be removed as a specific issue then it will continue to be monitored as part of the overall monitoring arrangements concerning the robustness of the overall internal control environment.

- 1.7. The Strategic Issues of Financial Governance have been amended to reflect the contents of the report by External Audit, and 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. While the Council's financial governance arrangements have improved over recent years and are now robust it continues to be important that the Audit Committee adopts a pro active role in order to ensure current standards are maintained.

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 maintaining the quality of and where possible 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 other options as to the format of this report the current format has been used for a period in excess of three years and has been amended to reflect the views of the Audit 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 required outcomes.

5 Implications

5.1 Finance and Risk Implications

Financial

There are no additional financial implications for the Council arising from 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 the Council’s financial performance, its reputation 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
1	Key Issues of Financial Governance Update
<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 ; “Report to those Charged with Governance 2015/16 ISA 260” (Audit Committee 21st September 2016). “Summary of Progress on the 2016/17 Internal Audit Plan” (Audit Committee 21st September 2016).</p>	
Report Author	Contact Number
Executive Director – Operations (Chief Financial Officer)	2431

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 a good record in respect of achieving targeted levels of savings over the past few years. On the basis of the current budget monitoring reports the shortfall in respect of the current financial year 2016/17 have been effectively resolved. The report does, however, identify a shortfall in excess of £1m over the final two years of the MTFP, which needs 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 continue to actively manage the position to ensure that the 30 year business plan remains robust.</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 maintaining the quality of and 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. 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 arrangements are resolved and that good quality arrangements remain in place.</p>	<p>The most recent review by Internal Audit has concluded that managerial arrangements in this area were 'satisfactory' which is a significant improvement on the previous assessments of 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"> • Two training programmes including a significant element concerning procurement contracts have been delivered. • 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. • Procurement issues will continue to be a standing item within the Quarterly Finance, Risk and Performance meetings. <p>It should be noted that section 1.6 of the main report recommends</p>

	<p>removing contractual arrangements as a specific concern with these being managed and monitored through the work undertaken to ensure Internal Control arrangements remain robust.</p>
<p>4. To maintain a high standard of external financial reporting particularly in respect of the published accounts, against a background of a reduction in the statutory timescale for the closure of accounts.</p>	<p>The Council has continued to improve the quality of its financial accounts with the Audit report in 2015/16 concluding that our arrangements are robust. That standard needs to be maintained against a background of the significant reputational impact of not securing an unqualified external audit conclusion and the reality that good financial reporting is generally a sign of wider robust financial management. Accordingly the position will continue to be monitored as part of the Key Issues of Financial Governance report.</p>