

AUDIT COMMITTEE

AGENDA

Monday 16th January 2017 at 1400 hours in the Chamber Chamber, The Arc, Clowne

Item No.		Page No.(s)
	PART 1 – OPEN ITEMS	
1.	To receive apologies for absence, if any.	
2.	To note any urgent items of business which the Chairman has consented to being considered under the provisions of Section 100(B) 4 (b) of the Local Government Act 1972.	
3.	Members should declare the existence and nature of any Disclosable Pecuniary Interest and Non Statutory Interest as defined by the Members' Code of Conduct in respect of: a) any business on the agenda b) any urgent additional items to be considered c) any matters arising out of those items and if appropriate, withdraw from the meeting at the relevant time.	
4.	To approve the minutes of a meeting held on 21 st November 2016.	3 to 8
5.	Reports of the External Auditor (KPMG); Bolsover District Council Grants Annual Report 2015/16.	9 to 16
6.	Reports of the External Auditor (KPMG); Bolsover District Council Technical Update – January 2017.	17 to 33
7.	Reports of the Internal Audit Consortium; Summary of Progress on the 2016/17 Audit Plan.	34 to 38
8.	Reports of the Internal Audit Consortium; External Review of Internal Audit.	39 to 82
9.	Reports of the Internal Audit Consortium; Proposed New System of Internal Audit Report Classifications.	83 to 86
10.	Reports of the Executive Director – Operations; Medium Term Financial Plan 2017/18 to 2020/21 – Presentation by the Executive Director Operations.	Presentation
11.	Reports of the Executive Director Operations; Key Issues of Financial Governance.	87 to 92

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Minutes of a meeting of the Audit Committee of the Bolsover District Council held in the Council Chamber on Monday 21st November 2016 at 1000 hours.

PRESENT:-

Members:- Councillors J.A. Clifton, M.J. Dooley, S.W. Fritchley and T. Munro.

Officers: - B. Mason (Executive Director – Operations), D. Clarke (Assistant Director – Finance, Revenues and Benefits), J. Williams (Internal Audit Manager) and A. Bluff (Governance Officer).

Also in attendance was T. Crawley (Audit Team Lead – KPMG).

Mrs J.R. Jaffray (Cooptee Member) in the Chair

0462. APOLOGIES

Apologies for absence were received on behalf of Councillor A.M. Syrett and Councillor K. Reid (Portfolio Holder).

0463. URGENT ITEMS OF BUSINESS

There were no urgent items of business to consider.

0464. DECLARATIONS OF INTEREST

There were no declarations of interest made.

0465. MINUTES – 21ST SEPTEMBER 2016

Moved by Councillor T. Munro and seconded by Councillor S. W. Fritchley
RESOLVED that the Minutes of an Audit Committee meeting held on 21st September 2016.

0466. REPORTS OF THE EXTERNAL AUDITOR (KPMG); ANNUAL AUDIT LETTER 2015/16

Committee considered the Annual Audit Letter 2015/16 which had been prepared by KPMG.

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A summary of reports issued since the last Annual Audit Letter was detailed in a table contained in the report.

KPMG's work concluded that the planning assumptions made by the Authority were reasonable and officers recognised that there were significant uncertainties about the future of local government financing, for example, the details on reform to Business Rates and New Homes Bonus.

KPMG had reviewed the outcome of the 2016/17 budget setting process. The Medium Term Financial Plan set out a savings target of £0.057m for 2016/17 in order to secure a balanced budget. Given the scale of the challenge that faced the Authority in future years, it was important that the savings were secured by underlying reductions in expenditure or increases in income in order to secure the projected financial savings of £1.4m which were anticipated to be required by 2018/19.

KPMG's fee for 2015/16 was £50,868 – this compared to a planned fee of £49,410. The reasons for the variance were an increased fee for the audit of the financial statements reflecting additional work undertaken to review exit package disclosures of £859 and additional substantive testing undertaken in respect of HRA housing repairs and maintenance of £599. Further detail was contained in an appendix to the report.

The Executive Director – Operations considered that KPMG's report was a good report for the Authority.

Members welcomed the report and recognised that the Authority needed to go forward with caution.

Moved by Councillor S.W. Fritchley and seconded by Councillor M.J. Dooley
RESOLVED that the report be noted.

0467. REPORTS OF THE EXECUTIVE DIRECTOR – OPERATIONS BUDGET MONITORING REPORT – QUARTER 2 (JULY TO SEPTEMBER 2016)

Committee considered a report which provided a summary of budget monitoring undertaken for the July to September 2016 quarter. The report would also be presented to Executive on 28th November 2016.

The report covered the General Fund, the Housing Revenue Account and the Capital Programme.

The following was a summary of the financial issues and implications which were covered in detail in the relevant sections throughout the report.

General Fund - The monitoring position showed a net favourable variance position in the second quarter of £0.823m. While much of this was due to the timing of payments it did indicate that the Council should secure a 'one off' financial saving at the year end. This view was supported by the work undertaken in respect of the Revised Budgets.

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HRA - In the second quarter, the HRA was showing a net under spend of £0.696m and it was anticipated that it would be in a break even position at the year end. Again, the work on the Revised Budgets indicated that the position should be better at the end of the financial year than had been anticipated in the current budgets.

Capital Expenditure - There were no significant areas of concern to report regarding the capital programme in the second quarter of 2016/17.

Capital Income - The Council had sufficient capital resources in place to finance the actual expenditure and commitments of the capital programme at the end of the second quarter.

Treasury Management - There were no significant areas of concern to report regarding Treasury Management activities in the second quarter of 2016/17 which had been conducted in line with the agreed Treasury Management Strategy.

In overall terms, the budget monitoring supported the view that the Council will be able to operate within the context of the approved budgets and will secure its financial savings target by the year end.

Moved by Councillor S.W. Fritchley and seconded by Councillor M.J. Dooley
RESOLVED that the report be noted.

0468. REPORTS OF THE EXECUTIVE DIRECTOR – OPERATIONS STRATEGIC RISK REGISTER AND PARTNERSHIP ARRANGEMENTS

Committee considered a report which provided an update on the Council's latest position with regard to Risk Management, Partnership Working and the Strategic Risk Register as at 30th September 2016. The report would also be presented to Executive on 28th November 2016.

At recent quarterly performance meetings, the three key issues raised continued to be around the impact of Brexit, the pace of legislative change and the ability to recruit and retain appropriately qualified staff.

Both the uncertainties arising from Brexit, together with the impact of legislative change were covered within the same Strategic Risk (Risk 1) as outlined in the appendix to the report. This Risk concerned the impact of a wide range of national issues upon the Council and the services it delivered to local residents.

Loss of key staff and the difficulties being experienced in finding suitable replacements continued to be a widespread concern expressed by managers. While a limited number of services were experiencing significant problems, it was clear that all areas of work were now finding it difficult to attract suitable candidates at a time when the Council was experiencing an increase in staff turnover. This issue already featured within the Strategic Risk Register and was detailed as Risk 3 in the appendix to the report.

A series of training sessions for senior managers which covered the issue of Risk Management had been held in 2014 and 2015 and training was also provided to the

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Budget Scrutiny Committee in September 2015. Consideration was currently being given as to what further training would be appropriate.

In dealing with the Government's recent autumn statement, future areas of concern for the Council in managing risk would be around how NNDR would fluctuate and what would transpire with New Homes Bonus.

The Council would need to look at other ways of generating income and reducing costs in which the Audit Committee needed to play a significant active role. There were already some areas, for example, the new Leisure Centre facilities at Clowne, which would save the Council a significant amount of cost, while other schemes such as replacing lights in the Arc with LED lighting, which would be less expensive to run, were under consideration.

In response to a Member's question, the Assistant Director, Revenues and Benefits, advised the meeting that vacancy savings money was used for employing agency staff and no additional costs were incurred.

Moved by Councillor T. Munro and seconded by Councillor S.W. Fritchley
RESOLVED that the report be noted.

0469. REPORTS OF THE EXECUTIVE DIRECTOR – OPERATIONS KEY ISSUES OF FINANCIAL GOVERNANCE

Committee considered a report of the Executive Director – Operations which provided an update concerning the main issues of financial governance where further progress or ongoing monitoring was required.

In particular, the Key Issues of Financial Governance report reflected the issues and outcomes raised by both external and internal audit in their reports as presented earlier on the agenda.

While the evidence provided within this report indicated that the Council's financial governance arrangements were robust and were continuing to improve, it was important that this progress was maintained and outstanding issues were resolved.

The Key Issues of Financial Governance were set out below and in the view of the Chief Financial Officer constituted the main strategic financial issues currently facing the Council;

1. Take effective steps to balance the Council's budget over the period of the Medium Term Financial Plan.

The Council had a good record in respect of achieving targeted levels of savings over the past few years. On the basis of current budget monitoring reports, the shortfall in respect of the current financial year 2016/17 had been effectively resolved. The report, however, identified a shortfall in excess of £1m over the final two years of the Medium Term Financial Plan which needed to be addressed at the earliest opportunity. Against this background it was important

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that the Council continued to progress its growth and transformation strategies to secure financial sustainability and to be able to address the identified shortfall.

In addition to the position in respect of the General Fund as outlined in the report, the Council in common with all social landlords would be required to implement a 1% per annum rent reduction over the next four years. This policy together with changes in Right to Buy and the welfare system had a significant detrimental impact on the Council's HRA and the Council would need to continue to actively manage the position to ensure that the 30 year business plan remained robust.

Progress in both these areas would continue to be reported as part of the Council's quarterly budget monitoring process.

2. To improve the Council's Internal Control arrangements.

The Key Issues of Financial Governance report, together with reports from Internal and External Audit, should enable the Audit Committee to monitor the progress being made in respect of maintaining the quality of and securing improvements in internal control arrangements. Internal Audit had undertaken a more prominent role in the Council's Performance Management arrangements since April 2013.

Comprehensive training programmes had been delivered to all cost centre managers during the summer of 2014 with a further programme completed during the autumn of 2015. A further programme of training was planned to be provided prior to April 2017.

Progress reports from the Head of Internal Audit to the Audit Committee would continue to highlight where areas had been assessed as marginal in respect of internal control.

3. 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.

The Council had continued to improve the quality of its financial accounts with the Audit report in 2015/16 concluding that its arrangements were robust. That standard needed 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 was generally a sign of wider robust financial management. Accordingly the position would continue to be monitored as part of the Key Issues of Financial Governance report.

Members noted that the council's financial accounts were of a consistent high standard.

Moved by Councillor S.W. Fritchley and seconded by Councillor T. Munro
RESOLVED that the report be noted.

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0470. REPORTS OF THE EXECUTIVE DIRECTOR – OPERATIONS SELF EVALUATION OF THE ROLE AND EFFECTIVENESS OF THE AUDIT COMMITTEE

Committee considered a report of the Executive Director – Operations in relation to an evaluation of the role and effectiveness of the Audit Committee and to agree any actions which were necessary in order to make it more effective.

Given the importance of Audit Committee's role to secure the effective operation of governance arrangements within the Council, it was crucial that the Committee gave regular consideration to its effectiveness in practice.

To facilitate Members of the Committee in undertaking a self-assessment, the report set out criteria agreed by CIPFA / SOLACE as being appropriate benchmarks against which to measure the performance of an Audit Committee.

The Committee then assessed itself against the individual standards set out within the CIPFA / SOLACE document. The overall assessment arising from the self assessment was that the Council was performing satisfactorily against the standards set out by CIPFA / SOLACE with the vast majority of the assessment areas being judged as either fully compliant or fit for purpose. On that basis it was reasonable to conclude that the Audit Committee was fit for purpose and performing well.

An area identified where improvement was necessary related to the need to improve the training arrangements for Members of the Committee.

The meeting concluded at 1510 hours.



Annual Report on grants and returns 2015/16

Bolsover District Council

January 2017



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim
 - the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £22,206,058.
- Under separate assurance engagements we certified one claim as listed below.
 - Pooling of Housing Capital Receipts. This had a value of £1,348,165.

Certification and assurance results (Page 3)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter.

The reasons for the qualification were as follows:

- Incorrect State Retirement Pension (SRP) income figures used in the calculation of benefit;
- Incorrect earned income figures used in the calculation of benefit; and
- Incorrect classification of overpayments as claimant error instead of LA error.

These results were a slight deterioration on than last year given the additional work required to be undertaken in respect of the misclassification of overpayments.

Our work on the other grant assurance engagements did not result in a qualification or amendment of the return.

One adjustment was necessary to the Housing Subsidy Benefit claim as a result of our certification work this year.

- An amendment was made to modified schemes as a result of a misclassification of expenditure. The value of the amendment was £843.

No such issues were identified in the previous year.

Recommendations (Pages 5 – 7)

We have made 3 recommendations to the Council from our work this year and agreed an action plan with officers.

In addition there were two recommendations outstanding from our previous year's work on grants and returns. These issues have remained in 2015/16.

Fees (Page 4)

Our indicative fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £7,670. The actual proposed fee for this work is £8,430 which is subject to determination by the PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and was £3,000 in respect of Pooling of Housing Capital Receipts.

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £11,430.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £7,670. Our proposed fee is higher at £8,430, and this compares to the 2014/15 fee for this claim of £8,980.

The main reasons for the fee exceeding the original estimate were:

- Additional sample testing required in respect of the misclassifications of overpayments;
- Additional work required to confirm the cell amendments relating to the misclassification of expenditure on modified schemes; and
- Assistance provided in the accurate completion of the workbooks and generation of summaries required for submission to the PSAA.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our final fees for 2015/16 were £3,000, in line with those in 2014/15.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	8,430	8,980
Pooling of Housing Capital Receipts	3,000	3,000
Total fee	11,430	11,980

Recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Housing Benefit Subsidy Claim					
<p>SRP Income</p> <p>Our sample testing identified that the Council has used incorrect SRP income figures in the calculation of benefits.</p> <p>This issue was also identified in the previous year – refer to page 7.</p>	<p>The use of incorrect SRP income figures resulted in the wrong amount of benefits being paid to claimants. If benefit is overpaid, this results in a necessity for the claimant to repay overpaid benefit back to the Council. It also reduces the amount of subsidy which the Council receives. If benefit is underpaid then the claimant is not receiving the full amount of benefit to which they are entitled. The Council can not claim subsidy on benefit which has not been paid.</p>	<p>1 Training should be provided to all benefit assessors to ensure that the correct figures are being identified for SRP.</p>	<p>2</p>		

Recommendations (cont.)

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Housing Benefit Subsidy Claim					
<p>Earned Income</p> <p>Our sample testing identified that the Council has used incorrect earned income figures in the calculation of benefits.</p> <p>This issue was also identified in the previous year – refer to page 7.</p>	<p>The use of incorrect earned income figures resulted in the wrong amount of benefits being paid to claimants. If benefit is overpaid, this results in a necessity for the claimant to repay overpaid benefit back to the Council. It also reduces the amount of subsidy which the Council receives. If benefit is underpaid then the claimant is not receiving the full amount of benefit to which they are entitled. The Council can not claim subsidy on benefit which has not been paid.</p>	<p>2</p> <p>Training should be provided to all benefit assessors to ensure that they know how to calculate earned income correctly.</p>	<p>2</p>		
<p>Overpayment Misclassification</p> <p>Our sample testing identified that the Council had misclassified LA errors as claimant errors on the subsidy claim form.</p>	<p>The Council is not entitled to receive subsidy on LA error overpayments but does receive subsidy at 40% on claimant errors which are classed as eligible overpayments. This misclassification of the overpayments has meant that the Council has received more subsidy than it was entitled to.</p>	<p>3</p> <p>Training should be provided to all benefit assessors to ensure they know when an overpayment should be classified as claimant error and when it should be classified as LA error.</p>	<p>2</p>		

Prior year recommendations

We made two recommendations in our 2014/15 Certification of Grants and Returns Annual Report. Where recommendations have not yet been implemented fully we have detailed their current status below.

Prior year recommendation	Priority	Status as at November 2016	Management comments
Housing Benefit Subsidy Claim			
<p>1 SRP Income</p> <p>Our sample testing identified that the Council has used incorrect figures in the calculation of benefits.</p> <p>Training should be provided to all benefit assessors to ensure that the correct figures are being identified for SRP.</p>	2	<p>Further work was undertaken in 2015/16 to test the accuracy of SRP income figures used in benefit calculations. Similar issues were identified which were reported in the qualification letter.</p>	
<p>2 Earned Income</p> <p>Our sample testing identified that the Council has used incorrect earned income figures in the calculation of benefits.</p> <p>Training should be provided to all benefit assessors to ensure that they know how to calculate earned income correctly.</p>	2	<p>Further work was undertaken in 2015/16 to test the accuracy of earned income figures used in benefit calculations. Similar issues were identified which were reported in the qualification letter.</p>	



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Technical update

Incorporating the External Audit Progress Report





Bolsover District Council

January 2017

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1. 2016/17 audit deliverables	15

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

-  High impact
-  Medium impact
-  Low impact
-  For information



External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p>We have concluded our work on the 2015/16 financial statements audit. We have held a debrief meeting with the Chief Accountant, the results of which will feed into our planning and risk assessment procedures for the 2016/17 audit.</p> <p>We will be holding meetings with key officers of the Authority to identify key issues that will contribute to our planning approach and further discussions with the Finance team. Following this we will issue our External Audit Plan for 2016/17 which will be presented to Audit Committee.</p>
Value for Money	<p>We have concluded our work in relation to the Value for Money conclusion for 2015/16.</p> <p>As part of our planning process we will be undertaking a risk assessment in relation to our Value for Money conclusion for 2016/17. We will be discussing our approach with key officers of the Authority and the results of this work will be reported in our External Audit Plan for 2016/17.</p>
Certification of claims and returns	<p>We have concluded our work in relation to certifying the Authority’s Housing Benefit Subsidy grant claim and the Pooling of Housing Capital Receipts Return meeting the deadline of 30 November 2016.</p>



KPMG resources

Inspiring innovative government

@gov is a government-focused digital magazine hosted on kpmg.com. Fresh content is added to *@gov* on a monthly basis and printable digest versions are produced twice annually. Each edition examines a new theme, the first of which is *Transforming government in the age of technology*.

This first edition contains a range of articles, which include articles on:

- establishing digital identities for citizens;
- government data sharing;
- the public policy imperatives of autonomous vehicles; and
- innovations in human service delivery.

The magazine can be downloaded as a PDF from kpmg.com/atgov

Chief Accountant training events

We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2016/17 close down and statement of accounts.

The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh.

Dates for the workshops are as follows:

- Leicester – 31 January 2017 (9:30am – 1:00pm)
- Bristol – 1 February 2017 (9:30am – 1:00pm)
- London (Canary Wharf) – 1 February 2017 (9:30am – 1:00pm)
- Preston – 9 February 2017 (9:30am – 1:00pm)
- Leeds – 15 February 2017 (1:30pm – 5:00pm)

Details of the agenda will be provided in due course.

For more information, please contact Kay Meats at kay.meats@kpmg.co.uk.



Technical developments

NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)	KPMG perspective
<p>Committee members may wish to be aware that the National Audit Office has published its report <i>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</i>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.</p> <p>The report can be accessed via the NAO website at www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

PSAA's Value For Money Tool

Level of impact: ● (Low)	KPMG perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none">— General fund revenue account budget (RA) (2016/17)— Child and working tax credit statistics (2014/15)— Children in low-income families local measure (2015)— Chlamydia testing activity dataset (CTAD) (2015)— Climate change statistics: CO2 emissions (2014)— Collection rates for council tax and non-domestic rates in England (2015/16)— Council tax demands and precepts statistics (2016/17)— Fuel poverty sub-regional statistics (2014)— Homelessness statistical release (P1E) (2015/16)— Housing benefit speed of processing (2015/16)— Mid-year population estimates (2015)— NHS health check data (2015/16)— Planning applications (2015/16)— Schools, pupils and their characteristics (2015/16)— Young people from low income backgrounds progressing to higher education (2013/14) <p>The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</p>	<p><i>The Committee may wish to seek further understanding where their area appears to be an outlier (note that some relate to services provided by other public bodies or to general information).</i></p>

Local government licensing fees

Level of impact: ● (Low)	KPMG perspective
<p>Following referral from the Supreme Court of the United Kingdom, Advocate General Wathelet has given his opinion on the lawfulness of licence fees in a case involving Westminster City Council.</p> <p>The fee, which was for the grant or renewal of a 'sex establishment' licence in the City of Westminster, was made up of two parts:</p> <ul style="list-style-type: none">— Part A related to the administration of the application (which is nonreturnable if the application is refused); and— Part B (much higher) related to the management and enforcement of the licensing regime, which is refundable if the application is refused. <p>The Supreme Court had asked the Court of Justice of the European Union (CJEU) whether Part B constituted a "charge", which was therefore prohibited by Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market ("the Services Directive").</p> <p>Advocate General Wathelet recommended a finding to the CJEU that the Services Directive must be interpreted as precluding Westminster from taking into account, when calculating the fee due for the grant or renewal of an authorisation, the cost of managing and enforcing the authorisation scheme (part B), even if the part corresponding to that cost is refundable where the application for the grant or renewal of the authorisation in question is refused.</p>	<p><i>The Committee may wish to seek assurance that the Authority has considered this judgement and has taken action to ensure that its licencing fees are calculated in an appropriate manner.</i></p>

CIPFA publication on understanding the financial statements

Level of impact: ● (Low)	KPMG perspective
<p>CIPFA has published a new report titled <i>Understanding Local Authority Financial Statements</i>. This is an update of its previous publication <i>How to Tell the Story</i>.</p> <p>The report can be found on the CIPFA/LASAAC pages of the CIPFA website at www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements</p> <p>Further to this report, CIPFA/LASAAC undertook a consultation on proposals for the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom. The headline changes were:</p> <ul style="list-style-type: none">— a new principles-based approach to narrative reporting.— a review of the Code's provisions on going concern reporting.— a review of accounting policies provisions in the Code.— new disclosure on transaction costs for pension fund investments.— narrow scope amendments to International Financial Reporting Standards.— legislative changes.— a new appendix including the provisions for the Code's adoption of IFRS 9 Financial Instruments (note this new appendix will apply to the 2018/19 financial statements).— a new appendix including provisions for the Code's adoption of IFRS 15 Revenue from Contracts with Customers (note this new appendix will apply to the 2018/19 financial statements). <p>The details of the consultation can be found at www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment</p>	<p><i>The Committee may wish to review the CIPFA report and seek assurance that officers are aware of the consultation on the 2017/18 changes.</i></p>

NAO report – Children in need of help or protection

Level of impact: ● (Low)	KPMG perspective
<p>In October 2016 the NAO published a report entitled <i>Children in need of help or protection</i> which may be of interest to members.</p> <p>The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children’s social work, including on child protection, varies widely across England and is not related to quality. Neither the Department for Education nor authorities understand why spending varies.</p> <p>The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.</p> <p>The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted’s view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ending 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.</p> <p>The report is available from the NAO website at www.nao.org.uk/report/children-in-need-of-help-or-protection/</p>	<p><i>This report may be of interest to the Committee in the context of services provided by other public bodies to its population.</i></p>



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	TBC
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	July 2017	TBC

Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	July 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2017	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments in 2015/16.	January 2017	Complete



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Bolsover District Council

Audit Committee

16th January 2017

Summary of Progress on the 2016/17 Internal Audit Plan

This report is public

Purpose of the Report

- To present for Members information, progress made by the Audit Consortium during the period 10th September 2016 to 3rd January 2017, in relation to the 2016/17 Internal Audit Plan. The report includes a summary of Internal Audit Reports issued during the period and work in progress.

1 Report Details

- 1.1 The 2016/17 Consortium Internal Audit Plan for Bolsover District Council was approved by the Audit Committee on the 12th April 2016.
- 1.2 The Consortium Agreement in paragraph 9.3 requires that the Head of the Internal Audit Consortium (HIAC) or his or her nominee will report quarterly (or at such intervals as the HIAC may agree with the Committee) to the Audit Committee of each Council on progress made in relation to their Annual Audit Plan.
- 1.3 Attached, as Appendix 1, is a summary of reports issued covering the period 10th September 2017 – 3rd January 2017, for audits included in the 2016/17 Internal Audit Plan.
- 1.4 Internal Audit Reports are issued as drafts with five working days being allowed for the submission of any factual changes, after which time the report is designated as a Final Report. Fifteen working days are allowed for the return of the Implementation Plan.
- 1.5 The Appendix shows for each report a summary of the Overall Audit Opinion on the audit and the number of recommendations made / agreed where a full response has been received. There are two reports where the overall assessment has been reached of marginal. Members of the Committee will be provided with copies of these reports to consider.
- 1.6 The overall opinion column of Appendix 1 gives an assessment of the reliability of the internal controls examined in accordance with the following classifications:

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

1.7 In respect of the audits being reported, it is confirmed that there were no issues arising relating to fraud that need to be brought to the Committee's attention.

1.8 The following audits are currently in progress:

- Housing Rents
- Housing Repairs
- Homelessness
- Payroll

2 Conclusions and Reasons for Recommendation

2.1 To inform Members of progress on the Internal Audit Plan for 2016/17 and the Audit Reports issued.

2.2 To comply with the requirements of the Public Sector Internal Audit Standards.

3 Consultation and Equality Impact

3.1 None

4 Alternative Options and Reasons for Rejection

4.1 Not Applicable

5 Implications

5.1 Finance and Risk Implications

5.1.1 Regular reports on progress against the internal audit plan ensure compliance with the Public Sector Internal Audit Standards and allow members to monitor progress against the plan.

5.2 Legal Implications including Data Protection

5.2.1 None

5.3 Human Resources Implications

5.3.1 None

6 Recommendation

6.1 That the report be noted.

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
Links to Corporate Plan priorities or Policy Framework	The report is linked to Bolsover District Council's aims and objectives to provide customers with an excellent service.

8 Document Information

Appendix No	Title
Appendix 1	Summary of Internal Audit Reports Issued 10 th September – 3 rd January 2017
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)	
N/A	
Report Author	Contact Number
Jenny Williams	01246 217547

BOLSOVER DISTRICT COUNCIL

Appendix 1

Internal Audit Consortium - Report to Audit Committee

Summary of Internal Audit Reports Issued – 10th September 2016 – 3rd January 2017

Report Ref No.	Report Title	Scope and Objectives	Overall Opinion	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
B010	Council Tax	To ensure that bills are raised and collected promptly and accurately	Good	21/09/2016	12/10/2016	0	0
B011	Section 106	To ensure that section 106 agreements are properly monitored and controlled	Marginal	6/12/2016	22/12/2016	9 (3H 5M 1L)	8
B012	Treasury Management	To ensure there is a clear Strategy in place that is adhered to and that all lending and borrowing is in line with procedure	Good	4/10/2016	25/10/2016	0	0
B013	Housing Benefits	To ensure that Housing Benefits are calculated accurately and paid in a timely manner	Good	20/10/2016	10/11/2016	0	0

Report Ref No.	Report Title	Scope and Objectives	Overall Opinion	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
B014	Sundry Debtors	To ensure that invoices are raised promptly and accurately and that collection procedures are operating well	Good	1/11/2016	22/11/2016	0	0
B015	Use of Social Media	To ensure that there is a policy and guidance in place for the use of social media and that access is appropriately controlled.	Marginal	3/11/2016	24/11/2016	7 (3H 4M)	7
B016	Stores	To ensure that the contract with Travis Perkins is appropriately monitored	Good	16/11/2016	7/12/2016	3(1M 2L)	3
B017	Creditors	To ensure that purchase orders are raised appropriately and that invoices are paid in a timely and accurate manner	Good	16/11/2016	7/12/2016	0	0

Notes: For recommendations, H = High priority, M = Medium priority and L = Low Priority.

Bolsover District Council

Audit Committee

16th January 2017

EXTERNAL REVIEW OF INTERNAL AUDIT

This report is public

Purpose of the Report

- To inform members of the results of the external review of internal audit that took place at the beginning of October 2016.

1 Report Details

Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) were introduced from the 1st April 2013 and Internal Audit has been working to those standards since that date. The PSIAS require that internal and external assessments of internal audit must take place.
- 1.2 An internal self-assessment against the PSIAS utilising the recommended CIPFA checklist has been undertaken on an annual basis by the Internal Audit Consortium Manager and the resultant improvement plans have been reported to and monitored by this Committee. In addition at the close of each financial year the Client Officer is required to prepare a report to the Audit Committee evaluating the effectiveness of the Internal Audit service that has been provided during the year.
- 1.3 The PSIAS require that an external assessment of internal audit should be carried out at least once every 5 years by a qualified, independent assessor or team. The first external assessment needed to be completed by April 2018.
- 1.4 A tender exercise was carried out by the NHS procurement unit. The tender was assessed on the basis of 60% quality and 40% cost. Six parties submitted a tender which were analysed by a panel. The tender was awarded to Gateway Assure and the external assessment of internal audit was undertaken by Robin Pritchard from this company.
- 1.5 The assessor (Robin Pritchard) is CIPFA qualified and has 38 years internal audit experience including being Chief Internal Auditor at Staffordshire County Council and a national partner responsible for internal audit at a number of professional service firms. Robin joined Gateway Assure in September 2013 after spending 6 years as Head of Centre for Birmingham City University the leading academic provider of training and research to the internal audit and risk management professions. Robin is an experienced External Quality Assessor

and has experience of assessing other Council's internal audit teams against the PSIAS.

Format of the assessment

- 1.6 The assessment took place at the beginning of October 2016 and involved a review of the Consortium's documentation, working practices, committee reports and discussions with the Internal Audit Consortium Manager and Client Officers at each Council. As part of this process the assessor visited each site and reviewed a number of audit working papers.
- 1.7 This approach enabled the assessor to assess the Internal Audit Consortium's conformance with the PSIAS against the recommended checklist and associated standards.

Results of the Review - Headlines

- 1.8 The report concludes that the Internal Audit Consortium complies with the requirements of the Public Sector Internal Audit Standards. This means that Members can have confidence in the service provided by the audit team. It is acknowledged that the audit team has significant experience and a range of qualifications allowing a robust internal audit standard to be maintained and delivered.
- 1.9 The outcome of the review has been benchmarked against other provision in both the sector and the wider industry and this shows that the team compares favourably in comparison with its peers (end of Appendix 1)
- 1.10 As would be expected, the report has made a number of recommendations that are aimed at highlighting where further development can be made to enhance the value of the service being provided.
- 1.11 The assessor's full report can be seen at Appendix 1.
- 1.12 Appendix 2 is an action plan that has been completed by the Internal Audit Consortium Manager in Liaison with each Council's client Officer.
- 1.13 Each of the assessor's recommendations has been graded to reflect the relative importance to the relevant standard within the PSIAS.

Recommendation grading	Explanation
Enhance	The internal audit Consortium must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit Consortium should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit Consortium should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

Key Points Arising out of the Review

1.14 The key theme throughout the report and associated recommendations is in relation to enhancing and developing the use of risk based auditing in order to be able to provide increased levels of assurance. The responses in the action plan at Appendix 2 detail how this will be achieved but actions include:-

- Annual audit plans to more clearly demonstrate the links to the strategic and operational risk registers
- Identification of other sources of assurance that are available in addition to internal audit upon which the Council can place reliance
- Greater discussion with managers at the commencement of an audit in terms of identifying the key risks to a service
- Consideration of further risk management training for the audit team
- Reviewing the terminology used for the opinion given at the end of an audit to reflect assurance and risk levels
- Developing the annual audit opinion to incorporate all significant risks with a greater link to the significant risks as identified in the Annual Governance statement, strategic risk register and from other sources of assurance.

1.15 Two recommendations received a red grading. The first red recommendation was:-

“There is a need for the Consortium to be able to provide assurance relating to the IT risks given the increased complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members”

1.16 Although the Consortium staff do not possess any formal IT qualifications, a number of IT audits are successfully carried out and pertinent recommendations made. Team members keep abreast of new IT threats and challenges through articles in professional journals and ad hoc training sessions. This is also a prime example of where assurance can be gained from other sources e.g. an external assessment has to take place for the Council to gain PSN accreditation.

1.17 A dedicated IT Auditor would be expensive and difficult to recruit. Training an existing member of staff would be a lengthy process and there is no guarantee that they would remain with the Consortium. The Internal Audit Consortium has a budget of £5,000 a year for professional services that is currently not committed. Consideration will be given to using this budget for external specialist support if required. Derby City and Derbyshire County Council have dedicated IT auditors that may be able to provide this service.

1.18 The second red recommendation was:-

“In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to provide a wider assurance to each Authority in support of the governance statement. Best practice is that the annual report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of

assurances available is essential in order to meet this broader scope. In this way the annual report can be used to support the Council's governance statement"

1.19 The audit plan is already risk based however this process will continue to be refined with the audit plan being more demonstrably linked to the strategic and operational risk registers. The format of the annual audit opinion will be reviewed to ensure that it covers all significant risks as identified by the audit work undertaken, the annual governance statement, the strategic risk register and any other significant risks identified by other sources.

1.20 Other recommendations have been graded amber and green. Each recommendation has been responded to as Appendix 2.

2 Conclusions and Reasons for Recommendation

2.1 To ensure that Members are aware of the results of the external review of internal audit that is required by the PSIAS.

3 Consultation and Equality Impact

3.1 None.

4 Alternative Options and Reasons for Rejection

4.1 None.

5 Implications

5.1 Finance and Risk Implications

5.1.1 The action plan will be implemented with the resources already available in the Consortium. Potentially some of the Consortium's budget will be utilised in respect of an external IT audit.

5.1.2 The implementation of the action plan will ensure that the Council continues to receive an effective internal audit service that is compliant with the PSIAS and that continually strives to improve.

5.2 Legal Implications including Data Protection

5.2.1 None

5.3 Human Resources Implications

5.3.1 None

6 Recommendations

6.1 That the results of the external review of internal audit be noted.

6.2 That the action plan that has been put in place to address the recommendations arising out of the review be approved.

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	N/A
Links to Corporate Plan priorities or Policy Framework	The report is linked to BDC's aims and objectives to provide customers with an excellent service

8 Document Information

Appendix No	Title
1	External Review of Internal Audit
2	External Review of Internal Audit – Action Plan
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)	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547

Report Title:	External Review of Internal Audit (October 2016)		

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
RESOURCES Supervision Supervision of an internal audit assignment is not always evidenced within internal audit files. A formal file review document is completed by a supervisor following exit meetings or production of a draft report, with supervision during an audit being conducted through discussion and monthly 121 meetings.	<p>The nominated supervisor should ensure and evidence that active supervision is maintained and documented throughout the assignment process through recording involvement and instructions on the review form.</p> <p>A suggested format for diarising supervision which is used within peer providers is attached as Appendix 1</p>	Part	IAC Manager/ Senior Auditors	Ongoing	<p>There is already a formal review process in place. A standard file review form is completed at the end of an audit that records any queries/issues/further work required that are outstanding. Once these issues have been satisfactorily resolved the review form is signed off and the close out meeting can be held with the relevant manager.</p> <p>Teams are small and there is regular dialogue amongst team members as an audit progresses. It is felt that recording these conversations would be time consuming and wouldn't add anything to the process. However, if any significant issues arise during audits then these will be documented as part of the file review.</p>
		Y	IAC Manager	Immediate	Internal Audit Consortium Manager to introduce file review forms at DDDC

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>COMPETENCY</p> <p>Governance and standards The Internal Audit Manual is a comprehensive document which refers to the PSIAS but does not sufficiently reference the processes that audit staff should follow in conducting assignments to the various standards. We feel that this would help to elevate the understanding and status of internal audit if the key standards within the PSIAS were fully documented within the document.</p>	The Internal Audit Manual could be beneficially improved by referring directly to those PSIAS standards that must be followed and providing detailed advice regarding expectations, particularly in respect of each area.	Y	IAC Manager	August 2017	IAC Manager to review and update audit manual to include more detail in respect of specific PSIAS standards. Internal audit staff all have a copy of the standards however a copy of the PSIAS Standards will be appended in the audit manual
<p>COMPETENCY</p> <p>Internal Audit Planning Whilst planning is based upon a risk model as required by the PSIAS, the process largely depends on an assessment devised by internal audit; this shows a financial bias and the use of different definitions of risk impact to those approved within the Council risk management strategy; rather than reflecting the wider and accepted risk issues being recognised by the</p>	a) Audit Plans should be constructed to achieve the objectives of the department as set out in the Internal Audit Charter and the audit planning process designed to reflect the same through transparent alignment with the Council wide approach to risk management.	Yes	IAC Manager	For 17/18 IA Plan	The Council's strategic and operational risk registers are already used to inform the audit plan. The IAC Manager sits on risk management groups. Directors, Service Managers and the Risk management Group are consulted in respect of the content of the plan. Areas in the plan are already identified as High, Medium or Low risk however the 2017/18 Internal Audit plan will be presented to more clearly demonstrate the links with the Council's risk registers. Non- financial areas are already

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>Council. There should be a direct and identified link between the internal audit plan content discussed with Audit Committees which aligns with the Council's risk management systems; beneficially reflecting both identified controls and assurances available. The risk based reasoning for inclusion of the assignment in the audit plan should be evident (why is there a need for independent assurance?) and in turn this should drive the preparation of the terms of reference for each assignment as recorded within the Audit Brief.</p>					<p>identified for review e.g. health and safety, safeguarding, gas servicing. A number of other Council's audit plans have been obtained and this has not identified any significant gaps in the Consortium's audit plans. There are a range of other assurances in place including the Performance Management Framework and the Annual Governance Statement which provide assurance and identify potential weakness. The process will continue to be refined.</p>
	b)The internal audit planning process should further identify other sources of assurance that are available and upon which Councils can place reliance.	Y	IAC Manager	August 2017	<p>IAC Manager to meet with Directors/Heads of Service/ raise at CMT/quarterly Directorate meetings to identify and document other sources of assurance that are available upon which the Council can place reliance. The results of this exercise can then be used to further inform the basis for the internal audit plan.</p>
	c) The starting point for the development of the Audit Brief should be a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. It may aid assignment planning if the management objectives for	Y	IAC Manager/ Senior Auditors	April 2017	<p>In the majority of cases a start- up meeting is already held with managers and the audit coverage discussed. The current audit brief and start up meeting can be developed to focus more upon the risks associated with the areas being tested/key controls and any links to operational risk registers and service plans.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
	the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.				
<p>COMPETENCY</p> <p>Training The department has an experienced team of internal audit staff whose training needs are assessed through regular 121 meetings and appraisal and development meetings. Most staff have a relevant qualification, although only the IACM and one other member of staff have a recognised CCAB or IIA certification. The team attend routine meetings of various groups locally and regionally and use is</p>	a) Consideration should be given to those areas within the training matrix which reflect greatest need for routine mandatory training of a professional or technical nature. These may relate to areas such as Data Protection or health and Safety where it is important for all staff to have a firm understanding or specific training relating to internal audit such as risk based internal audit or reporting.	Y	IAC Manager	Ongoing	Audit staff have regular data protection and safeguarding training and undertake corporate training as available/required. The Consortium will continue to take advantage of the Corporate training provided. Consideration will continue to be given to the provision of other training in relation to technical and professional areas within the confines of the budget available. Consideration will be given to further risk training for the audit team. One member of the team is studying for their IIA qualification.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>made of dedicated cost effective training that is available. The IACM ensures that available budgets are used to best effect.</p> <p>Whilst the IA team have identified technology related issues given the nature of cyber risk it is felt that this is a weakness that should be addressed.</p>	<p>b) There is a need for the Consortium to be able to provide assurance relating to IT risks given the increasing complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members.</p>	Y	IAC Manager	As required	<p>Consideration will be given to the identification and utilisation of external specialist support e.g. DCC or Derby City internal auditors where it is felt this is required.</p> <p>All four Councils are currently subject to independent PSN compliance on an annual basis which provides robust independent assurance concerning those aspects of the network covered by this testing.</p>
<p>COMPETENCY</p> <p>Control evaluation The IAC uses the following gradings for the assessment of controls included within the testing schedule.</p> <p>Good – A few minor recommendations (if any) Satisfactory – minimal risk; a few changes identified where changes would be beneficial Marginal – a number of areas have been identified for improvement Unsatisfactory – Unacceptable</p>	<p>The Consortium should consider the merits of moving to expression of the control in environment in the form of:-</p> <p>a) The appropriateness of the control environment having regard to the significance of the risks involved – adequate/inadequate, and</p> <p>b) Whether the control is being consistently applied – effective/ineffective</p>	Y	IAC Manager	April 17	<p>The IAC Manager to investigate alternative assessment wording based on levels of assurance. Consideration to be given to introducing revised assessment terminology from April 2017. Any proposals will be subject to discussions with the Audit Committees of the four Councils concerned to ensure a standard grading approach is retained.</p> <p>Client officers are however of the view that the existing grading arrangements do serve to give them a clear view of the position in respect of each service and that the use of 5 categories does</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>risks identified, changes should be made</p> <p>Unsound – Major risks identified; fundamental improvements are required</p> <p>Our view would be that this represents an overly complex structure for expression of an opinion on the control environment and the nature of the issue identified against which a recommendation will be made. Standard practice is for each control to be assessed in terms of its adequacy and effectiveness, with the subsequent recommendation being graded as risk based (see Delivery 3b/c)</p>					<p>allow an accurate summary. They are able to focus on the three weaker assessments as those areas which have significant issues/ risks which need to be addressed. In this sense the current 5 level grading system provides a clear picture of where action is necessary.</p> <p>However, current thinking is to grade reviews based on levels of assurance.</p>
<p>DELIVERY</p> <p>Focus on pre-identified controls</p> <p>Assignments are dominated by previously identified controls emanating from CIPFA control matrices which are then tested to specified testing levels rather than provide focus on significant risk and associated key controls</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee.</p> <p>Assignment briefs should therefore reflect assessment of risks as defined within the Councils risk impact definitions and then</p>	Part	IAC Manager/ Senior Auditors	Ongoing	<p>The basis of most test schedules have been derived from CIPFA control matrices and therefore cover the most significant risks as well as a range of other controls. The audit testing to be undertaken is discussed with the relevant manager at the start of the audit and updated following these discussions to include any concerns/ areas of risk identified by the manager. The test schedules also cover areas</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>identified and evaluated as part of the documentation process. Benefits would be achieved through increased focus on agreed “local” key controls relating to the business critical risks and then tested according to the materiality of their contribution to the Council’s risk management framework. Whilst the current testing is robust, documented and well evidenced it may not provide assurance relating to the most significant risks to which the service is exposed.</p>	<p>consider the controls that are required to mitigate that risk within the risk appetite of the Council.</p> <p>An example risk based Assignment Brief is included as Appendix 2.</p>				<p>that may not be “major” risks but are non the less still important.</p> <p>Audit briefs and opening meetings with managers can be developed to focus more on risk areas and more specific links to operational risk registers and service plans. Audit test schedules to continue to be adapted to reflect these risks.</p> <p>Consideration will be given to further risk training for the audit team.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>DELIVERY</p> <p>Methodology and use of walk-through tests</p> <p>For core financial systems, systems documentation exists and is well understood supported by flowcharts, in accordance with para 8.1.1 of the Internal Audit Manual. For other audits whilst it is accepted the system notes exist mostly in the form of notes within the evidence collected, files do not contain an outline of the system as specified in the internal audit manual as stage 4 of the above and there is therefore a reliance on previously constructed testing schedules to define the scope of the audit. As the risk environment, service provision, staff in post and therefore systems change it is considered important that each audit commences with providing a documented oversight of the component parts of the system in which key controls that are to be relied upon for the purposes of providing an opinion are documented and tested using a walk through test.</p>	<p>a. Auditors should complete at least a system note at the start of each audit in order to outline an overview of the processes being reviewed in order to aid understanding and the structure of the audit and provide an understanding of the system to aid supervision and the efficient conduct of future audits.</p>	Part	All audit staff	April 17	<p>A permanent file will be set up for each area of review in to which system notes, flow charts, staffing structures etc. will be saved.</p> <p>Sample documentation and system, notes are already routinely placed on file to evidence the processes in place whilst undertaking sample testing.</p>
	<p>b. The internal audit manual should specify the minimum standards requirements for file structure and content for electronic files in order to aid supervision. These may be planning and communication, systems documentation and identified procedures, fieldwork (control summaries supported by testing and evidence) and reporting. (Refers to section 9.3.3 of the internal audit</p>	Y	IAC Manager	August 17	<p>The structure of the electronic files for each audit review will be developed to ensure a consistency of approach amongst the Consortium members.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
	manual)				
DELIVERY Audit Opinions - Recommendations These are currently developed and assessed by each internal auditor, and reviewed by the Audit Manager prior to release of the draft report (sometimes subsequent to discussion of findings at an 'exit meeting' at which the grading of recommendations may have been discussed). This system relies on personal judgement	a)Audit supervisors should formally agree the grading of recommendations prior to the conduct of exit meetings.	Y	IAC Manager/ Senior Auditors	Ongoing	This is already completed as part of the file review process.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>related to 'Priority' for which no definition exists to articulate the meaning of High, Medium or Low.</p> <p>The definitions used by internal audit to support opinions therefore lack clarity and should be more closely linked with each Authority's risk appetite and the definitions of impact risk being used to embed risk management thinking within the organisation. The basis for grading of recommendations should as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p>	<p>b) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting</p>	Y	IAC Manager	April 17	<p>Definitions will be developed for High, Medium and Low internal audit recommendations linked to risk. This will aid in reducing subjectivity and increase consistency.</p> <p>It is also important that the audit reports identify and report all significant risk. Management can then take an informed view as to whether to accept or reject such risk, and to ask the question as to whether the risk appetite should be reviewed.</p>
	<p>c) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in a side letter to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p>	N			<p>This approach would lead to the risk that low priority recommendations are not even considered by managers. Managers can already disagree recommendations if they feel the risk is too low given the resource available etc.</p> <p>It is up to managers to set the risk appetite of the Council.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>DELIVERY</p> <p><i>Audit Opinions - Overall opinions</i></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and IACM of the draft report prior to release.</p> <p>The overall opinion also appears to be loosely based on the aggregate number of recommendations made and not the level of risk identified. The current is for the opinion to reflect the reliability of the internal controls operating in the system / area reviewed was assessed as good* / satisfactory* / marginal* / unsatisfactory* / unsound*.</p>	<p>a) The grading of recommendations should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> - Where a fundamental risk (red) is identified that no/limited assurance is given. - Where significant risks (amber) are identified then adequate assurance is given, and - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given 	Part	IAC Manager	April 17	Definitions will be developed for the use of High, Medium and Low when grading recommendations. This will help to ensure consistency based on levels of risk.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>Wider best practice provides for three levels of opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	<p>b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward approach for internal audit staff to administer.</p>	Part	IAC Manager	April 17	<p>Consideration will be given to alternative wording for audit opinions based on assurance and risk levels. The Midlands Audit Group has been surveyed to establish the levels of audit opinion utilised by other audit sections.</p> <p>After consultation with client officers and consortium staff it is felt that four levels of opinion is more appropriate.</p> <p>A report will be taken to the January 17 Audit Committees in respect of a proposed revised levels of opinion based on assurance levels.</p>
<p>DELIVERY</p> <p>Report format The Consortium currently provides a detailed report which is then summarised appropriately to inform other meetings within the Council at Officer and Member levels. It would not be appropriate to comment negatively on this approach particularly as positive feedback regarding internal audit performance can be seen in the return of satisfaction surveys during 2016/17 and was gained</p>	<p>The Consortium should consider whether focusing on risk as a basis for reporting would allow movement towards an 'executive summary' approach which highlights only significant risks. This may help further build the profile of internal audit and allow greater efficiency within the team through reducing the time consumed in report production and clearance.</p>	N			<p>Managers have not liked this approach in the past as reports were seen as focusing purely on the negative.</p> <p>Current feedback from customer satisfaction surveys on the current reporting style is positive.</p> <p>Where a marginal or worse conclusion is reached the main issues / risks will be summarised in a paragraph under the conclusion. The majority of reports are already short.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
in meetings with officers as part of the EQA. However, internal audit reports are 'lengthy' and in developing an increasingly risk based approach consideration could be given to moving to an exceptions based executive summary highlighting significant risks.					
DELIVERY Auditee feedback At the time of the review feedback questionnaires had been received in respect of 24 audits undertaken during 2016/17, all received scores in excess of 80% with the only areas showing as requiring improvement relating to:- <ul style="list-style-type: none"> - Were recommendations practical and useful, and - Sufficient to remedy weaknesses identified in the report 	The IACM should continue to monitor feedback as it moves towards an increasingly risk focused so that as changes are made to internal audit practices; these can be aligned with improvements in the way internal audit value is perceived.	Y	IAC Manager	March 18	All customer satisfaction surveys are reviewed with a view to taking on board any learning points. Surveys are also used as a discussion point with Auditors at EPD's and 1:1's As the Consortium further develops risk based auditing the customer satisfaction survey will be reviewed to ensure that it is still collecting relevant feedback.
DELIVERY Annual Report The IACM produces an Annual Audit report which summarises	In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to	Y	IAC Manager	2016/17 audit opinion	The internal audit work during the year is used as the basis upon which to formulate the annual audit opinion. The audit plan is risk based and devised to cover a broad range of the

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>the years' work and includes analysis of performance. The opinion reflects <i>'In respect of the main financial systems, Appendix 1 shows that internal controls were found to be operating satisfactorily or well, giving an overall confidence in the internal control system operating in relation to these systems'</i>. The form required by the PSIAS requires a wider statement which <i>'must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'</i>.</p>	<p>provide a wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of assurances available is essential in order to meet this broader scope.</p> <p>In this way the Annual report can be used to support the Council's Governance Statement.</p>				<p>Council's activities and functions. This enables the IAC Manager to produce an opinion on the control environment as a whole.</p> <p>However, the annual internal audit opinion will be developed to take in to account other significant risks that may not have been covered by the audit plan in a particular year. The Annual Governance Statement and strategic risk register will be utilised to do this.</p>
<p>DELIVERY</p> <p>Reports produced by the IACM It is considered good practice that the IACM is involved in conducting assignments particularly in relation to high risk areas but in such circumstances appropriate arrangements should be made for 'supervision' and clearance of reports.</p>	<p>In circumstances where the IACM undertakes a review personally arrangements should be made for a second person review of the file.</p>	Y	Senior Auditors	Immediate	Where the IAC Manager undertakes an audit, a quality review will be undertaken by a senior Auditor

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>DELIVERY</p> <p>Derbyshire Dales DC Whilst it is recognised that arrangements for this Council are outside of the core Consortium arrangements. It would be beneficial for the established internal audit processes contained within the Internal Audit Manual to be applied as this will aid consistency of approach, training and supervision.</p>	<p>Standardised procedures should be implemented regarding:</p> <ul style="list-style-type: none"> - The use of Audit Briefs, - Working paper review, and - The approach to IT audit 	Y	IAC Manager and Senior Auditor	Immediate	

Bolsover District Council

Audit Committee

16th January 2017

PROPOSED NEW SYSTEM OF INTERNAL AUDIT CONSORTIUM
OPINION CLASSIFICATIONS

This report is public

Purpose of the Report

- To report to Members for consideration and approval a revised system of classification for the internal audit opinions issued as the conclusion for each report issued.

1 Report Details

- 1.1 The current internal audit report classifications have been utilised since the commencement of the Consortium and are as detailed in the table below:-

<i>Control Level</i>	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

- 1.2 Whilst the present system of classification is “tried and tested”, Current best practice is to focus more on the level of assurance that can be given with regard to the area being audited. This links more closely with the annual governance statement.
- 1.3 The external reviewer of internal audit has also recommended considering moving towards providing levels of assurance linked to risk rather than retaining the current classifications.

- 1.4 The current system does have some disadvantages, such as;
- The words “satisfactory” and “marginal” have a negative tone
 - It is relatively difficult to distinguish between the lowest 2 categories of “unsatisfactory” and “unsound” with the unsound category being rarely used.
- 1.5 The Midlands Audit Group was surveyed to establish the opinion classifications that are utilised by other Council’s. Whilst there were numerous slight variations, the common theme was that the majority use wording based around levels of assurance ranging from “full” “substantial” “moderate” “reasonable” “limited” “no” assurance etc.
- 1.6 Following a review of the systems of classification used by other Council’s and discussions with the Consortium’s client officers it is proposed that a new system be adopted, based on four levels of classification focused on the level of assurance that can be provided.
- 1.7 The proposed classifications are as follows:-

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

- 1.8 The new system of classifications would be used on all internal audit reports issued and in the summary/annual reports brought to this committee.

2 Conclusions and Reasons for Recommendation

- 2.1 Current thinking is to assess internal audit reviews in terms of the level of assurance that can be given. To ensure that the Internal Audit Consortium

continues to operate in line with accepted best practice it is proposed that the suggested opinion classifications are adopted from the 2017/18 financial year.

3 Consultation and Equality Impact

3.1 None.

4 Alternative Options and Reasons for Rejection

4.1 The alternative option would be to retain the current system of classifications however current thinking has moved on to assess systems in terms of assurance levels. Retaining the current system would leave the internal audit consortium open to criticism when further external reviews take place.

5 Implications

5.1 Finance and Risk Implications

5.1.1 Updating the internal audit opinion classifications will help to ensure that the Council continues to receive an internal audit service that complies with best practice.

5.2 Legal Implications including Data Protection

5.2.1 None

5.3 Human Resources Implications

5.3.1 None

6 Recommendation

6.1 That the revised internal audit report opinion classifications be introduced from the commencement of the 2017/18 internal audit plan year.

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	N/A
Links to Corporate Plan priorities or Policy Framework	The report is linked to BDC's aims and objectives to provide customers with an excellent service

8 Document Information

Appendix No	Title
<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>	
Report Author	Contact Number
<p>Jenny Williams Internal Audit Consortium Manager</p>	<p>01246 217547</p>

Bolsover District Council

AUDIT COMMITTEE

16th January 2017

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. This report reflects both the Annual Audit Letter 2015/16 together with the more detailed ISA 260 report from KPMG both of which have been presented to this Committee. It also considers the latest update report from Internal Audit concerning progress on the Internal Audit Plan which is provided elsewhere on this agenda. The outcome of those reports together with planned management action to address the limited number of issues identified 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 issued both an unqualified opinion on the Statement of Accounts by the 30th September, while concluding 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 did 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 ISA260 report of the External Auditor is a very positive one. On page 7 of that 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."

Against the background of the assessment of the 2015/16 Statement of Accounts the 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 Council received a total of 3 marginal reports in 2013/14, 2014/15 and 2015/16 which is an indication that standard of internal control are being maintained. Elsewhere on this Agenda is the Summary of Progress on the 2016/17 Internal Audit Plan. During the year the Council has now received three areas where systems of internal control have been assessed as marginal. Given that there remains a further quarter in the current financial year there is clearly a risk that the number of marginal reports in 2016/17 will exceed the position in previous years. While a further marginal report for example is unlikely to result in serious concerns there is a clear requirement to emphasise to management across the Council the importance of ensuring that internal control arrangements are effective.

- 1.6. The Strategic Issues of Financial Governance that have been previously identified 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 on balance 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 Recommendation

- 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 on addressing those issues.

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). “Annual Audit Letter 2015/16” (Audit Committee 21st November 2016) “Summary of Progress on the 2016/17 Internal Audit Plan” (Audit Committee 21st September 2016, 16th January 2017).</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 and the Council should achieve an in year surplus in excess of £0.4m. There remains, however, 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. Elsewhere on the agenda is a presentation concerning the Council's budget position and MTFP in respect of the period 2017/18 to 2020/21.</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. A further programme of training is planned to be provided prior to April 2017.</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 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>