

**Bolsover District Council**

**Audit Committee**

**21 November 2017**

<b>KEY ISSUES OF FINANCIAL GOVERNANCE</b>
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**Report of the Assistant Director – Finance, Revenues and Benefits**

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 position of the Council's financial governance arrangements. This report reflects both the ISA 260 report from KPMG and the work undertaken by Internal Audit. The outcome of those reports together with planned management action to address the 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 2016/17 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 31<sup>st</sup> July, while concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The overall conclusion is a very satisfactory outcome for the Council and the detail of the report does not identify any areas where improvement is required.
- 1.3 With respect to the Council's accounting arrangements the ISA260 report of the External Auditor is a very positive one. Against the background of the assessment of the 2016/17 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 relates to the financial resilience in the local and national economy and the Council's ability to deliver the required savings in order to achieve a balanced budget.
- 1.5. With regard to the work of Internal Audit, the position in respect of the last financial year 2016/17 was reported to the meeting of this Committee on 16<sup>th</sup> May 2017. The Council received a total of 1 unsatisfactory and 4 marginal report during 2016/17 of which copies have previously been distributed to this Committee and a further update is included in Appendix 1. An update on the Progress on the 2017/18 Internal Audit Plan is included elsewhere on this agenda.
- 1.6. The Strategic Issues of Financial Governance that have been previously identified are summarised in 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 Recommendations

- 6.1. That the report is noted, and the Audit Committee raise any issues of concern with the updated Action Plan and the reported progress to date.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: BDC:       Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/> NEDDC:   Revenue - £100,000 Capital - £250,000 <i>* Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	Robust financial Governance arrangements underpin the effective operation of the Council and its ability to secure the full range of Corporate Plan Priorities.

## 8 Document Information

Appendix No	Title
1	Key Issues of Financial Governance Update
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
"Report to those Charged with Governance 2016/17 ISA 260"	
<b>Report Author</b>	<b>Contact Number</b>
Assistant Director – Finance, Revenues and Benefits	01246 217658

**KEY ISSUES OF FINANCIAL GOVERNANCE: UPDATE****APPENDIX 1**

<b>Issue Raised</b>	<b>Progress to date including target dates.</b>
1. Take effective steps to balance the Council's budget over the period of the Medium Term Financial Plan.	<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 MTFP approved in February the shortfall of £0.171m in respect of the current financial year 2017/18 should be achievable, there still remains a further shortfall of £1.7m over the final three 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. The Council is currently working to update its efficiency and transformation plans which will contribute to addressing the financial shortfall.</p> <p>Elsewhere on this agenda is a report on the 2<sup>nd</sup> quarter's budget monitoring, previously taken to Executive on 6<sup>th</sup> November. This report identifies that there are variances within directorates but nothing of concern and that a balanced budget should be achievable during the current year. By the end of the second quarter, savings of £0.156m have been achieved against the target, leaving £0.014m still to be achieved.</p> <p>In addition to the position in respect of the General Fund as outlined above, the Council in common with all social landlords have been required to implement a 1% p.a. rent reduction for the four years from April 2016. This policy together with changes in right to buy and the welfare system has a significant detrimental impact on the Council's HRA and the Council will need to continue to actively manage the position to ensure that the 30 year business plan remains robust.</p> <p>Progress in both these areas will continue to be reported as part of the Council's quarterly budget monitoring process.</p>
2. To improve the Council's Internal Control arrangements.	<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 has undertaken a more prominent role in the Council's Performance Management arrangements since April 2013.</p> <p>Comprehensive training programme have been delivered to all cost centre managers during June 2017.</p> <p>It is anticipated to undertake Procurement Training to all Managers in the new year.</p> <p>Progress reports from the Head of Internal Audit to this Committee will continue to highlight areas of concern with respect of internal control. Details of the work done during this financial year is included elsewhere on this agenda.</p>
3. A report in respect of Transport Administration was assessed as	<p>Officers are now in the process of addressing the Internal Audit recommendations and are of the view that appropriate changes are being implemented to minimise risk. Weaknesses in internal control have facilitated a minor misappropriation of funds of limited value</p>

unsatisfactory. The main issues concerned system weaknesses which have surrounded the introduction of a new system.	<p>which has been reported by the Council to the Police. Officers have proactively undertaken works to resolve matters identified in the Action Plan resulting in 17 of 19 = 89% of actions now having been resolved.</p> <p>Internal Audit is currently reviewing this work and will feed back to the next meeting of this committee.</p>
4. Reports in respect of the administration of both Licensing and Health and Safety concluded that arrangements were marginal. Both the services concerned are joint arrangements operating across Bolsover and North East Derbyshire District Council.	<p>In both areas a comprehensive management review has been undertaken leading to the development of an Action Plan which is currently in the process of being implemented. Although it is a concern that Health and Safety - which was identified as a weakness in 2015/16 – remains marginal, significant improvement has been evidenced, although further work remains necessary. The Action Plans incorporate external support in order to secure improvement in a timely fashion. With respect to Licensing a reinstallation the current software to facilitate improved access to management information is taking place.</p> <p>In terms of the Health &amp; Safety audit, progress on these recommendations is being monitored through the quarterly performance meeting.</p> <p>Internal Audit is currently undertaking a review of Licensing and will report back its findings to a future meeting. A presentation will be given by the Licensing team on the progress made against the action plan and a general update on what the team were working on and achievements made.</p>
5. Marginal Internal Audit reports for Social Media and S106 Agreements.	In both areas management is in the process of implementing the Internal Audit recommendations. The implementation of the actions required are being monitored through the Council's Performance Management framework.
6. 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 has continued to improve the quality of its financial accounts with the External Audit Report for 2016/17 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.