

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**16 November 2017**

**Key Issues of Financial Governance**

**Report of the Chief Financial Officer**

**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 and Corporate Governance Scrutiny Committee of progress in addressing those recommendations. It constitutes a standing item on all agendas of this Committee.

**1 Report Details**

- 1.1 This report seeks to update Members of the Audit and Corporate Governance Scrutiny 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 constitutes 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 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 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 and Corporate Governance Scrutiny 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 18 May 2017. The Council received a total of 5 marginal reports 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 and Corporate Governance Scrutiny 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 and Corporate Governance Scrutiny Committee adopts a pro active role in order to ensure current standards are maintained.
- 1.7 **Appendix 2** sets out the position with respect to outstanding debt at the end of September 2017. While exiting procedures are operating appropriately officers are continuing to monitor performance and review arrangements. Levels of debt are considered with service managers as part of the Quarterly Finance, Performance and Risk Management meetings.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 The report seeks to provide to the Audit and Corporate Governance Scrutiny Committee an update concerning progress in resolving a range of identified issues where poor performance could impact on the robustness of the Council's internal control arrangements and upon the financial governance of the authority. As such it is seeking to provide information to allow the Audit and Corporate Governance Scrutiny Committee to make an assessment of the Council's performance in respect of financial governance.

## **Reasons for Recommendation**

- 2.2 This report is intended to monitor the Council's progress in addressing those issues which have been identified as the key issues of financial governance. Accordingly, the recommendation requests the Committee to consider the report.

## **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 There are no direct implications arising from this report.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 These are outlined in the main body of the report.

## **5 Implications**

### **5.1 Finance and Risk Implications**

#### **Financial**

There are no additional financial implications arising directly out of this report.

#### **Risk**

The Action Plan as set in **Appendix 1** is intended to help to mitigate the risk that the Council's financial and wider governance arrangements will deteriorate. The risks associated with poor governance include ineffective decision making, an increased possibility of financial loss or poor value for money for the Council together with the prospect of significant reputational damage.

### **5.2 Legal Implications including Data Protection**

There are no legal or data protection implications arising directly out of this report.

### **5.3 Human Resources Implications**

These are detailed in the attached report.

## **6 Recommendations**

- 6.1 It is recommended that Audit and Corporate Governance Scrutiny 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

<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
Appendix 1	Key Issues of Financial Governance : Action Plan
Appendix 2	Corporate Debt as at 30September 2017
<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)	
KPMG "Report to those Charged with Governance (ISA 260) 2016/17" "Internal Audit Consortium Annual Report 2016/17"	
Report Author	Contact Number
Assistant Director of Finance, Revenues & Benefits	01246 217658

# Appendix 1

## ACTION PLAN

### KEY ISSUES OF FINANCIAL GOVERNANCE 2016/17

Issue	Current Position	Sponsor / Lead Officer
<p>1. Although the Council's budget is balanced over the period of the Medium Term Financial Plan that is on the basis of securing significant efficiency savings, amounting to £1.8m over the period to March 2021. Many of these efficiencies require the active management of significant levels of change against a background of reducing staffing levels. If these efficiencies are not secured then the Council will be forced to reduce expenditure in a relatively uncontrolled fashion which will impact upon both the quality of services to local residents, and on the internal control environment.</p>	<p>In setting its Medium Term Financial Plan the Council set out a range of options to deliver the efficiency gains necessary to operate within the underlying level of resources. Achievement of these measures is monitored on a regular basis by Cabinet and the Audit and Corporate Governance Scrutiny Committee as part of the Council's Performance Management framework. While appropriate mechanisms are in place and have proved effective during previous financial years it needs to be recognized that the efficiency targets continue to be challenging and will require pro active management action.</p> <p>The Council started this financial year with a deficit of £0.363m. After taking account of increased planning fees, further restructure in Financial Services, new building control company and the new waste recycling contract, this has been previously reduced to £0.141m.</p> <p>Elsewhere on this agenda, there is a report regarding the budget monitoring for the second quarter of this financial year. Here, we identify that a total of £0.315m of savings have already been achieved. The difference between quarter one and two is further vacancy savings.</p> <p>There is a further report elsewhere on this agenda detailing the current position with regard to the revised budgets. This identifies that we have achieved the savings target for this financial year and a further £0.057m to be transferred to Invest to Save Reserve.</p> <p>A further report on future years will come back to the January meeting of this committee.</p>	<p>SAMT/ CFO</p>
<p>2. With respect to the work</p>	<p>In respect of our management and governance arrangements all identified issues are</p>	<p>SAMT/</p>

Issue	Current Position	Sponsor / Lead Officer
<p>undertaken by both External and Internal Audit there continues to be a limited number of areas identified where the Council's internal control arrangements require improvement. These relate to particular areas and are not representative of the quality of the overall control environment. In particular it should be noted that none of the critical reports relate to the Council's Key Financial Systems. However, while in 2014/15 the Council received only 2 critical internal audit reports, which increased to four in 2015/16 with a further increase to five in 2016/17. The more serious of those in respect of 2016/17 concerned Licensing arrangements, although further work is necessary to consolidate the progress in respect of Health and Safety which while improving was again assessed as marginal in 2016/17.</p>	<p>reported to the Audit and Corporate Governance Committee through the Key Issues of Financial Governance Action Plan which is a standing item on the agenda. Internal audit reports specify a time period for the implementation of agreed recommendations and progress against these recommendations is monitored as part of the Council's Performance Management Framework. This review and monitoring process will continue to address areas of identified weakness to ensure that they do not significantly impact upon the overall internal control environment.</p> <p>Progress in addressing these issues and in embedding improvement will be reported to the Audit and Corporate Governance Scrutiny Committee on a regular basis in order to ensure that the improved arrangements are continuing to operate effectively.</p> <p>With regard to 2016/17 the most critical Internal Audit reports concerned Licensing arrangements. Management actions conducted during 2016/17 and continue into 2017/18 are addressing the concerns, and ongoing monitoring will be maintained to ensure that improvement is fully embedded. A further update is elsewhere on this agenda.</p> <p>There is now a new assurance categorisation for internal audit reports, these being:</p> <ul style="list-style-type: none"> <li>Substantial Assurance</li> <li>Reasonable Assurance</li> <li>Limited Assurance</li> <li>Inadequate Assurance</li> </ul> <p>It was previously agreed that any report of limited or inadequate assurance would be monitored through this Committee. No reports falling within these categories have been issued to date during this financial year.</p>	CFO
3. Reports in respect of the	In both areas a comprehensive management review has been undertaken leading to the	SAMT /

Issue	Current Position	Sponsor / Lead Officer
administration of both Licensing and a Health and Safety concluded that arrangements were marginal	<p>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 Plan includes external support in order to secure improvement in a timely fashion.</p> <p>At the last meeting of this Committee, a presentation was heard from the Licensing Team on progress made against the action plan and a general update of what the team were working on and had achieved. The presentation was very well received. Internal Audit is currently undertaking a review of Licensing and will report back to this committee at a later date.</p>	CFO
4. The other three marginal Internal Audit reports concerned Transport Administration, Social Media and Procurement.	<p>In all three areas management is in the process of implementing the Internal Audit recommendations. The implementation of the actions required will be monitored through the Council's Performance Management framework.</p> <p>In terms of the Transport audit officers have proactively undertaken works to resolve matters identified in the Action Plan resulting in 8 of the 10 = 80% of actions now having been resolved.</p> <p>Internal Audit is currently reviewing this work and will feedback to the next meeting of this committee.</p>	CFO / AD

APPENDIX 2 : TABLE 1

## Aged Debt Reporting – Sundry Debtors

Debt Outstanding as at	Current Debt	90 – 365 Days	1 to 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5+ years	Total	Write Offs in Year
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Average Debt 2012/13</b>	<b>925</b>	<b>87</b>	<b>44</b>	<b>10</b>	<b>10</b>	<b>3</b>	<b>26</b>	<b>1,105</b>	<b>17</b>
<b>Average Debt 2013/14</b>	<b>825</b>	<b>99</b>	<b>35</b>	<b>36</b>	<b>8</b>	<b>5</b>	<b>18</b>	<b>1,026</b>	<b>21</b>
<b>Average Debt 2014/15</b>	<b>1,330</b>	<b>180</b>	<b>42</b>	<b>27</b>	<b>34</b>	<b>5</b>	<b>24</b>	<b>1,642</b>	<b>7</b>
30 June 2015	918	190	69	15	52	5	24	1,272	
30 September 2015	893	142	75	17	13	42	27	1,209	
31 December 2015	880	261	85	26	13	43	25	1,333	
31 March 2016	1,195	212	76	52	13	42	22	1,612	
<b>Average Debt 2015/16</b>	<b>972</b>	<b>201</b>	<b>76</b>	<b>27</b>	<b>23</b>	<b>33</b>	<b>25</b>	<b>1,357</b>	<b>14</b>
30 June 2016	1,616	108	67	52	13	50	19	1,925	
30 September 2016	1,779	130	65	59	13	12	59	2,117	
31 December 2016	1,714	115	87	35	19	12	26	2,008	
31 March 2017 – none LA's	442	48	28	30	19	9	23	599	
31 March 2017 – other LA's	651	13	23	19	0	0	0	706	
<b>Average Debt 2016/17</b>	<b>1,551</b>	<b>104</b>	<b>68</b>	<b>49</b>	<b>16</b>	<b>21</b>	<b>32</b>	<b>1,839</b>	<b>58</b>
30 June 2017 – none LA's	378	50	37	23	14	9	31	542	
30 June 2017 – other LA's	137	0	26	3	0	0	0	166	
30 Sept 2017 – none LA's	825	99	30	23	21	9	31	1,038	
30 Sept 2017 – other LA's	186	32	0	0	3	0	0	221	
31 Dec 2017 – none LA's									
31 Dec 2017 – none LA's									
31 March 2018 – none LA's									
31 March 2018 – other LA's									
<b>Average Debt 2017/18</b>	<b>763</b>	<b>91</b>	<b>47</b>	<b>24</b>	<b>19</b>	<b>9</b>	<b>31</b>	<b>984</b>	<b>4</b>



## APPENDIX 2 : TABLE 2

### Aged Debt Reporting – Overpaid Housing Benefits

Debt Outstanding as at	Current Debt	90 to 365 days	1 to 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total	Write offs
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Average Debt 2012/13</b>	<b>74</b>	<b>238</b>	<b>199</b>	<b>115</b>	<b>70</b>	<b>70</b>	<b>51</b>	<b>817</b>	<b>0</b>
<b>Average Debt 2013/14</b>	<b>105</b>	<b>194</b>	<b>219</b>	<b>166</b>	<b>98</b>	<b>60</b>	<b>110</b>	<b>952</b>	<b>34</b>
<b>Average Debt 2014/15</b>	<b>137</b>	<b>211</b>	<b>201</b>	<b>191</b>	<b>145</b>	<b>81</b>	<b>150</b>	<b>1,116</b>	<b>19</b>
30 June 2015	172	309	220	181	176	123	183	1,364	
30 September 2015	221	321	237	173	183	133	205	1,473	
31 December 2015	196	336	298	168	148	138	221	1,505	
31 March 2016	140	380	296	165	132	138	228	1,479	
<b>Average Debt 2015/16</b>	<b>182</b>	<b>336</b>	<b>263</b>	<b>172</b>	<b>160</b>	<b>133</b>	<b>209</b>	<b>1,455</b>	<b>76</b>
30 June 2016	141	362	310	173	130	139	215	1,470	
30 September 2017	157	328	332	188	116	149	248	1,518	
31 December 2016	193	299	364	232	112	118	250	1,568	
31 March 2017	199	340	379	217	133	108	252	1,629	
<b>Average Debt 2016/17</b>	<b>173</b>	<b>332</b>	<b>346</b>	<b>203</b>	<b>123</b>	<b>128</b>	<b>241</b>	<b>1,546</b>	<b>144</b>
30 June 2017	134	355	357	232	140	112	255	1,585	
30 September 2017	153	321	333	242	149	96	294	1,588	
31 December 2017									
31 March 2018									
<b>Average Debt 2017/18</b>	<b>143</b>	<b>338</b>	<b>345</b>	<b>237</b>	<b>144</b>	<b>104</b>	<b>275</b>	<b>1,586</b>	<b>0</b>

## APPENDIX 2 : TABLE 3

### HRA total Indebtedness

Debt Outstanding as at	Total	Write Offs in Year
	£000	£000
Average Debt 2012/13	1,987	85
Average Debt 2013/14	2,322	231
Average Debt 2014/15	2,359	143
30 June 2015	2,457	
30 September 2015	2,456	
31 December 2015	2,136	
31 March 2016	1,763	
Average Debt 2015/16	2,203	266
30 June 2016	2,157	
30 September 2016	2,284	
31 December 2016	1,975	
31 March 2017	1,679	
Average Debt 2016/17	2,023	178
30 June 2017	2,171	
30 September 2017	2,227	
31 December 2017		
31 March 2018		
Average Debt 2017/18	2,199	128

**APPENDIX 2 : TABLE 4****SUMMARY OF PROVISION FOR DOUBTFUL DEBTS 2017/18**

	<b>General Fund Sundry Debtors</b>	<b>Over Paid Housing Benefit</b>	<b>HRA Rents</b>	<b>Total</b>
	£000's	£000's	£000's	£000's
Balance B/Fwd	(177)	(1,181)	(1,003)	(2,361)
Write offs in current financial year	4	0	128	132
Actual increase in provision	(20)	(0)	(0)	(20)
<b>Provision C/fwd</b>	<b>(193)</b>	<b>(1,181)</b>	<b>(875)</b>	<b>(2,249)</b>
Current Debt position	984	1,586	2,199	4,769
Percentage Coverage	19.6%	74.5%	39.8%	47.2%