

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

2 February 2017

Key Issues of Financial Governance

Report of the Executive Director Operations

This report is public

Purpose of the Report

- To update the Audit and Corporate Governance Scrutiny Committee regarding progress in addressing the key issues of financial governance.

1 Report Details

- 1.1 For the Committee to consider the progress made in addressing the key issues of financial governance as set out in the Action Plan attached at **Appendix 1**.
- 1.2 One of the standing items on the Audit and Corporate Governance Scrutiny Committee agenda is the Action Plan in respect of the Key Issues of Financial Governance. This Action Plan covers the most significant issues raised by External and Internal Audit, other inspections, or other matters which would significantly impact upon our Financial Governance arrangements. Given the importance of the issues that are raised to the sound governance of the Council it is appropriate that the Council should maintain an Action Plan to address the issues raised, and that progress against this Action Plan should be monitored as a standing item at all meetings of the Audit and Corporate Governance Scrutiny Committee.
- 1.3 At previous meetings the Committee has considered the two key communications from the Council's external auditors KPMG. These are the Annual Audit Letter 2015/16 (24th November), together with the "Report to those Charged with Governance (ISA 260)" reported to the September meeting of this Committee. These two documents constitute the most recent external assessment of the Council's arrangements. The key messages of these reports concern firstly the Statement of Accounts where the external auditors were able to issue an unqualified audit opinion on the Statement of Accounts by the 30th September. Secondly, the auditors have concluded that the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. While the overall conclusions clearly represent a satisfactory outcome the reports also set out 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.

- 1.4 Against the background of a very positive assessment of the 2015/16 Statement of Accounts the main objective is that of maintaining current standards. Given the reputational impact of a critical External Audit report and the additional costs that may be incurred for operating 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.
- 1.5 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 that 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 two 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.
- 1.6 With respect to the work of Internal Audit the position in respect of last financial year was reported to the meeting of this Committee held on 19th May 2016. During 2015/16 the Council received four internal audit reports where the internal controls operating in a particular service area have been assessed as requiring improvement. This contrasts against the position in respect of 2013/14 and 2014/15 where only one report each year resulted in the conclusion that internal controls in the service area concerned were requiring improvement. With respect to the current financial year the most recent Internal Audit progress report is included elsewhere on this agenda with the number of audits to date in the current financial year that are assessed as marginal currently standing as three (December 2016). In the light of the continued relatively high number of service areas where a 'marginal' assessment is being reached it is important that appropriate steps are taken to ensure that internal control arrangements are improved. As part of a well established process copies of all marginal internal audit reports are provided to Members of the Audit and Corporate governance Scrutiny Committee for consideration.
- 1.7 Appendix 2 sets out the position with respect to outstanding debt at the end of September 2016. Whilst existing procedures are operating appropriately officers are continuing to monitor performance and review arrangements. Levels of current debt are considered with service managers as part of the Quarterly Finance, Performance and Risk Management meetings.
- 1.8 The Action Plan covering the agreed Key Issues of Financial Governance appears as **Appendix 1** to this report. It is requested that Members consider the actions identified and the updated comments on progress against agreed actions.

2 Conclusions and Reasons for Recommendation

- 2.1 The report seeks to present 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 on which the Audit and Corporate Governance Scrutiny Committee can 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 That the report be noted, and the Audit and Corporate Governance Scrutiny Committee raise any issues of concern with the updated Action Plan and the reported progress to date.

7 **Decision Information**

Is the decision a Key Decision? (A Key Decision is an executive decision 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 Governance arrangements underpin the effective operation of the Council and its ability to secure all of the Corporate Plan priorities.

8 **Document Information**

Appendix No	Title
1	Key Issues of Financial Governance : 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)	
KPMG "Report to those Charged with Governance (ISA 260) 2015/16" Audit and Corporate Governance Scrutiny Committee Meeting 22 September 2016 KPMG "Annual Audit Letter" Audit and Corporate Governance Scrutiny Committee Meeting 24 November 2016 "Internal Audit Consortium Annual Report 2015/16" Audit and Corporate Governance Scrutiny Committee Meeting 16 May 2016 "Internal Audit Consortium – Summary of Progress on the Annual Internal Audit Plan 2016/17" Audit and Corporate Governance Scrutiny Committee Meeting 22 September 2016, 2 February 2017.	
Report Author	Contact Number
Executive Director – Operations	7154

Appendix 1

ACTION PLAN

KEY ISSUES OF FINANCIAL GOVERNANCE 2016/17

Issue	Current Position	Sponsor / Lead Officer
<p>1. Progress actions necessary to achieve a balanced budget over the period of the MTFP 2017/18 to 2020/21.</p> <p>Minimise the risk of a reduction in the General Fund (£2m) and HRA balances (£3m) in order to help ensure the continued financial and operational sustainability of the Council.</p>	<p>The draft recommended MTFP in respect of the period April 2017 to March 2021 is shown elsewhere on this agenda. That indicates a shortfall of some £0.513m in respect of next financial year with a cumulative shortfall of £1.863m by the 2020/21 financial year. The savings that will be required over the period of the MTFP are significant, especially given the level of savings already achieved in previous years. Accordingly, it is important that the Council continues to take steps at the earliest possible opportunity to reduce its underlying level of expenditure in respect of future financial years.</p> <p>The HRA has a 'balanced' budget in respect of the period of the current MTFP (to March 2021), however, Officers continue to review the 30 Year HRA Business Plan in the light of legislative and other changes.</p>	<p>SAMT/ CFO</p>
<p>2. Manage our key partnership arrangements.</p> <p>The Council's service delivery plans and its financial strategy are heavily dependent upon partnership working with Rykneld Homes its Housing ALMO and Bolsover District Council its strategic partner. There will be a growing</p>	<p>Whilst the three key partnerships are currently working well the Council needs to ensure that it effectively manages these relationships in order to deliver our services and our savings strategy.</p> <p>Rykneld Homes are continuing to deliver the Council's Capital Programme in order to maintain homes at Decent Homes Standard and to address the issues associated with non traditional properties. Rykneld Homes will, however, need to manage the reductions in funding associated with the changes to rent levels, the ending of the Decent Homes Programme, together with the reduction in the level of the Council's Housing capital programme.</p> <p>The Council has for some time been an active participant in both the East Midlands Local</p>	<p>SAMT / CFO</p>

Issue	Current Position	Sponsor / Lead Officer
reliance on the two LEP's to support the economic prosperity of the District and to support the growth agenda which is key to delivering enhanced local income streams.	Economic Partnership and the Sheffield City Region. The Council needs to work effectively within these partnerships if it is to continue to secure the economic growth that is central to both the wellbeing of our local communities and to securing the income necessary to support effective Council services. Significant progress is being made in ensuring that the Council secures access to external funding in order to address key economic regeneration projects.	
3. Maintain the quality of Performance Monitoring within the Council to ensure our services are performing at the required standards.	<p>This is an action designed to help ensure we continue to effectively manage the performance of our services in light of the issues facing the Council. These include budget reductions, increased service demands, service transformation plans etc.</p> <p>Officers will continue with the quarterly performance, risk and finance meetings with outcomes being measured against those in the Corporate Plan. Any significant performance monitoring issues identified will be reported to Members through the quarterly performance management process. The quarterly Performance Reports are brought to Audit and Corporate Governance Scrutiny Committee as part of the reporting cycle. In addition the Audit and Corporate Governance Scrutiny Committee receives quarterly reports in respect of debt.</p>	CFO / AD
<p>4. Monitor the impact of new legislation.</p> <p>In a number of areas such as the reform of the HRA, and the localisation of both Council Tax Benefit and Business Rates there will be a transfer of greater responsibility, financial burdens and risk to the local authority.</p>	<p>The Council has successfully implemented the changes around the reform of the HRA, the localisation of Council Tax Benefits and reforms of the Business Rates. Whilst all these reforms have been successfully implemented they have involved a transfer of risk from central to local government which could result in additional calls upon the Council's resources.</p> <p>While previous changes have been successfully implemented it is anticipated that the next 3 years will see a further range of legislative change covering such areas as NNDR, the HRA, devolution and welfare reform which are anticipated to have a significant impact upon local government.</p>	CFO / AD
5. Internal Controls are maintained.	Internal Control is a key element in maintaining good governance arrangement for the Council. In respect of the current financial year the Internal Audit programme has already identified three areas of work where internal control is classed as marginal.	CFO

Issue	Current Position	Sponsor / Lead Officer
<p>The Council needs to ensure that its internal control arrangements are maintained to a high standard. This includes:</p> <p>(i) Ensuring our accounting arrangements remain fit for purpose.</p> <p>(ii) The Internal Audit Section is operating in line with revised standards</p> <p>(iii) The Council's general control environment is maintained.</p> <p>The Audit and Corporate Governance Scrutiny Committee will be aware that during the 2015/16 financial year the Council received 1 Internal Audit report where arrangements were classed as unsatisfactory and a further three where arrangements were described as marginal. This is a significantly poorer outcome than that achieved in previous financial years.</p>	<p>Accountancy Section</p> <p>The Key Issues of Financial Governance report has continued to monitor the position in respect of the accountancy team. The outcome of the 2015/16 external audit supports the view that the team operated to a high standard.</p> <p>Internal Audit Section</p> <p>The Internal Audit Section from 1 April 2013 is required to operate to the new Public Sector Internal Audit Standards. The revised Standards have been successfully implemented but continued work is necessary to ensure that appropriate arrangements are maintained which will require the active involvement of the Audit and Corporate Governance Scrutiny Committee. There is a report elsewhere on this agenda setting out the outcome of the external review of internal audit.</p> <p>Internal Control Arrangements</p> <p>It is disappointing to note that as at December 2016 in the current financial year that three areas have been identified as having internal control arrangements which were classified as marginal, while in respect of the previous financial year (2015/16) one Internal Audit Review has identified an area with unsatisfactory internal controls while a further three audit reports have classified the controls operating in particular areas as being marginal. The performance in respect of the current and preceding financial year is significantly below that achieved in previous years. Officers will continue to work to address the concerns that have been raised and to seek to ensure that the outcome of internal audit work in the next financial year indicates an improving position.</p> <p>Audit and Corporate Governance Scrutiny Committee.</p> <p>An effective Audit and Corporate Governance Scrutiny Committee is a key element in the financial governance arrangements of an authority. At a previous meeting a self assessment was undertaken which concluded that the Committee was operating effectively in its role of supporting contribution to the effectiveness of the Council's financial governance arrangements.</p>	
<p>6. An Internal Audit review of the Council's</p>	<ul style="list-style-type: none"> Officers have agreed an Action Plan with Internal Audit which will include some major changes in the way in which these payments are monitored and managed. 	<p>AD P & EH, CFO.</p>

Issue	Current Position	Sponsor / Lead Officer
arrangements concerning the administration of S106 Payments concluded that these were unsatisfactory (Unacceptable risks identified, changes should be made)	<ul style="list-style-type: none"> • All future meetings of the Planning Committee will consider a report detailing all outstanding S106 payments. • The scope of the Corporate S106 monitoring meeting has been extended from the consideration of 'live' S106 arrangements to incorporate all S106 agreements including those where the Planning Application and associated S106 agreement have been approved, but development work on site has not commenced. • The Assistant Director Planning and Environmental Health attended the September meeting of this Committee to outline what action has been taken in respect of the findings of the Internal Audit report. • Further Internal Audit work in respect of S106 arrangements is currently underway. 	

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
Average Debt 2011/12	697	130	41	37	28	24	40	997	125
Average Debt 2012/13	925	87	44	10	10	3	26	1,105	17
Average Debt 2013/14	825	99	35	36	8	5	18	1,026	21
30 June 2014	1,106	196	20	56	6	3	24	1,411	
30 September 2014	1,585	148	31	18	43	6	24	1,855	
31 December 2014	1,233	268	52	19	43	5	24	1,644	
31 March 2015	1,396	109	65	15	44	5	24	1,658	
Average Debt 2014/15	1,330	180	42	27	34	5	24	1,642	7
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	
Average Debt 2015/16	972	201	76	27	23	33	25	1,357	14
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									
Average Debt 2016/17	1,703	118	73	49	15	25	35	2,017	16

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
Average Debt 2011/12	110	191	138	92	88	50	18	687	18
Average Debt 2012/13	74	238	199	115	70	70	51	817	0
Average Debt 2013/14	105	194	219	166	98	60	110	952	34
30 June 2014	98	199	208	191	130	60	140	1,026	
30 September 2014	125	190	199	206	147	77	152	1,096	
31 December 2014	188	244	197	175	159	106	159	1,228	
31 March 2015	126	291	224	165	165	115	169	1,255	
Average Debt 2014/15	137	211	201	191	145	81	150	1,116	19
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	
Average Debt 2015/16	182	336	263	172	160	133	209	1,455	76
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									
Average Debt 2016/17	164	330	335	198	119	135	238	1,519	66

APPENDIX 2 : TABLE 3

HRA total Indebtedness

Debt Outstanding as at	Total	Write Offs in Year
	£000	£000
Average Debt 2011/12	1,562	77
Average Debt 2012/13	1,987	85
Average Debt 2013/14	2,322	231
30 June 2014	2,445	
30 September 2014	2,634	
31 December 2014	2,355	
31 March 2015	2,002	
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		
Average Debt 2016/17	2,139	135

APPENDIX 2 : TABLE 4**SUMMARY OF PROVISION FOR DOUBTFUL DEBTS 2016/17**

	General Fund Sundry Debtors	Over Paid Housing Benefit	HRA Rents	Total
	£000's	£000's	£000's	£000's
Balance B/Fwd	(292)	(1,072)	(1,045)	(2,409)
Write offs in current financial year	16	66	135	217
Actual increase in provision	(30)	(0)	(131)	(161)
Projected Provision C/fwd	(306)	(1,006)	(1,041)	(2,353)
Current Debt position	2,017	1,519	1,975	5,511
Percentage Coverage	15.2%	66.2%	52.7%	42.7%