

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

6 April 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 having 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 although 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 approaching £2m in the period up to March 2021. To meet this target the Council will need to reduce its underlying level of expenditure by some £0.5m p.a. 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 ensure 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 set out that 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 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 together with the updated comments on progress against agreed actions.

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 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 MTFP 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.</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>SAMT / CFO</p>

Issue	Current Position	Sponsor / Lead Officer
There will be a growing 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.	The Council has for some time been an active participant in both the East Midlands Local 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	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>identified three areas of work where internal control is classed as marginal.</p> <p>Accountancy Section 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 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. The Internal Audit Service was recently subject to an external review which resulted in a very positive assessment.</p> <p>Internal Control Arrangements 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. An item elsewhere on the agenda provides information discussed at a recent Derbyshire Wide Audit Forum which provides useful background</p>	

Issue	Current Position	Sponsor / Lead Officer
	information concerning whether the Audit Cttee is operating to the required standard.	
6. An Internal Audit review of the Council's 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"> • 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. • 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. 	AD P & EH, CFO.