

Bolsover, Chesterfield and North East Derbyshire District Councils'

Internal Audit Consortium

Internal Audit Report

Authority:	North East Derbyshire District Council
Subject:	CIPFA Financial Management Code Report Reference: N004
Date of Issue:	1st September 2020
Assurance Level	Substantial
Report Distribution:	Head of Service Finance & Resources, Director of Corporate Resources.



INTERNAL AUDIT REPORT

FINANCE & RESOURCES

CIPFA Financial Management Code Review

Introduction

Due to the arrangements in place for working under COVID-19 the Head of Finance and Resources requested a review of the CIPFA Management Code to ascertain the levels of compliance.

This area has not been previously covered by Internal Audit but was included in the 2020/21 Internal Audit Plan for review.

CIPFA's Financial Management Code (FM Code) was published in October 2019 and provides guidance for good and sustainable financial management in local authorities. The FM Code offers assurance that authorities are managing resources effectively, regardless of their current level of financial risk. The FM Code was supported by guidance issued by CIPFA in May 2020. Compliance with the FM Code is expected by 1 April 2021, having been delayed due to COVID-19 pandemic.

Scope and Objectives

The scope of the audit was to review the CIPFA Financial Management Code and ascertain the levels of compliance within NEDDC and identify and report on any gaps identified to enable full implementation.

The basis of the review was to use both the FM Code and associated guidance in a proactive manner to provide management with insight into both current working practices and financial management arrangements and how these supported the FM Code.

Conclusion

The conclusion of the audit was that the Council complied with the majority of requirements of the CIPFA Financial Management Code and there was '**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. (See Appendix A). The review concluded that the Council complied with the majority of the Financial Management

Code. A small number of recommendations were raised due to the current COVID-19 pandemic.

The help and assistance of the Head of Finance and Resources was appreciated during the review.

Findings and Recommendations

Leadership

1. The leadership team should be able to demonstrate that the services provided by the authority provide value for money. An integral part of this requirement is that decision making is completed in a robust and transparent manner which ensures accountability for members and staff. There is evidence that this is fully supported through the Council's Corporate Governance framework and the Council reports annually against this code. In addition there is a Scheme of Delegation which is currently being complied with. Due to current COVID-19 arrangements the financial accounts were agreed within updated timescales and the Annual Governance Statement for 2019/2020 drafted and will be presented to Audit Committee 30th September 2020.
2. The review identified that there were robust financial management arrangements in place relating to budgetary control, budget setting and devolved financial management arrangements. The Constitution of the Council has been annually reviewed and fully incorporated the management and role changes during 2019/2020. As part of the CIPFA Code there is a requirement for both Section 151 and Monitoring Officers to be appropriately qualified and experienced. These roles are defined within the Council's Constitution. The Council's Constitution was refreshed in May 2020.
3. Due to COVID-19 the timing of the Council's accounts and annual governance statement were delayed to 30th September 2020. The Council published its Statement of Accounts on 22 June 2020 via its website. The Annual Governance Statement will be required to be reported in due course.

Recommendation	
R1	<p>Arrangements to be put into place to ensure that both the Annual Governance Statement and Review of the Local Code of Corporate Governance are reviewed and published.</p> <p>(Priority: Low)</p>

4. As part of the CIPFA Financial Management code the Section 151 Officer should comply with the five guiding principles outlined within the CIPFA Statement on the Role of the Chief Financial Officer. The Head of Service, Finance and Resources (Section 151 Officer) is;
 - A member of the management team with a clear role and responsibility as outlined within the role as Section 151 Officer (this is further addressed by being included within the statutory role);

- Has responsibility for the reporting and compliance with overall financial management and strategy within the authority;
 - Responsibility for the good financial management of the authority through budget monitoring and the reporting of the Medium Term Financial Plan to Council;
 - Maintains and operates a suitably resourced section to deliver financial management to the authority; and
 - Is professionally qualified and experienced.
5. Budgets should be regularly reviewed by both Accountancy on a day to day basis and as an overview of Senior Management Team and elected members. There was full evidence that budgets are actively monitored within all levels of the Council. This includes the Medium Term Financial Plan (MTFP) and Strategic Risk Registers. Cabinet/Senior Management Team and Quarterly Performance meetings review budgets regularly.
 6. Due to a change in political control of the Council at the May 2019 local elections budgets were further reviewed and updated, taking into account the new Council aims and objectives. These budgets were reviewed on a line by line basis. In addition due to COVID-19 further budget review work has been undertaken. This ensures that the financial stability of the Council is maintained and kept under review.
 7. During 2019/2020 there were changes to the Risk Management Framework these are currently ongoing and will include a specific Risk Management Group.

Accountability

8. In respect of Accountability the Council should apply and maintain the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. Due to the Annual Governance Statement (AGS) not currently being agreed at the time of the audit, we reviewed the latest available statement. The risks identified included; efficiencies around MTFP, local plan, recruitment to key posts (Section 151), Brexit and failure to maintain resources and capacity in strategic areas. These were fully addressed within both the AGS and Strategic Risk Registers.
9. In 2018/2019 the Council complied with the Statement on Delivering Good Governance by publishing its Local Code at the same time as providing the AGS.
10. It was confirmed that the annual accounts for 2018/2019 were produced within the required timeframes and reported on 25th July 2019. Due to COVID-19 and the timing of this review the accounts for 2019/2020 were completed ahead of the revised statutory deadline and are currently being examined by external audit.
11. There is a robust review process of material variances and these are reported during the review of MTFP and variances agreed at Cabinet and approved at Council.

12. Out turn figures are regularly reviewed and reported at the time of presenting the Statement of Accounts. For 2018/2019 this was completed and reported on 25th July 2019. In addition at the budget setting meeting for the Council 2020/2021 the Head of Service, Finance and Resources, provided an opinion over the financial management of the council and its resource requirements. The out-turn figures will be presented to Cabinet on 30th August 2020.

Transparency

13. The authority maintains a MTFP and annual budget and these were agreed by Council at its budget setting meetings during February/March 2020 for 2020/2021. There are no specific long term plans i.e., 10 years or more except the Housing Revenue Account 30 year plan. Whilst there is no Medium Term Financial Strategy, discussions with the Section 151 Officer identified that the MTFP also served as the Financial Strategy of the Council.

14. The Section 151 Officer is of the opinion that looking forward further than the MTFP is problematic due to potential changes in political aims and objectives, together with funding settlements from central government. This has been further affected by the latest COVID-19 pandemic and its affects for example on current budgets which were set in early 2020 and have been subsequently reviewed.

15. The Council maintains and carries out regular consultations with its stakeholders and specific consultations were carried out in relation to the new Council Plan adopted in mid-2019/2020.

16. The Council has implemented an overarching project appraisal methodology and this is further complimented by the current Transformation Agenda.

Standards

17. As previously outlined the Council has adopted a robust MTFP together with monitoring of efficiencies which are reviewed on a line by line basis and also via Committees of the Council and full Council itself.

18. The Council has fully maintained the expected standards for budget setting and reporting of accounts within the framework of the legislative requirements. Budgets have been set and approved by Council.

19. Additionally the Council has achieved an unqualified audit opinion for its Statement of Accounts for 2018/2019.

20. The Section 151 Officer has included the relevant statements regarding both robustness of estimates and adequacy of financial reserves/compliance with legislative requirements as part of the budget setting for 2020/2021.

Assurance

21. The Council has adopted a robust framework for governance and this is further supported by the risk management framework and strategy which was approved in March 2020. The Council's Scheme of Delegation was reviewed and approved by Council on 18th May 2020 and included within the refreshed Council Constitution.
22. The Scheme of Delegation was reviewed as part of this audit and was found to be current and where tested delegated decisions were made under the powers defined in the scheme. In addition due to the current COVID-19 pandemic delegations have been reviewed and approved to allow the Council to function lawfully.
23. As outlined within the report the Council has appropriately qualified and experienced staff within the roles of both Section 151 and Monitoring Officers.
24. The financial resilience and sustainability of the Council is reviewed and reported upon by the Section 151 Officer. This officer has robust methods for reviewing the council's sustainability that includes benchmarking of financial reserves. The Council does not use the CIPFA Financial Resilience Index as this is not felt to be as accurate as the current benchmarking available that is in use.

Recommendation	
R2	<p>Head of Service, Finance and Resources maintains an overview of current benchmarking arrangements and adopts a methodology that can demonstrate the Council's financial resilience has been assessed.</p> <p>(Priority: Low)</p>

25. Reporting arrangements and scrutiny are robust, these include; Council, Cabinet, Audit, Budget Monitoring and Quarterly Performance meetings. Strategic risks are also identified and the framework has been updated in March 2020, this include the Risk Management Group being led by Director of Corporate Resources.
26. As outlined above the current risk management processes are being developed and due to COVID-19 are not fully implemented. To provide further assurance in this area and compliance with the Financial Management Code this area should be reviewed and reported upon once implementation has been achieved.

Recommendation	
R3	<p>Further review of risk management, by audit, once working arrangements are back to normal following COVID_19 and the implementation of the Risk Management Group.</p> <p>(Priority: Medium)</p>

Sustainability

27. As outlined earlier in the report the authority has a number of committees and officer led committees that review financial management. From the review undertaken there are robust reporting arrangements in place and these support transparent and accountable reporting structures.
28. Despite COVID-19 and new working arrangements, Council meetings have been undertaken remotely and video-conferenced. This has been supported by the resilience identified by the roll-out of new communication methods available to staff despite the requirements to work from home.
29. Performance is regularly monitored by a specific Performance Monitoring Team and this is further supported by the Quarterly Performance meetings.
30. The Council's Transformation Agenda is currently supportive around sustainability. The audit review during 2019/2020 identified that there were robust project management processes in place and further time has been allocated to review specific projects during 2020/2021. Communication around the Transformation Agenda was identified as an area for improvement and this has been implemented subsequently to the audit.
31. The Council Plan was updated and refreshed following the elections in May 2019 and the subsequent change in administration. The Council's strategic objectives are contained within this document. Performance against the targets within the Council Plan are reported regularly as contained within the performance management framework.
32. In relation to the Council Plan and finance/service delivery the aims and values adopted relate to; delivery of high quality cost efficient services and engagement with residents, partners and staff. In support of this there have already been line by line budget reviews and freezing of Council Tax for 2020/2021. Council members and the Leader of the Council have been instrumental in this development.
33. Service Plans are being linked into the Council Plan and these included resourcing requirements, funding and income data and progress against budgets.

Appendix A

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.

Internal Audit Report – Implementation Schedule

Report Title:	CIPFA Financial Management Code	Report Date:	1st September 2020
		Response Due By Date:	22nd September 20

Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
			Officer	Date			
R1	Arrangements to be put into place to ensure that both the Annual Governance Statement and Review of the Local Code of Corporate Governance are reviewed and published.	Low		Jayne Dethick	30/9/20		Going to Audit Committee on 30 Sept
R2	Head of Service, Finance and Resources maintains an overview of current benchmarking arrangements and adopts a methodology that can demonstrate the Council's financial resilience has been assessed.	Low		Jayne Dethick	Ongoing		Will include this in the MTFP process and consideration will be given to including in the AGS each year
R3	Further review of this area, by audit, once working arrangements are back to normal following COVID-19 and the implementation of the Risk Management Group.	Medium		Jenny Williams			Include in the Audit Plan on a regular basis

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:		Date:	
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Note: In respect of any High priority recommendations please forward evidence of their implementation to the Internal Audit team as soon as possible.