

## ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	<b>Meeting:</b>	Audit Committee
2.	<b>Date:</b>	24 November 2010
3.	<b>Title:</b>	Review of Publications
4.	<b>Directorate:</b>	Financial Services

### 5. Summary

The Audit Committee's work programme, approved at its meeting on 29 July 2009, provides for regular briefings to be presented to the Committee on any significant publications issued during the period in any areas covered by the Committee's terms of reference.

This report outlines five publications issued during the last six months. It identifies the implications of each publication and shows the Council is responding appropriately to the issues raised in the documents.

### 6. Recommendations

- **The Audit Committee is asked to note the publications issued during the last six months and support the Council's response to the issues raised in the documents.**

## 7. Proposals and Details

At its meeting on July 2009, the Audit Committee confirmed its future work programme, which included provision of regular briefings on any new significant publications relating to the Audit Committee's terms of reference.

Attached are summaries of 5 significant reports published during the last six months, as follows:

<b>Appendix A</b>	Strategic Financial Management in Councils, Audit Commission
<b>Appendix B</b>	Transition to International Financial Reporting Standards (IFRS), Audit Commission
<b>Appendix C</b>	Local government claims and returns 2008/09, Audit Commission
<b>Appendix D</b>	The National Fraud Initiative 2008/09, Audit Commission
<b>Appendix E</b>	A Risk Based Approach to the audit of procurement, Chartered Institute of Public Finance and Accountancy.

Each summary identifies:

- An introduction to the publication
- The key point covered by the publication
- Implications for the Council, and
- Proposed actions and outcomes

Some of the main points arising from these reports are:

**'Strategic Financial Management in Councils'** highlights the challenge facing councils as demand for local services is grows, income from central government falls and there are few opportunities to raise income from fees and charges until the economy strengthens. The paper is intended to "help council leaders, elected members, and chief executives and finance directors to review how they will manage with less money".

The report highlights the principles of good financial management and states that adopting these principles will allow organisations to be adaptable and financially resilient, planning and managing for the longer term.

In its last Use of Resources Assessment in 2009 the Council received an overall score of 3 out of 4 with a score of 3 in respect of 'Managing Finances'. This rating recognises the progress made in ensuring the Council's financial plans reflect corporate priorities and are integrated with other strategies including the Corporate Plan and workforce strategy. The Council's MTFs is currently being revised and expanded to cover the 4 years running up to the next election. Longer term financial plans beyond the 4 year scope of the MTFs are also being updated in light of the recent Comprehensive Spending Review.

**'Transition to International Financial Reporting Standards'** assesses the general level of progress being made by local authorities towards implementing International Financial Reporting Standards (IFRS) in 2010/11 and readiness for producing an IFRS compliant statement of accounts. Nationally, auditors report that there has been good progress overall between November 2009 and July 2010 but that local authorities need to build on this to ensure they will be able to prepare IFRS-compliant accounts for 2010/11 by the statutory financial reporting deadline of 30 June 2011.

Locally, KPMG assessed the Council's progress in July 2010 and concluded that the Council was well placed to successfully achieve the transition to IFRS. Existing robust project management arrangements will be used to monitor progress closely over the next few crucial months to ensure that IFRS conversion stays on track.

The Audit Commission publication; '**Local government claims and returns 2008/09**' summarises key findings from the 2008/09 grant certification work carried out by external auditors under the Audit Commission grant certification regime. Nationally, auditors found that most claims for grants and subsidies were completed by councils in line with the terms and conditions set by grant-paying bodies but that there was room for improvement.

Locally, our performance in producing grant claims has been good. KPMG certified 37 grants and returns in 2008/09 with an aggregate value of £193 million. None were qualified and only 9 were adjusted, resulting in a small adjustment in grant entitlement of £74,000 representing less than 0.1% of the overall amount claimed.

'**The National Fraud Initiative 2008/09**' provides details of the results of the 2008/09 Audit Commission's National Fraud Initiative (NFI), which is designed to detect fraud, overpayments and error by matching data within and between organisations. The latest exercise in 2008/09 processed 8,000 datasets from 1,300 organisations.

The NFI 2008/09 found record levels of fraud, overpayments and error; £215 million across the UK, including pension frauds and overpayments of £78 million and £56 million council tax single person discount fraud.

The Council has fully participated in the NFI since its inception and has received positive feedback on its work from KPMG in previous Use of Resources assessments. We await news on the future for the NFI following the decision to abolish the Audit Commission.

CIPFA's publication, '**A Risk Based Approach to the audit of procurement**' provides guidance on a 'modern risk based approach' to the audit of procurement. The guidance from CIPFA advocates a move away from a systems based approach to a more holistic risk based approach, focusing on the procurement that is strategically important to the organisation. It is designed as a top down approach starting with the organisation's risk registers and is intended to assist auditors in providing more relevant assurances to their organisations.

Internal Audit will employ the updated approach to the audit of procurement as part of our 2010/11 work.

Full copies of the publications or further details on any publication or area covered can be provided at the request of the Audit Committee.

**The Audit Committee is asked to note the publications issued during the last six months and support the Council's response to the issues raised in the documents.**

## **8. Finance**

There are no direct financial implications arising from this report.

## **9. Risks and Uncertainties**

The work of the Audit Committee is scrutinised as part of the Use of Resources and Corporate Assessments. Failure to approve a work plan in line with the Audit Committee's Terms of Reference could compromise our current positive assessment in this regard.

## **10. Policy and Performance Agenda Implications**

The Audit Committee's work plan is wholly related to the achievement of the objectives in the Council's Corporate Plan.

## **11. Background Papers and Consultation**

Relevant officers have produced the one page summaries and have confirmed the plans in place to implement the main suggestions made in the publications.

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### **Appendices:**

<b>Appendix A</b>	<b>Strategic Financial Management in Councils, Audit Commission</b>
<b>Appendix B</b>	<b>Transition to International Financial Reporting Standards (IFRS), Audit Commission</b>
<b>Appendix C</b>	<b>Local government claims and returns 2008/09, Audit Commission</b>
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## APPENDIX A: STRATEGIC FINANCIAL MANAGEMENT IN COUNCILS, SEPT 2010

<b>Title</b>	<b>Strategic Financial Management in Councils</b>
<b>Subject</b>	<b>Delivering services with a reduced income</b>
<b>Authors</b>	<b>The Audit Commission</b>
<b>Date of publication</b>	<b>September 2010</b>

<p><b>Introduction</b></p> <p>The publication considers the challenge facing Councils as demand for local services is growing and income from central government falls and there are few opportunities to raise income from fees and charges until the economy strengthens. The paper is intended to “help council leaders, elected members, and chief executives and finance directors to review how they will manage with less money”.</p>
<p><b>Key Points</b></p> <p>Five principles of good financial management are set out:</p> <ul style="list-style-type: none"> <li>• It is essential to good corporate management;</li> <li>• It underpins service quality and improvement;</li> <li>• It is the basis of accountability and stewardship for use of resources;</li> <li>• It is about managing performance and achieving strategic objectives as much as it is about spending money;</li> <li>• It is a key management discipline - the responsibility of all non-executives and managers both collectively and individually.</li> </ul> <p>Adopting the principles of good financial management will allow organisations to be adaptable and financially resilient, planning and managing for the longer term. The paper covers 5 key themes of good financial management:</p> <ul style="list-style-type: none"> <li>• Financial governance and leadership,</li> <li>• Financial planning,</li> <li>• Finance for decision making,</li> <li>• Financial monitoring and forecasting, and</li> <li>• Financial reporting.</li> </ul> <p>Good financial management will allow councils to prepare for an austere future, providing a framework for making difficult financial decisions.</p> <p>The report identifies a range of characteristics shared by authorities managing money strategically:</p> <ul style="list-style-type: none"> <li>• Strong and accountable financial leadership;</li> <li>• A culture of financial awareness;</li> <li>• The ability to define priorities and make choices within means;</li> <li>• Comprehensive financial information that clearly underpins decisions; and</li> <li>• An ability to anticipate changing circumstances and to manage financial risks.</li> </ul> <p>The report shows how councils can develop an effective approach to financial management, founded on leadership and culture, followed by developing choice, decision making and risk management. A key element of this approach is supporting elected members and staff to develop financial skills. The report also stressed the importance of an organisation’s strategic priorities- they should drive all council business.</p> <p>Also stressed is the importance of longer and medium term financial planning - with six gaps in authorities medium term financial plans being identified:</p>

- Outcome measures;
- Scenario planning;
- Costs and overheads;
- Benchmarking (both against other Councils and Value for Money indicators);
- Resource Planning; and
- Partnership working.

The report includes two appendices - a good practice checklist and a self assessment questionnaire. The latter contained nine challenge questions to help authorities review how they will deliver their priorities with reduced resources and still achieve value for money. The nine questions fall into 3 groups:

Firstly for leadership;

- How is this activity essential to achieving council priorities?
- How does this activity improve the well being of local communities?
- Why does the Council need to fund this activity?

Secondly for directors;

- How can we focus this activity on people most in need?
- How can we provide this activity at lower cost?
- How can we make this activity more effective?

Finally for service heads and managers;

- How can other local bodies provide the activity?
- How can the private sector, third sector or citizens provide this activity in whole or part?
- How can we make sure that payment to providers link to achievement?

### **Implications for RMBC**

In its last Use of Resources Assessment in 2009 the Council received an overall score of 3 out of 4 with a score of 3 in respect of Managing Finances. This rating recognises the progress made to ensure that the Council's financial plans reflect corporate priorities and are integrated with other strategies including the Corporate Plan and workforce strategy. The Council's current MTFS includes scenario and resource plans, considers key service pressures and cost drivers and links to partnership plans. The Council also has a strong record in performance management. A series of service reviews is currently underway which are intended to determine the structure of Council services in the medium term utilising a range of assessment techniques including - outcome measures, benchmarking and scenario planning and, whilst not complacent given the stiff challenge represented by the recent CSR, the Council is well advanced in developing a robust approach to financial management embodying best practice.

### **Proposed Action/Outcomes**

The Council will continue to strengthen its corporate procedures and processes to ensure that it maintains robust financial management practices. The outcomes of a series of wide ranging service reviews will inform the MTFS. One review, of Financial Services, is intended to deliver improved financial services at reduced cost through: innovative sound financial practice, developing professional skills, investing in financial systems and working in partnership with other public, private and voluntary sector organisations. More specifically, the Council's MTFS is currently being revised and expanded -to cover the 4 years running up to the next election. Longer term financial plans beyond the 4 year scope of the MTFS are also being updated in light of the recent CSR.

**APPENDIX B: TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, OCTOBER 2010**

<b>Title</b>	<b>Transition to International Financial Reporting Standards (IFRS)</b>
<b>Subject</b>	<b>Local government's preparedness for implementing IFRS in 2010/11</b>
<b>Authors</b>	<b>Audit Commission</b>
<b>Date of publication</b>	<b>October 2010</b>

<p><b>Introduction</b></p> <p>The publication assesses the general level of progress being made by local authorities towards implementing International Financial Reporting Standards (IFRS) in 2010/11 and readiness for producing an IFRS compliant statement of accounts</p>
<p><b>Key Points</b></p> <p>Auditors report that there has been good progress overall between November 2009 and July 2010 but that local authorities need to build on this to ensure they will be able to prepare IFRS-compliant accounts for 2010/11 by the statutory financial reporting deadline of 30 June 2011.</p> <p>To maintain the momentum, the Audit Commission recommends that authorities seek to restate their 2009/10 accounts on an IFRS basis and produce 2010/11 skeleton accounts by 31 December 2010. To support this, authorities should continue to develop and implement IFRS compliant practices.</p> <p>Failure to successfully implement IFRS could result in late or qualified opinions on the 2010/11 accounts which will reflect badly on the reputation of individual authorities and, potentially, the local government sector as a whole</p>
<p><b>Implications for RMBC</b></p> <p>External audit assessed the Council's progress in July 2010 and concluded that there is a clear commitment on the part of senior management to drive forward the transition process and that the Council was well placed to successfully achieve the transition to IFRS.</p>
<p><b>Proposed Action/Outcomes</b></p> <p>A revised project plan has been produced detailing the actions required to successfully meet the next key milestone of restating the Council's 2009/10 accounts on an IFRS basis by 31 December and of ultimately producing a set of IFRS compliant 2010/11 accounts by 30 June 2011.</p> <p>Existing robust project management arrangements will be used to monitor progress closely over the next few crucial months to ensure that IFRS conversion stays on track and remains adequately resourced.</p>

## APPENDIX C: LOCAL GOVERNMENT CLAIMS AND RETURNS 2008/09, JULY 2010

<b>Title</b>	<b>Local government claims and returns 2008/09</b>
<b>Subject</b>	<b>National findings from 2008/09 grant certification work carried out by external auditors</b>
<b>Authors</b>	<b>Audit Commission</b>
<b>Date of publication</b>	<b>July 2010</b>

<p><b>Introduction</b></p> <p>The publication summarises key findings from the 2008/09 grant certification work carried out by external auditors under the Audit Commission grant certification regime.</p>
<p><b>Key Points</b></p> <p>Auditors found that most claims for grants and subsidies were completed by councils in line with the terms and conditions set by grant-paying bodies but that there is room for improvement. Claims and returns were corrected by £54.5 million as a result of auditors' work. Putting this into context the total amount claimed of £45.6 billion.</p> <p>Housing and council tax benefit claims were most susceptible to error with 85 per cent of councils' returns qualified, amended, or both by auditors (Rotherham's was amongst a minority that was not qualified). The report highlights the complexity of the system, large volume of transactions, difficulty in providing documentation to support payments to benefit claimants and data entry errors as typically being the reasons for this.</p> <p>The number of qualification letters issued by auditors to authorities, signalling concerns with claims or returns, increased from 626 in 2007/08 to 673 in 2008/09. 24 per cent of claims and returns had qualification letters.</p> <p>The report highlights the need for authorities to improve arrangements for ensuring compliance by:</p> <ul style="list-style-type: none"> <li>• identifying all claims and returns requiring auditor certification and agree a timetable for certification work with their auditor;</li> <li>• having effective quality assurance arrangements that ensure claims and returns are properly reviewed before sending them to the auditor;</li> <li>• reviewing scheme terms and conditions to ensure claims and returns are compiled correctly and evidence requirements are met; and</li> <li>• keeping full working papers to support the entries in claims and returns.</li> </ul>
<p><b>Implications for RMBC</b></p> <p>KPMG certified 37 grants and returns in 2008/09 with an aggregate value of £193 million. None were qualified and only 9 adjusted resulting in a small adjustment in grant entitlement of £74,000 representing less than 0.1% of the overall amount claimed.</p> <p>Minor adjustments were made to the housing and council tax benefit claim but these did not affect the overall amount of subsidy claimed.</p>

Overall, KPMG assessed that the Council's arrangements for preparing grants and returns are adequate. KPMG suggested we could identify on a more timely basis all grants subject to external certification, to ensure all claims are submitted on time.

**Proposed Action/Outcomes**

Existing practices have been reviewed and action taken to secure improvements in grants administration procedures. In particular, a new corporate grants register has been designed to capture information on which sources of external funding are subject to external certification. This has been placed on the intranet for ease of access to all relevant staff, and responds to the suggestion made by KPMG.

## APPENDIX D: THE NATIONAL FRAUD INITIATIVE, MAY 2010

<b>Title</b>	<b>The National Fraud Initiative 2008/09</b>
<b>Subject</b>	<b>Detecting Fraud, Overpayments and Error</b>
<b>Authors</b>	<b>Audit Commission</b>
<b>Date of publication</b>	<b>May 2010</b>

<b>Introduction</b>
This publication provides details of the 2008/09 Audit Commission 'National Fraud Initiative'.
<b>Key Points</b>
<p>Fraud is a serious and growing problem for the nation:</p> <ul style="list-style-type: none"><li>• Fraud costs the UK £30 billion each year according to the National Fraud Authority</li><li>• Tackling fraud should be a top priority for all organisations</li></ul> <p>The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and error:</p> <ul style="list-style-type: none"><li>• The NFI is a data matching exercise, using sophisticated computer techniques, which matches data within and between organisations.</li><li>• The latest exercise in 2008/09 processed 8000 datasets from 1300 organisations</li></ul> <p>The NFI 2008/09 found record levels of fraud, overpayments and error:</p> <ul style="list-style-type: none"><li>• Data matching identified fraud, overpayment and error of £215 million across the UK.</li><li>• This included Pension frauds and overpayments of £78 million and £56 million council tax single person discount fraud.</li></ul> <p>It is expected that further efforts will be made to extend the success of the NFI by widening the participation to other organisations.</p>
<b>Implications for RMBC</b>
<p>RMBC has participated in the NFI since its inception. Our arrangements (led by Internal Audit) are periodically subject to scrutiny by the Audit Commission and we continue to receive positive feedback.</p> <p>During 2009 we participated in a NFI pilot project with a view to extending the number of datasets which are matched.</p>
<b>Proposed Action/Outcomes</b>
Following the announcement by the Coalition government that the Audit Commission is to be wound up, we await further guidance on the future for the NFI. Whatever the outcome, the Council and Internal Audit are committed to supporting any exercises of this nature which can deter and detect fraudulent behaviour.

**APPENDIX E: A RISK BASED APPROACH TO THE AUDIT OF PROCUREMENT, SPRING 2010**

<b>Title</b>	<b>A Risk Based Approach to the audit of procurement</b>
<b>Subject</b>	<b>An new approach to the audit of procurement / contracts</b>
<b>Authors</b>	<b>CIPFA</b>
<b>Date of publication</b>	<b>Spring 2010</b>

<b>Introduction</b>
<p>This publication provides CIPFA’s current guidance on a ‘modern risk based approach’ to the audit of procurement.</p>
<b>Key Points</b>
<p>Large organisations like RMBC spend millions of pounds each year buying goods, works and services. This procurement expenditure typically involves hundreds of contracts ranging from low value purchases to major capital construction contracts</p> <p>Traditionally, most local authorities including RMBC had adopted a ‘systems based’ approach to the audit of procurement. This approach focused on checking and ensuring that the key controls governing each stage of the contracting process are in place and being applied.</p> <p>This new guidance from CIPFA advocates a more holistic risk based approach to the audit of procurement, focusing on the areas that are strategically important to the organisation. It is designed as a top down approach starting with the organisation’s risk registers and is intended to assist auditors in providing the necessary assurances to their organisations.</p>
<b>Implications for RMBC</b>
<p>Effectively managing and controlling RMBC procurement arrangements has never been more important, given the current economic circumstances.</p>
<b>Proposed Action/Outcomes</b>
<p>Internal Audit are currently looking to employ the approach to the audit of procurement as part of our 2010/11 work</p>

Financial management refers to the strategic planning, organising, directing, and controlling of financial undertakings in an organisation or an institute. It also includes applying management principles to the financial assets of an organisation, while also playing an important part in fiscal management. Take a look at the objectives involved: Maintaining enough supply of funds for the organisation A strategic management process is way through which management able to make and implement strategies, which are helpful for business organizations to achieve their objectives and goals. We may also say that the strategic management process is a set of decisions along with actions done by managers to conclude long time performance of the organization. All the basic functions of an organization can be demonstrated through strategic management, such as planning & organizing, leading and controlling. Strategic management is involved in various decisions made by managers. The findings state that organizations having proper strategic management systems have greater financial results than those having no systems. Strategic Financial Management helps to estimate the financial resources and helps manage cash, and control all finances necessary for the proper functioning and functioning of a business. However, before a company can strategically manage itself, it must first clearly define its goals, identify and quantify its available and potential resources, and devise a specific plan for using its finances and other capital resources to achieve its goals. Strategic financial management is about generating profits for the company and ensuring an acceptable return on investment (ROI). Financial management is accomplished through business financial plans, the establishment of financial controls, and the making of financial decisions. Understanding of strategic financial management. The focus of strategic financial management is on the state of the management of a company and the adoption of the suitable strategies during the economical downturn and entry of the companies to the emergency financial stage and increase of the whole risk. The strategic financial management also conducts the study of resources and consumptions of each organization besides defining the degree and extent of the presence of the managers in an organization for realization of the related targeted activities on the state of the conduction of the expenses of an organization, the methods for the collection of incomes and the manner of the aspects management. and financial resources is its responsibilities.