



NDR Overpayment - Follow up

Cherwell District Council

April 2017



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Status of Report	
Draft Report issued	21 April 2017
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Executive Summary

Executive Summary

Background

National Non-Domestic Rates (NNDR) represent a major source of income for most local authorities. Cherwell District Council (the Council) received approximately 35% of its annual revenue income during 2015/16 from NNDR and £6.1m of NNDR was used to support the Council's Net Expenditure requirements. During the production and audit of the 2014/15 draft Annual Accounts it emerged that the council had overpaid £1.5m of NNDR to Central Government. KPMG was engaged by the Council in October 2015 to undertake an independent appraisal of the circumstances surrounding the overpayment and the subsequent series of events leading to the delay in approving the Council's 2014/15 accounts.

We identified in our January 2016 report a number of issues for the Council to consider. The Chief Finance Officer has submitted regular progress reports to the Accounts, Audit and Risk Committee on the actions taken in response to the 16 recommendations made in the original report.

KPMG was engaged in March 2017 to carry out this follow-up review of our January 2016 report and, amongst other things, to confirm the actions reported by the Chief Finance Officer are consistent with the recommendations made in our original report and are supported by underlying evidence.

Summary findings and conclusions

Overall we found that the Council has made substantial progress in relation to the recommendations made in our January 2016 report, and stronger arrangements had been established for:

- Determining the final NNDR position for the year; and
- Approving the Annual Accounts.

The Council should ensure this improvement continues and embed the strengthened arrangements for the 2016/17 and future year-end and annual accounts processes.

We identified two areas for improvement highlighted in our January 2016 report where the Council has made progress but needs to continue to focus its attention:

- Maintaining a strong Finance team – the team has made steady progress in many areas including substantively appointing to the Chief Finance Officer post, clarifying responsibilities within the team, and improvements to communication and working relationships with the external auditor. There are still though improvements required, including substantively appointing to vacant posts, developing technical skills within the team and ensuring the CIVCA Financials system includes effective and reliable reconciliation, control and reporting arrangements. The Accounts, Audit and Risk Committee has an important role in overseeing these improvements and should continue to receive specific updates on progress made.
- Developing an effective Accounts, Audit and Risk Committee - there is no formal training programme for Committee members or self-review process in place. The Committee needs to take steps to ensure it has sufficient understanding of its responsibilities and how well it is carrying them out, and the knowledge and skills to be able to provide the challenge and scrutiny required.

We provide further detail on our findings and conclusions in the main report and we have included at Appendix 1 a summary our findings and the status of the original recommendations.

Acknowledgement

We are grateful for the help and support provided by officers and Members during the course of this review.



Main Report

Main Report

Background

National Non-Domestic Rates (NNDR) represent a major source of income for most local authorities. The total amount of NNDR due (less certain reliefs and deductions) is collected by the Billing Authority (Cherwell District Council) and a certain amount of the income collected is retained by the Council and the remainder paid over to Central Government and Oxfordshire County Council. Cherwell District Council (the Council) received approximately 35% of its annual revenue income during 2015/16 from NNDR and £6.1m of NNDR was used to support the Council's Net Expenditure requirements. The Council participates in a local "pooling arrangement" with Oxfordshire County Council and West Oxfordshire District Council to minimise the levy payment to Central Government.

The calculation of reliefs and deductions applied to the calculation of NNDR is a complex and often fluid area that can evolve and change from year to year and also within year. During the course of the audit of the Council's 2014/15 Financial Statements it became apparent to senior officers at the Council that a required 2011/12 accounting adjustment had not been made and the Council had over-paid Central Government's share of NNDR by £1.5m. The Council included a debtor in its financial statements for the £1.5m it believed it was due. The Council's external auditors, Ernst & Young (EY) asked the Council to revisit whether the debtor should be written-off because of its age and lack of sufficient evidence to support the likelihood of collection. The Accounts, Audit and Risk Committee (the Committee) held on 23 September 2015 decided to defer the approval of Financial Statements until the dispute over the accounting treatment of this debtor was resolved between the Council's s151 Officer and the external auditors. The Committee approved the Financial Statements on 9 October 2015 and the audit opinion was issued on 19 October 2015.

KPMG was engaged by the Council in October 2015 to undertake an independent appraisal of the circumstances surrounding a £1.5m overpayment of NNDR to Central Government and the subsequent series of events leading to the delay in approving the Council's accounts. Specifically, we were engaged to address four issues:

- To establish how the overpayment of £1.5m to DCLG was allowed to occur and why this was not reclaimed;
- To review reports from the internal and external auditors to assess if the issue of overpayment had been identified;
- In light of the above to consider the adequacy of the Council's internal control framework and systems and to propose steps that can be taken by the authority to put in place measures to ensure that a similar situation is prevented; and
- To consider the events surrounding approval of the Statement of Accounts and Letter of Representation for the financial year 2014/15 on 9 October 2015.

We identified a number of issues for the Council to consider. The two main areas for improvement were in relation to the Council's arrangements for:

- determining the final NNDR position for the year; and
- approving its annual accounts.

Our report included 16 recommendations regarding the adequacy of the controls in place and the ownership and communication of those involved in the process.

The Chief Finance Officer has submitted regular progress reports to the Committee on the actions taken in response to recommendations made in the original report, with the most recent formal report submitted to the Committee's 6 December 2016 meeting. At this meeting the Committee resolved that KPMG would be asked to carry out a follow up review of progress made in relation to the matters included in our January 2016 report.

Main Report (Cont.)

Scope and approach

This review has been carried out in accordance with the Letter of Engagement dated 27 March 2017. Our work has included:

- A desk-top review of the Chief Finance Officer's December 2016 Progress Report to the Committee to confirm the actions taken are consistent with the recommendations made in our January 2016 report and are supported by underlying evidence;
- An on-site review of the implementation of recommended changes to controls and systems; and
- On-site interviews with key officers and members to clarify any questions arising from the desk-top review. Our interviewees have included the Chief Finance Officer, relevant members of the finance team and the outgoing Chairman to the Committee.

We have included at Appendix 1 a progress update summarising our findings and the status of the original recommendations.

Summary of Findings and Conclusions

The Council has made substantial progress in relation to the recommendations made in our January 2016 report. Specific improvements identified at Appendix 1 which supported the 2015/16 year-end and annual accounts process include:

Determining the final NNDR position for the year

- Improved arrangements for the reconciliation of the business rates system, the general ledger and the year end NNDR3. This has included strengthening and standardising the approach to carrying out these systems reconciliations.
- Specific testing by Internal Audit and other reasonableness checks on the NNDR3 return prior to it being signed by the CFO.
- Introducing a procedure for the Council's debt recovery team to have oversight over debtor journals and their status.
- Strengthening the approach to internal review and quality assurance of the draft financial statements and supporting working papers.

Approving the Annual Accounts

- Clarifying the roles and responsibilities of officers, the external auditor and the Committee regarding the accounts production, audit and approval. This has included briefings for the Committee on the relevant regulations and statutory requirements.
- The Committee being supported in its role by the attendance of the Chief Finance Officer and when appropriate the Monitoring Officer.
- General improvements in the communication between and working relationships of officers, the external auditor and the Committee.

The Council has taken steps to seek recovery of the £1.5m overpayment to Central Government but, having obtained legal and accounting advice, wrote the debtor off in 2015/16. This approach was agreed with EY and fully reported to the 21 September 2016 Committee when the audited financial statements were approved.

The Council needs to ensure these improvements are maintained and the strengthened arrangements embedded for the 2016/17 and future year-end and annual accounts processes.

Main Report (Cont.)

Continuing areas for Improvement

There are two areas for improvement highlighted in our January 2016 report where the Council has made progress but needs to continue to focus its attention.

Maintaining a strong Finance team

Our January 2016 report and the Chief Finance Officer's action plan response highlighted concerns which included the Finance Team's capacity, range and depth of skills available and weaknesses in communication within the team, with senior managers and the external audit team.

The management response and Chief Finance Officer's update at Appendix 1 describes some of the key actions which have been taken to help address these concerns, which include:

- The management restructure and substantive appointment to the Chief Finance Officer post, clarifying responsibilities within the team and steady improvements to communication.
- Engaging consultancy support to meet shortfalls in capacity or specialist knowledge/skills.
- Improved communication with the external audit team and co-ordination of the planned audit work.
- Strengthening the Finance Team's technical skill base in areas such as capital accounting.
- Reviewing the accounts closedown procedures, establishing quality assurance review arrangements and preparing for the early closedown requirements from 2017/18 onwards.

The Chief Finance Officer's update and our findings at Appendix 1 acknowledge though that as well as consolidating the progress already made there are still improvements required, including:

- Substantively appointing to the remaining vacant posts within the team and ensuring the team has sufficient and relevant in-house technical skills to support the Council's current and emerging needs.
- Resolving the remaining issues with the recently introduced CIVICA Financials system and ensuring there are effective and reliable reconciliation, control and reporting arrangements in place.

The Committee has important role in overseeing these improvements and should continue to receive specific updates on the progress the Finance Team is making in relation to its improvement priorities.

Main Report (Cont.)

Developing an effective Accounts, Audit and Risk Committee

One of the themes from our January 2016 report was the importance of having an effective Committee in place to carry out its delegated responsibilities in relation to the annual Accounts review and approval.

The Committee has benefited in the year from specific briefing/training in the role and responsibilities of the external auditor and current and emerging issues relating to the Annual Accounts. The Committee has also received a briefing on the Accounts and Audit Regulations and the statutory accounts reporting framework. This training was well received by the Members that attended and improved their knowledge and confidence in these areas. However, although there is no record of who attended we understand only a few of the 8 Committee members took part in the training. Overall the levels of recorded attendance by Committee members at formal meetings is good with substitute members only occasionally being required during 2016/17 to cover for absences.

The Committee's Terms of Reference cover a broad range of responsibilities relating to governance, risk and internal control. The Committee needs to be confident it has sufficient understanding of these areas and the skills to be able to provide the challenge and scrutiny required. There is currently no framework for the Committee to assure itself that this is the case. For example, there is no formal training programme for Committee members or self-review process in place. The Committee has a work programme, which is reviewed at each meeting, but the Committee does not routinely assess how well it is performing, whether its Terms of Reference are appropriate or whether it is meeting these requirements. The Committee's Terms of Reference do require it to produce an Annual Report on its activities to the Council but this is not being done, with the last report made in July 2014.

The Committee needs to take steps to ensure it has sufficient understanding of its responsibilities and how well it is carrying them out, and the knowledge and skills to be able to provide the challenge and scrutiny required.

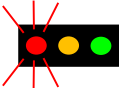
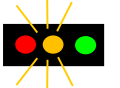



Appendices

Appendix 1 – Progress update

Approach

We raised sixteen recommendations in our January 2016 report, all of which were agreed by the Council's management. We gave each of our observations a risk rating (as explained below).

Priority rating for recommendations raised		
Priority one	Priority two	Priority three
 <p>A significant weakness in the system or process which is putting the Council at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of Council's strategic risks will occur. Any recommendations in this category would require immediate attention.</p>	 <p>A potentially significant or medium level weakness in the system or process which could put the Council at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the Council's reputation or for raising the likelihood of the Council's strategic risks occurring, if not addressed.</p>	 <p>Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council's strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes.</p>

On the following pages we have included tables showing:

- Our January 2016 report's recommendations and the Council's management response;
- Management's latest 'RAG rated' update on progress, to the 6 December 2016 Accounts, Audit and Risk Committee;
- Our assessment at April 2017 of the progress made in relation to the issues we identified and the recommendations we made in our January 2016 report.

The status of the recommendations is summarised in the table below. The two actions which are 'in progress' are described in greater detail in the main body of this report.

	Priority One	Priority Two	Priority Three	Total
Recommendations raised (January 2016)	6	9	1	16
Implemented (April 2017)	6	7	1	14
In progress (April 2017)	-	2	-	2

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
1	<p>Ensure that NNDR3 returns are reconciled to the underlying tax base for business rates and sense check the NNDR related debtors disclosed in the accounts.</p> <p>Priority: (High) ●</p>	<p><u>Action Agreed</u></p> <p>This will take place as part of the closedown process for 2015-16 and will demonstrate that the business rates system, reconciles with the general ledger and that in turn the NNDR3 return. This reconciliation will form part of the NNDR3 sign off process. The standing operating procedures will be updated accordingly.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – 31/5/2016</p>	<p><u>Action taken</u></p> <p>The business rates system has been reconciled with the General Ledger for 2015/16 and the NNDR3 return completed in accordance with the General Ledger. The NNDR3 has been signed and returned by the Chief Finance Officer.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the necessary reconciliations were carried out as part of the 2015/16 closedown and evidence of their completion, together with reasonableness checks on the NNDR related debtor, was provided before the 2015/16 NNDR3 return was signed off.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
2	<p>Consider how and to what extent the Council obtains assurance over the completeness and accuracy of the annual NNDR3 return. Initiate the remedial action to provide the appropriate assurance where necessary.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>Voluntary assurance will be reinstated, following the completion of the action relating to recommendation 1, Price Waterhouse Coopers (PwC), the Council's internal auditors, will be requested to carry out checks to ensure that the NNDR 3 completion is accurate and reconciles with the Business Rates system and the general ledger. These checks will be part of the assurance process presented to the Chief Finance Officer prior to sign off of the NNDR3 return.</p> <p><u>Responsibility and timescale</u></p> <p>PwC – 31/5/2016</p>	<p><u>Action taken</u></p> <p>The audit has been completed with no issues arising.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the expected checks were completed before the 2015/16 NNDR3 return was signed. PwC were engaged to carry out a range of agreed upon procedures regarding the completeness and accuracy of the return and their report confirmed this to be the case.</p> <p>The Council has received positive assurance received from this and other reviews of the underlying reconciliations, and it has made improvements to the year-end procedures. If Officers and the Committee are confident that these improvements to controls are sustainable then it would be reasonable for the Council to consider whether this assurance exercise needs to be repeated.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
3	<p>Investigate the reasons how an accounting debtor can be raised in the ledger without initiating some form of debt recovery action and implement remedial controls where necessary.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>This will form part of a review to be undertaken by the Chief Finance Officer. It will look back at all of the issues surrounding the overpayment to ensure that the same mistakes are not made again. It will in part be informed by the work currently being undertaken by Price Waterhouse Coopers, which will address the internal controls, which are there to stop such a mistake being made again. The review will report back to the Accounts, Audit and Risk Committee at CDC and the Audit Committee at SNC.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – 31/5/2016</p>	<p><u>Action taken</u></p> <p>The PwC Audit has now been completed, which resulted in 3 low risk recommendations all of which have been accepted and implemented.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have reviewed the report issued by PwC which the Council commissioned in response to this recommendation. The findings from the review were reported to the Audit, Accounts and Risk Committee in September 2016. The report's recommendations are designed to introduce a procedure for the Council's debt recovery team to have oversight over debtor journals. This should ensure any delays in payment are highlighted and acted upon through the established Council processes.</p> <p>PwC's recommendation has been accepted by Management and we have been informed that it has been implemented. There are normally few in-year debtor journals and the change in process will mainly come into effect during the 2016/17 year-end closedown so it is too early to evaluate its implementation. If implemented as intended though it should address the concerns raised in the KPMG recommendation.</p> <p>PwC's report made two further recommendations relating to:</p> <ul style="list-style-type: none"> • the arrangements for ensuring the finance team is up to date regarding changes in the NNDR3 legislation and regulations; and • the Committee's annual review of balance sheet debtors and the bad debts provision. <p>Both of these recommendations have been accepted by Management and we have been informed they have been implemented. If implemented as intended these recommendations should strengthen existing controls.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
4	<p>Review all significant debtors within the ledger to identify whether there are any other instances of un-invoiced debts and ensure that all significant debts can be matched with an appropriate recovery process.</p> <p>Priority: (High) ●</p>	<p><u>Action Agreed</u></p> <p>A list of significant debtors will be produced and reviewed by the Chief Finance Officer as part of the 2015-16 closedown process any issues will be reported the Accounts, Audit and Risk Committee at CDC and the Audit Committee at SNC.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – 31/5/2016</p>	<p><u>Action taken</u></p> <p>I have received and reviewed the list of significant debtors and there are no issues to report.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the expected reviews were carried out by managers as part of the 2015/16 closedown and in preparing the financial statements. We have confirmed, through the EY Results Report that no material omitted or doubtful debts had been identified.</p> <p>We have confirmed with Management that there are plans in place for a similar review of significant debtors as part of the 2016/17 accounts closedown and production process.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
5	<p>Assess the current suite of financial reconciliations to ensure that all key risk areas are mitigated appropriately and review the quality of reconciliations to ensure that they are timely, complete, accurate and that staff undertaking the reconciliations take prompt and appropriate action to address balancing/reconciling items effectively.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>Price Waterhouse Coopers have been commissioned to carry out this piece of work and to make recommendations to the Chief Finance Officer and Accounts, Audit and Risk Committee at CDC and the Audit Committee at SNC.</p> <p><u>Responsibility and timescale</u></p> <p>PwC – 31/5/2016</p>	<p><u>Action taken</u></p> <p>The PwC Audit has now been completed, which resulted in 3 low risk recommendations all of which have been accepted and the majority have been implemented.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that PwC have completed the commissioned work as part of their 2015/16 audit plan. PwC confirmed that reconciliations are being performed across all key areas (including those for NNDR) and staff have understanding of the reconciliations being performed. PwC's recommendations were designed to strengthen and standardise the Council's approach to these reconciliations, including:</p> <ul style="list-style-type: none"> clarifying the expected frequency of the reconciliations' completion and review; and the actions required in respect of any unreconciled or unexpected items. <p>Management has accepted PwC's recommendations and we have been informed that they have been implemented. PwC have not yet reported on their follow up of their recommendation to confirm that the expected improvements have been made and the new controls are operating as intended.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
6	<p>Undertake a robust Quality Assurance review of the financial statements prior to submission for audit to identify potential errors and challenge unusual or unexpected items. Such a review should be undertaken by a senior officer independent of the team preparing the accounts as well as the s151 Officer.</p> <p>Priority: (High) ●</p>	<p><u>Action Agreed</u></p> <p>Once the accounts, working papers and analytical review have been prepared by finance officers Price Waterhouse Coopers will be asked to review them prior to consideration by the Chief Finance Officer. A senior manager from outside of Finance will then be asked to undertake a further independent review the accounts. The review should take place for the accounts once certified by the Chief Finance Officer by the end of June and for the audited accounts approval in September.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – 15/6/2016 and 10/9/2016</p>	<p><u>Action taken</u></p> <p>The Accounts were signed off in accordance with the recommendation. At the point of writing there are no major issues to report on the Accounts. This will be addressed in the External Auditors Audit Results report at the Committee.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed with Management that the 2015/16 draft financial statements and supporting working papers were subject to Quality Assurance procedures prior to the start of the audit.</p> <p>EY's Audit Results Report 2015/16 and Annual Audit Letter 2015/16 do not include any concerns regarding the quality of the draft financial statements or the supporting working papers.</p> <p>We have confirmed with Management that there are plans in place for a similar Quality Assurance as part of the 2016/17 accounts closedown and production process.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management’s update (December 2016)	KPMG update April 2017
7	<p>Take action to:</p> <ul style="list-style-type: none"> Promote and develop ownership and accountability within the Finance Team to empower members of the team to take appropriate corrective action for identified issues; Ensure appropriate communication channels exist and are used effectively and appropriately by members of the Finance Team to brief senior members of the team on significant and key accounting issues; Develop the confidence of the Finance Team so that significant issues can be raised and addressed on a timely basis; and Provide stability, capacity and capability within the team by seeking to make substantive appointments to vacant posts and reducing reliance on “acting up”, temporary, interim and agency appointments. <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>The management restructure has brought the Chief Finance Officer (Section 151) closer to the team and this should improve the leadership and management of the Corporate Finance Team. The recent restructure of the team has been largely successful however we haven’t been able to recruit to some key posts. This will be a key focus for the Chief Finance Officer With the closedown process soon to commence we have brought in a closedown specialist to ensure that we have the relevant expertise, experience and capacity in place.</p> <p>The costs can be met from savings from existing vacant posts. Closedown meetings are held regularly through the period both with External Audit and the team. In future the Chief Finance Officer will be present at these meetings. The Council have been liaising with its external auditor Ernst & Young. It has agreed revisions to the audit team, which will help significantly with the confidence of the Finance Team both in the closedown period and the audit period to the end of September. It is important that the Finance and Improvement Plan acts as a "live" document with a review mechanism built in for each of the areas, which can be reported by the Chief Finance Officer to the Accounts, Audit and Risk Committee at CDC and the Audit Committee at SNC.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – 31/5/2016</p>	<p><u>Action taken</u></p> <p>The recruitment to key posts remains difficult, the post of Corporate Finance Manager is covered temporarily until February and we are working to ensure this and a Group Accountant post are filled quickly thereafter.</p> <p>The use of a closedown specialist has been extremely helpful in raising and addressing key issues around closedown. These have largely been around assets and valuations but also in identifying and addressing two post balance sheet events.</p> <p>The EY team were put in place prior to the start of the Audit. There was an increase in the significant risks from the audit plan, which has meant that more work has been required from both sides. This has been managed and at the time of writing it is expected that the Accounts can be approved with only non-material issues outstanding.</p> <p><u>Current status</u></p> <p>In progress</p>	<p><u>Findings</u></p> <p>We have confirmed there have been improvements in relation to the areas of concern, including:</p> <ul style="list-style-type: none"> The management restructure and substantive appointment to the Chief Finance Officer post, clarifying responsibilities within the team and steady improvements to communication within the team. Engaging consultancy support to meet shortfalls in capacity or specialist knowledge/skills. The appointment of a long term interim manager to fill the vacant Corporate Finance Manager post. Although this is not a permanent solution it does provide some continuity and stability during the 2016/17 year-end and helps the team address its immediate priorities. Improved communication with the external audit team and co-ordination of the planned audit work. We are told the working relationships are constructive and improved. Strengthening the Finance Team’s technical skill base in areas such as capital accounting. Reviewing the accounts closedown procedures, establishing quality assurance review arrangements and preparing for the early closedown requirements from 2017/18 onwards. <p>The former Chairman to the AA&R Committee informed us that the Committee’s increased awareness of the members of the Finance Team, their roles and the work carried out has improved the Committee’s confidence in the Team. .</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management’s update December 2016	KPMG update April 2017
7				<p><u>Findings (continued)</u></p> <p>As well as consolidating the progress already made there are still improvements required, including:</p> <ul style="list-style-type: none"> • Substantively appointing to the remaining vacant posts within the team and ensuring the team has sufficient and relevant in-house technical skills to support the Council's current and emerging needs. • Resolving the remaining issues with the recently introduced CIVICA Financials system and ensuring there are effective and reliable reconciliation, control and reporting arrangements in place. 2016/17 will be the first year CIVICA has been used to produced the Annual Accounts. <p><u>Conclusion</u></p> <p>The Council has made progress but is still addressing the issues covered by this recommendation.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
8	<p>The s151 Officer should liaise with the external audit Engagement Lead prior to all Accounts, Audit and Risk Committee meetings to understand the nature and emphasis the auditor will place on their presentation of audit reports in the meeting and to prepare an appropriate response.</p> <p><i>Priority: (High) ●</i></p>	<p><u>Action Agreed</u></p> <p>Arrangements have already been made to ensure that this takes place for all future meetings as confirmed in Ernst & Youngs letter to the Council dated 11 February 2016.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – immediately</p>	<p><u>Action taken</u></p> <p>Neil Harris attended the Committee's informal briefing on 14/09/2016.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have reviewed correspondence between the Council and EY (including EY's 11/2/2016 letter to the Chief Executive, which was considered by the AA&R Committee at its March 2016 meeting) which confirms:</p> <ul style="list-style-type: none"> - this recommendation has been raised with EY; and - the steps EY planned to take in to ensure officers and the Committee were kept informed on emerging audit issues. <p>The EY 11/2/2016 letter also makes the offer of a pre-committee briefing on, amongst other things, the external auditor's role and responsibilities. The briefing was provided by the EY Executive Director to the AA&R Committee in September 2016, ahead of the Committee consideration of the audited financial statements and EY's ISA260 report. The briefing included an update on emerging issues relating to the 2015/16 accounts opinion and VFM conclusion.</p> <p>Our interviews with the Chief Finance Officer and the now former Chairman to the AA&R Committee indicated that they were satisfied with the working relationships established with EY and that they were being kept appropriately informed.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
9	<p>The s151 Officer and Monitoring Officer should lead the engagement with DCLG in respect of a recovering the outstanding debt and the Council should take independent legal advice in respect of this issue.</p> <p>Priority: (High) ●</p>	<p><u>Action Agreed</u></p> <p>Legal advice is currently being sought. Discussions will re-commence with the DCLG once this has been received and if appropriate.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – immediately</p>	<p><u>Action taken</u></p> <p>We have written to DCLG and requested that they reconsider their position regarding the debt. On 17 June a further chase was made and a response was received from DCLG that "We are still considering our position and will let you have a reply shortly." We have still not received a response.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have seen the Council's letters to DCLG on this matter, and DCLG's response of 19 July 2016 which states "...having considered the matter, we do not consider your authority has a restitutionary claim against the Secretary of State".</p> <p>In accordance with the legal and accounting advice obtained the Council wrote off the £1.5m NNDR debtor in 2015/16. This approach was agreed with EY and fully reported to the 21 September 2016 AA&R Committee when the audited financial statements were approved.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>
10	<p>The s151 Officer should attend all Accounts, Audit and Risk Committee meetings.</p> <p>Priority: (High) ●</p>	<p><u>Action Agreed</u></p> <p>This will be implemented with immediate effect.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – immediately</p>	<p><u>Action taken</u></p> <p>The Chief Finance Officer has attended all of the Committee's meetings</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the Chief Finance Officer has attended all of the AA&R Committee meetings and intends to continue to do so. This is consistent with good practice.</p> <p>The former Chairman to the AA&R Committee informed us that the Chief Finance Officer's regular attendance was an important factor in the Committee being able to carry out its role effectively.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
11	<p>Consider whether the Monitoring Officer or other representation of the Council's legal department should be present at Accounts, Audit and Risk Committee meetings.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>It is not felt to be appropriate to have legal representation at every Accounts, Audit and Risk committee. Until the appointment of a permanent S151 officer the deputy monitoring officer will attend meetings. Upon appointment of the permanent S151 officer this arrangement will be reviewed.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Executive – immediately</p>	<p><u>Action taken</u></p> <p>I have liaised with the Monitoring Officer. At present the Deputy Monitoring Officer is attending each meeting until it is felt that the Finance Improvement Plan is embedded.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the Monitoring Officer attended the AA&R Committee's 21 September 2016 meeting, when the audited financial statements were adopted. The topics considered by the Committee since our recommendation was made have not required formal Monitoring Officer input.</p> <p>Given the general improvements to the Committee's arrangements and the substantive appointment of the Chief Finance officer it is reasonable for the Council to require the Monitoring Officer or Deputy's attendance only on an exception basis if required for specific agreed topics. The decision regarding the Monitoring Officer's attendance can be made as part of the Committee's work programme review or agenda setting arrangements, or even during the pre-meeting briefing session. This is the practice we observe at other Councils.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management’s update (December 2016)	KPMG update April 2017
12	<p>Undertake appropriate training with Members to enhance their understanding of the role and responsibilities of external audit and the committee clerk.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>Ernst and Young have offered to arrange appropriate training with members of CDC and SNC as set out in their letter date 11 February 2016.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer/Ernst and Young – June 2016</p>	<p><u>Action taken</u></p> <p>Members approved the accounts in September 2016. Training for the future remains an important issue.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the EY Executive Director provided a briefing on the role and responsibilities of external audit to an additional meeting of the AA&R Committee in September 2016, ahead of the Committee’s consideration of the audited financial statements and EY’s ISA260 report. The briefing included an update on emerging issues relating to the 2015/16 accounts opinion and VFM conclusion.</p> <p>The Committee also received at this additional meeting a briefing from Management on the financial statements, progress made in relation to the recover of the NNDR debtor and other significant matters arising from the financial statements audit.</p> <p>The former AA&R Committee Chairman told us these briefings were a helpful improvement on previous practice. However, the briefing was not well attended by the Committee members; although there is no record of who attended we understand only a few of the 8 Committee members took part in the training.</p> <p><u>Conclusion</u></p> <p>Overall our recommendation has been implemented, but we have identified at recommendation 13 a continuing area for attention to ensure the Committee is effectively carrying out its role.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
13	<p>Undertake appropriate training with Members to equip them to offer appropriate, effective and constructive challenge.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>To be built into the internal audit work programme.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer/Ernst and Young – June 2016</p>	<p><u>Action taken</u></p> <p>Members approved the accounts in September 2016. Training for the future remains an important issue.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>The Committee has benefited in the year from specific briefing/training in the role and responsibilities of the external auditor and current and emerging issues relating to the Annual Accounts. The Committee has also received a briefing on the Accounts and Audit Regulations and the statutory accounts reporting framework. This training was well received by the Members that attended and improved their knowledge and confidence in these areas. However, the briefing was not well attended by the Committee members; although there is no record of who attended we understand only a few of the 8 Committee members took part in the training. There is no formal training programme for Committee members or self-review process in place; the Committee does not routinely assess how well it is performing, whether its Terms of Reference are appropriate or whether it is meeting these requirements.</p> <p><u>Conclusion</u></p> <p>The Council has made progress in relation to its role regarding the approval of the Annual Accounts but further work is needed to ensure the Committee has the appropriate knowledge and understanding to enable Members to confidently and effectively meet its full range of responsibilities.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
14	<p>Officers and Members who have responsibility for preparing and approving the accounts should be familiar with the requirement of the Accounts and Audit Regulations (England) 2011 and other statutory requirements.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>Briefing note to be prepared and included as a supporting paper in the report which approves the statement of accounts.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – June 2016</p>	<p><u>Action taken</u></p> <p>This was covered in the training in June and the slides, which set out the responsibilities have been re-circulated as a refresher.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the AA&R Committee received a briefing on the Accounts and Audit Regulations and the statutory accounts reporting framework at its informal meeting 30 June 2016.</p> <p>The September 2016 briefing by EY also touched on the Regulations and other requirements.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
15	<p>Ensure that accurate and appropriate legal advice is provided to Officers and Members in respect of the Accounts and Audit Regulations (England) 2011 to enable them to clarify their roles and responsibilities in cases of ambiguity or uncertainty.</p> <p>Priority: (Medium) ●</p>	<p><u>Action Agreed</u></p> <p>Briefing note to be prepared as set out above and to include such advice.</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – June 2016</p>	<p><u>Action taken</u></p> <p>This was covered in the training and at the AARC meeting by the Deputy Monitoring Officer who was in attendance at both.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the AA&R Committee received a briefing on the Accounts and Audit Regulations and the statutory accounts reporting framework at its informal meeting 30 June 2016.</p> <p>The September 2016 briefing by EY also touched on the Regulations and other requirements.</p> <p>We have confirmed that the Monitoring Officer attended the 21 September 2016 Committee meeting when the audited financial statements were approved but was not required to provide specific legal advice.</p> <p>The former AA&R Committee Chairman has informed us that the Committee was clear regarding its role and responsibilities at the 21 September 2016 meeting.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>

Appendix 1 – Progress update (Cont.)

	KPMG Recommendation and priority (January 2016)	Management Response (January 2016)	Management's update (December 2016)	KPMG update April 2017
16	<p>Restructure the agenda of the Accounts, Audit and Risk Committee meeting at which the accounts are approved so that the auditors' ISA260 report is considered before the approval of the accounts.</p> <p>Priority: (Low) ●</p>	<p><u>Action Agreed</u></p> <p>Agreed and will be implemented in September 2016</p> <p><u>Responsibility and timescale</u></p> <p>Chief Finance Officer – September 2016</p>	<p><u>Action taken</u></p> <p>This has been implemented on the agenda.</p> <p><u>Current status</u></p> <p>Addressed</p>	<p><u>Findings</u></p> <p>We have confirmed that the 21 September 2016 AA&R Committee Agenda and the meeting's discussion was structured in line with our recommendation.</p> <p>We have confirmed that future accounts approval meetings will be structured in the same way.</p> <p><u>Conclusion</u></p> <p>Our recommendation has been implemented.</p>



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