
EXTERNAL AUDITOR REPORTS – UPDATES 2017/18

1 INTRODUCTION

- 1.1 Recommendations from the Council's external auditor and other reviews or inspections are monitored by Internal Audit for progress of implementation and their review falls within the discretion of this Committee.

2 AUDIT RESULTS REPORT TO THE AUDIT COMMITTEE FOR YEAR 2017/18

- 2.1 This report sets out the current position on EY recommendations arising from the audit results report to the Audit Committee.

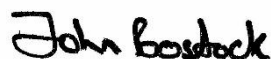
3 EQUALITY AND DIVERSITY IMPLICATIONS

- 3.1 An Equality Impact Assessment has not been completed as no decision is being made.

4 RECOMMENDATION

- 4.1 It is proposed that the Committee **RESOLVES**

That the updates provided in the appended monitoring sheet in respect of the external auditor's recommendations be noted.



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Background Papers:-

None.

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KEY RECOMMENDATIONS ARISING FROM AUDIT RESULTS REPORT TO THE AUDIT COMMITTEE 2017/18 APPENDIX

REPORT AREA	KEY RECOMMENDATIONS	MANAGEMENT RESPONSE	DUE DATE
VALUE FOR MONEY			
<p>Achievement of Savings Needed over the Medium Term</p> <p>The Council has identified the savings needed to bridge the gap for 2018/19, but has yet to risk assess these for their delivery. In addition, there are as yet no business cases for the longer range savings for 2020/21 and 2021/22. The achievement of these plans would still leave a gap of £0.783 million at 31 March 2023 for which the Council has yet no plans.</p> <p>At present that the Council has sufficient levels of reserves and is forecasting that it will maintain its general fund balance at £0.9 million with earmarked reserves set at £8 million at 31 March 2018.</p>	<p>To further strengthen arrangements, we recommend that the Council:</p> <ul style="list-style-type: none"> • Risk assesses savings for 2018/19, and monitor and report delivery against each plan on a monthly basis, given that the savings for 2018/19 represent 44% of the plans to 2020/23; • Develops risk assessed business plans to determine whether the concepts for savings in 2020/21 (£650,000) and 2021/22 (£370,000) are viable; and • Develops plans to mitigate against slippage on savings schemes, given that there is still a gap of £0.780 million at 31 March 2022, assuming all current savings plans deliver as planned. 	<p>We will resume monthly savings reporting from October onwards, including a RAG assessment of delivery. Savings delivery in the first quarter has been reported verbally to LT and via the Q1 monitoring report to the Portfolio Holder for Finance and Performance.</p> <p>Business plans for future year’s savings concepts are being developed and will include a risk assessment of delivery. These will inform the development of the Medium Term Financial Strategy (MTFS) for 2019/20 and beyond, as per the response to the recommendation below</p>	<p><i>October 2018</i> Completed</p> <p><i>February 2019</i> Completed</p>

<p>Achievement of Savings Needed over the Medium Term</p> <p>The process for setting the Council’s budget is sound and the MTFS identifies the key assumptions expected to underpin the 2018/19 budget. However, it only provides an indication of the budget gap over five years and does not explain the options facing Members in deciding council tax levels.</p>	<p>We recommend for transparency to the public that the MTFS:</p> <ul style="list-style-type: none"> • Profiles the base budget, growth items, planned use of reserves and savings plans over three to five years show how the budget gap is derived; and • Includes a sensitivity analysis of the impact on the MTFS of different options for council tax. 	<p>A more detailed breakdown of the MTFS assumptions will be included within the 2019/20 budget report</p> <p>A sensitivity analysis of council tax options will be modelled and shared with Members to inform budget setting, but this will not necessarily be published on the face of the MTFS report</p>	<p><i>February 2019</i> Completed</p>
<p>Achievement of Savings Needed over the Medium Term</p> <p>The Council’s reported performance against its performance targets has deteriorated in 2017/18; 10 (41%) of indicators below target and a further 5 (21%) with no target.</p>	<p>We recommend that the Council’s improves its reporting of its indicators to:</p> <ul style="list-style-type: none"> • Explain in Performance Reports and the Narrative Report the reasons targets have not been achieved targets; and • Seek to set targets for all performance measures 	<p>A new performance framework has been drafted and is in the process of being agreed with LT. Performance will be reported quarterly in conjunction with the financial monitoring report; this will include relevant commentary on achievement of targets</p> <p>Performance indicators have been refreshed for 2018/19 and all measures now have an indicator</p>	<p>New Performance Framework agreed – Completed Dec 2018. Indicators Refreshed.</p> <p>Q1 report. First public report will be to Exec in November 2018</p> <p>Completed</p>

<p>Local Authority Trading Company – Green Gateway Trading (Development) Limited</p> <p>We extended our review of the governance arrangements to consider the impact of not seeking financial advice before or shortly after the initiation of the projects. We noted that:</p> <ul style="list-style-type: none"> • The Council committed £0.5 million to the project, and although a proportion of these costs would have been incurred as part of the development of the Council’s Asset Strategy, some were related to elements of the project which are now not being progressed; and • Savings of £369,000 to 31 March 2022 had been included in the February 2017 Medium Term Financial Plan before the schemes had been subject to an independent financial review. <p>Once these were removed there was an increase in the budget gap.</p>	<p>We therefore recommend that the Council should:</p> <ul style="list-style-type: none"> • Establish guidance for the project management of complex capital projects, particularly the timeframes for obtaining specialist external advice to minimise potential abortive costs; • Clarify the evaluation process so that the reasons for the differences in scores are explicitly clear; • Ensure the risk register covers the financial viability of the chosen option, the robustness of the assumptions and the deliverability of the necessary financial returns. • Ensure the Treasury Management Strategy and financial projections show the relevant prudential indicators and impact on the minimum revenue provision; • Request clear recommendations from advisors, particularly as regards taxation ; and 	<p>A revised Asset Strategy has been agreed with Members and a draft Asset Delivery Plan is being developed – a detailed Outline Business Case will be presented to Investment Board and Full Council before any work commences; this will set out any specialist advice required and likely timeframes to proceed.</p> <p>RDC does not undertake sufficient volume of complex capital projects to warrant putting in place specific RDC guidance; however the Council will set out the proposed nature and scale of its capital projects in its Capital and Treasury Management Strategy and use established guidance such as HM Treasury Five Case Model (and associated Green Book guidance) to ensure capital projects are managed in a robust way. In addition, specialist advice will be sought at an early stage to ensure any potential abortive costs are minimised. Should the volume of complex projects that RDC plans to undertake increase at a later stage</p>	<p>February 2019</p> <p>OBC agreed at Investment Board 16/1/19 and recommended to Full Council 19 February</p> <p><i>November 2018</i> Completed</p>
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	<ul style="list-style-type: none"> Document the Council's review of the guidance to show how the Council has taken that guidance fully into account in its decision-making. 	<p>the need for specific RDC guidance will be revisited.</p> <p>A clearer audit trail of how any scoring process is undertaken and will be maintained.</p> <p>A project risk register will be maintained to encompass all key risks associated with any asset delivery plans, and fed into the corporate risk register as appropriate</p> <p>Once a delivery plan has been agreed the Treasury Management strategy and financial projections will be updated to include the relevant indicators and impact on Minimum Revenue Provision.</p> <p>Specialist Tax advice with clear recommendations will be sought as appropriate as the project progresses,</p>	<p><i>February 2019</i> Completed as part of OBC</p> <p><i>February 2019</i> Completed as part of Capital/TM Strategy 2019/20 to be agreed at Review Committee on 6 Feb and Full Council 12 Feb</p>
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<p>VAT Arrangements with Sanctuary Housing</p> <p>As at 31 March 2018, Sanctuary Housing Group owe the Council £351,992. Management report that this is in line with an agreement dating from 2007 but are unable to produce the agreement. The Council have provided general guidance as regards the legality of such schemes.</p>	<p>We recommend that the Council revisits the scheme, updates its supporting documentation to demonstrate how the scheme applies to the Council and Sanctuary Housing Association and confirms the arrangement with HMRC</p>	<p>The outstanding monies relating to 2017/18 have been received. The Council is following up with Sanctuary Housing to see if any further supporting documentation exists in relation to the scheme; however given the length of time that has now passed this may not be available. Sanctuary’s own external auditors have given the necessary assurances that they are happy the scheme is compliant with HMRC guidance from their perspective and therefore the risk to RDC is deemed to be low.</p>	<p>March 2019</p>
<p>Imbalance between the general ledger and the underlying debtors sub-ledger</p> <p>During our audit, we noted a variance between the Council’s General Ledger and the underlying Debtors Ledger of £54,788. The Council considers that the sub-ledger includes postings to 2018/19 that should not be in the report. This arose due the date the report was run, as 31st March 2018 was a</p>	<p>We recommend that all reports supporting the financial statements are run at year end and retained to ensure sub-ledgers reconcile to the general ledger.</p>	<p>The report parameters for the debtors ledger will be set to run at 31st March to ensure this does not occur again in future.</p>	<p>March 2019</p>

<p>Saturday. The Council has reduced the variance by looking through the Debtors sub-ledger and removing items but given the time required and value of the sums involved have not progressed this further.</p> <p>The Council has been prudent in recording the lower sum from the General Ledger in its financial statements.</p>			
<p>ASSESSMENT OF THE CONTROL ENVIRONMENT</p>			
<p>As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.</p>	<p>We recommend that Internal Audit:</p> <ul style="list-style-type: none"> • Complete all key audit work by the date the Head of Internal Audit issues the audit opinion. Debtors and Procurement audits were not issued by May 2018 when the accounts were produced. As a result, Members and auditors have insufficient time to assess the impact of major findings in advance of the preparation of the accounts and annual governance statement; and 	<p>It is intended that all key audit work will be completed ahead of the AGS being produced; however resourcing remains a challenge and the audit plan may need to be revisited to ensure priority areas are completed first.</p>	<p>April 2019</p>

	<ul style="list-style-type: none">Put in place plans in place to resource and deliver Information Control and Technology audit coverage during 2018/19 <p>We made similar recommendations in the previous year</p>	External resource will be considered to carry out the Information Control and Technology audit work during 2018/19	
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