

MINUTES OF: THE AUDIT AND ACCOUNTS COMMITTEE

Date of Meeting: 24th June 2014

**PRESENT: Councillor Aldred (Chair)
Councillors Essex, Evans, Hughes, Knowles, Oaks and
Procter**

**IN ATTENDANCE: Mrs J Crawford, Finance manager
Ms K Murray, Director, Grant Thornton
Mr Ian Rushworth, Principal Auditor, Lancashire County
Council
Mrs J Cook, Committee Officer**

ALSO PRESENT: 2 members of the public

1. CHAIR'S INTRODUCTION

1.1 The Chair welcomed everyone to the meeting.

2. APOLOGIES FOR ABSENCE

2.1 Apologies had been received from Mr M Ali (Co-opted Member), Mr S Hardman (Grant Thornton) and Mr P Seddon, Head of Finance.

3. MINUTES OF THE MEETING HELD ON 18TH MARCH 2014

Resolved:

1. The minutes of the meeting held on 18th March 2014 were agreed as a correct record.
2. That following on from minutes of 18th March 2014, the Governance Working Group be asked to consider a portfolio responsibility for fraud, possibly incorporated into a current portfolio holder.

4. URGENT ITEMS OF BUSINESS

4.1 The Chair confirmed that there were no urgent items of business.

5. DECLARATIONS OF INTEREST

5.1 No declarations of interest were made at this point in the meeting. However during consideration of Item 11, Councillor Essex declared that he was a Director of Rossendale Transport.

6. PUBLIC QUESTION TIME

- 6.1 The Chair agreed to deviate from the procedure for public speaking and allow members of public present to ask questions as items on the agenda were presented. Members of the public were permitted to ask questions on items not on the agenda at this point in the meeting.
- 6.2 A member of the public asked questions regarding the format and content of the council's corporate spend analysis. The Finance Manager provided clarification of the item descriptions and offered to meet with the member of the public directly to discuss issues.

7. CHAIR'S UPDATE

- 7.1 The Chair had no update for the committee.

8. ANNUAL GOVERNANCE STATEMENT AND STATEMENT OF ACCOUNTS 2013/14

- 8.1 The Finance Manager introduced the report and provided members with a summary of the Annual Governance Statement year ended 31st March 2014 and the draft Statement of Accounts 2013/14. It was noted that the accounts were in draft form and member approval was requested in order that these could be submitted for external audit and public scrutiny, prior to final approval in September 2014.
- 8.2 The Finance Manager outlined the Core Statements, including the Comprehensive Income and Expenditure Statement (CIES). This is a statutory report which meets the International Financial Reporting Standards, but does not reflect the Council's general fund activities chargeable against local taxation. In contrast, the Explanatory Foreword is in a similar format to budget-setting and monitoring reports so is more recognisable to members. The Finance Manager explained to members that the supplementary table at Note 40 on page 69 provides a reconciliation between the £9.3m to be met from grants and local tax payers in the Explanatory Foreword and the £7.3m net cost of services in the CIES.
- 8.3 The Finance Manager drew members attention to the Explanatory Foreword note on the main budget to actual variances for the year. The table on page 8 explains the split in the overall variance between recurrent savings, including £534k of staff costs and one-off benefits from the Small Business Rate Relief Grant. It was clarified that the £347k one-off release of provisions included £193k relating to the former National Non-Domestic Rating scheme.
- 8.4 The Finance Manager outlined the transfers to earmarked reserves and noted the additional reserves to cover specific future projects such as individual

electoral registration, Haslingden regeneration, tourism strategy, volatility in business rates income, planning strategy and the recycling of empty homes grants recovered from housing rents. It was noted that the empty homes strategy reserve had been established to hold the recycled HCA grant. It was also noted that £510k had been transferred into the pension reserve to fund future contribution requirements in order to clear the £27m deficit over the next 19 years.

- 8.5 The Finance Manager clarified the business rates collection process and how the new localised business rates scheme had impacted on the reserves. Under the new scheme the council keeps 40% of net business rates receivable each year, including 40% of any increases and decreases in the rateable values as properties are added to, removed from the list or revalued by the Valuation Office.
- 8.6 At the budget setting stage central government introduced a tariff and levy principle to ensure that nationally winners and losers from the new scheme were minimised. Note 9 on page 35 shows that for Rossendale this meant a tariff to central government of £3,155k, leaving net retained resources of £1,846k. In comparison to the original budget set in February 2013, this meant a drop of £58k in the resources available to the Council before the year began.
- 8.7 It was then noted that the Collection Fund is a separate account to hold the income and expenditure on the billing and collection of council tax and business rates on an agency basis. The precepts are paid out as agreed at Full Council in February and any surplus or deficit is shared amongst the precepting authorities in proportion. Council tax returned a surplus of £334k for the year, of which Rossendale keeps just over 16%. Following a prudent provision of £460k for rating appeals, business rates returned a net deficit of £378k and Rossendale is responsible for 40% or £151k of this, as noted at 8.5 above.
- 8.8 The Finance Manager introduced the balance sheet and explained that, although there had been £314k of gains on the revaluation of assets, depreciation and sales had reduced the Council's overall fixed assets by £560k. It was noted that the increase in long-term debtors is for monies due over the next five years in relation to the empty homes strategy and the operation of this scheme was explained in greater detail, as this appears in several areas of the accounts including notes 23, 34c and 35c.
- 8.9 The Finance Manager explained some of the year on year changes in debtors, creditors and provisions. It was noted that within Short Term Debtors the sundry trade debtors had reduced by £79k in line with the reports of improved debt collection within the Financial Monitoring Report taken to Cabinet on a regular basis (see Note 27). Similarly the Council is striving to pay its suppliers promptly and as a result the sundry trade creditors have reduced by £368k. The £170k increase in long-term provisions is mainly due to this Council's share of the new

provision for business rate valuation appeals, as noted at 8.7 above.

- 8.10 The Finance Manager provided clarification on the pension fund deficit of £27.5m and how the net revaluation gain of £2.8m in the CIES fed through to an overall drop of almost £2m in the deficit within the year.
- 8.11 The Finance Manager explained that the total useable reserves of £11.2m represent the cash reserves of the Council, but that many of these have specific future plans for their usage already in place (see note 34a, 34b and 34c as well as paragraph 8.3 above).
- 8.12 It was noted that the Transport company's accounts were not yet available, but they would be included within the Group accounts as soon as they were received.
- 8.13 The Committee commented on the report as summarised below:-
- It was agreed that the situation regarding the pensions reserve was generally positive. Clarification was given regarding the wording used within the report. It was noted that some risk was associated with this matter.
 - It was queried whether the regular meetings between the Chief Executive and Leader, as reported in the Annual Governance Statement, were minuted.
 - Concerns were expressed regarding the apparent increase in the net costs of Markets within Note 8 and it was suggested that this should be passed to Overview and Scrutiny to investigate.
 - Clarification was given regarding the senior officers' remuneration and the exclusion of pension costs from the table on page 38 in comparison to the data on page 37.
 - It was noted that bus shelters were not included as assets.
 - Discussion took place regarding the solar panels on Futures Park and it was noted that these were now providing an income and reducing the Council's electricity costs.
 - It was noted that it was right and proper to include the loan to Rossendale Transport within notes 13, 23 and 24.
 - Clarification was provided with regard to the Council's VAT refund claim at note 37 and it was noted that central government discussions were taking place with regard to simple or compound interest. It was noted that payment could be refused if an organisation was perceived to benefit from 'unjust enrichment'.
 - It was noted that the £13k capital works at Henrietta Street Depot included in note 20b was mainly for retentions on depot transfer costs from the previous year.
 - Discussion took place regarding an adverse variance in 2013/14 of £487k within the Explanatory Foreword for Finance and Property Service and £1,002k drop in expenditure on Corporate and Democratic Core within the CIES between the two years being reported. The Finance Manager agreed to clarify this matter further after the meeting.

Following the meeting, and for the benefit of all members:

The bulk of the variances above relate to the full recalculation of internal recharges between services during 2013/14 following the savings made in back-office costs over recent years.

- In addition, charges for impairment of property, added a further adverse variance in 2012/13 which has not been repeated in 2013/14 .
- Of the variances above the direct costs (ie. the cash impacts) for the year will be in the Financial Monitoring report going before Cabinet in July 2014.

- 8.14 A Member of the Public enquired if there was a public list of properties and the NNDR that they paid. The Finance Manager stated that there is a list, but its release would contravene data protection rules. However, any specific concerns regarding properties should be raised via her and these would be duly investigated.

Resolved:

1. That the contents of the report were noted.
2. That the Annual Governance Report be approved for release to the Auditors.
3. That the Draft Statement of Accounts 2013/14 be approved for release to the Auditors (subject to the Group accounts being completed later).

9. ANNUAL INTERNAL AUDIT REPORT 2013/14

- 9.1 The Principal Auditor (LCC) outlined the Internal Audit Report for 2013/14 which provided members with a summary of the works carried out and the assurances given. The overall opinion for 2013/14 was of “substantial assurance” and members attention was drawn to Appendix 2 of the committee report, which provided a detailed breakdown of the levels of assurance.
- 9.2 The Principal Auditor (LCC) outlined the main concerns which had arisen out of 2013/14 work, being the risk management arrangements. Limited assurance had been given for this matter. In addition, limited assurance had been given for treasury management. Further work was taking place with Senior Management and a further update would be given to the next meeting in September 2014.
- 9.3 It was noted that full assurance had been given to 10% of matters audited, with substantial assurance given to 57%.
- 9.4 Following discussions with Management, work regarding business continuity had been deferred to 2014/15 and the time was undertaken to review trade waste and bulky collections. This work was ongoing and members were informed that no significant issues had arisen to date.
- 9.5 It was noted that the asset management audit is still in progress and the Internal Audit Service would be meeting with the Head of Finance to discuss the implementation of recommendations. It was noted that the installation of the

Civica system had not addressed the concerns as previously thought.

- 9.6 It was noted that work regarding the administration of business rates (formerly NNDR) had been completed and there were no significant concerns.
- 9.7 The Committee commented on the report summarised below:-
- Concerns were raised regarding risk management and discussion took place on this matter. It was noted that risk was monitored by Overview and Scrutiny, however further scrutiny of this matter may be required. It was suggested that the Committee should wait for the full Internal Audit report on this matter and then consider whether the full Risk Register, along with any relevant officers and portfolio holders, should be asked to attend the September meeting.
 - It was noted that the recommendations made within Treasury Management report had been dealt with promptly by officers. The Finance Manager outlined the two main issues, being ensuring that the total value of deposits with any one institution stays within the internal limits and the introduction of daily calculations of interest due on the on-call bank accounts.
 - Members queried whether information regarding new builds, extensions and adaptations to homes was passed through to Council Tax to check against payments. The Principal Auditor agreed to check on this matter however noted that he was fairly satisfied that this would have been looked at as part of the audit of council tax.

Resolved:

That the Annual Internal Audit Report for 1st April 2013 to 31st March 2014 is noted.

10. ANNUAL INTERNAL AUDIT PLAN 2014/15

- 10.1 The Principal Auditor outlined the audit plan for 2014/15. It was noted that 225 days had been scheduled and the proposed areas of audit were risk management, members allowances (including expenses, remuneration and interests), Local Land Charges, elections (process and registration) and business continuity. Work will also take place regarding annual reviews of financial system controls and follow-up of the 2013/14 reviews. In addition, days would be allocated to management of the Audit Service, counter-fraud (including the National Fraud Initiative) and contingency days.
- 10.2 The Principal Auditor clarified the work allocated to counter-fraud and noted that this was not specific to Rossendale Borough Council and that no suggestion of this was made. This was to ensure that procedures were fit for purpose to stop the potential for fraud happening.
- 10.3 The Committee commented on the report as summarised below:-
- Clarification was given with regard to the audit of members allowances and the Principal Auditor explained that this review would be looking at procedures for

payments, review of allowances, benchmarking against other authorities, the Remuneration Panel, and ensuring members had declared their interests. It was noted that this may take less than the 5 days allocated.

- It was noted that the audit of elections likely to take place ahead of the 2015 election, concentrating on the registration processes of the register, postal vote opening procedures, etc.

- 10.4 A member of the public asked a question about value for money from the number of audit days and fees. The Internal Auditor confirmed that the number of days required per year dropped from 260 days in 2011/12 to 225 days now, both in response to the improving levels of assurance across the council's functions and to help in the cost-saving efforts. It was also confirmed that the work is charged on a flat daily rate which has not increased since 2009/10.

Resolved:

That the Annual Internal Audit Plan for the period 1st April 2014 to 31st March 2015 be approved.

11. THE EXTERNAL AUDIT PLAN FOR 2013/14

- 11.1 The External Auditor (Karen Murray) outlined the audit plan for the work undertaken during 2013/14. The auditors had worked with officers to understand challenges faced by the Council and to identify audit risks. It was noted that the significant challenges/opportunities had been identified as the localisation of business rates and the new council tax support scheme.
- 11.2 Significant risks were outlined as fraud and management over-riding financial controls; however it was noted that this was not specific to Rossendale Borough Council and was part of standard list of items that applied to all local authorities. It was noted that the council did have the added complexity of group accounts, being the transport company and that audit work would be carried out on this matter.
- 11.3 The External Auditor explained that a value for money conclusion would be completed and brought to the September 2014 committee.
- 11.4 The External Auditor concluded that the fee for grant certification work quoted was likely to be incorrect as reductions in grant certification requirements had not been factored in fully and that this would be corrected at the next committee.
- 11.4 The Committee commented on the report as summarised below:-
- It was noted that the Council was one of 8 or 9 councils in England with responsibility for group accounts. Councillor Essex declared that he was a Director of Rossendale Transport at this point in the meeting.
 - It was noted that Rossendale Transport used their own auditors, being KPMG.

Resolved:

That the External Audit Plan for 2013/14 is noted.

12. THE EXTERNAL AUDIT FEE FOR 2014/15

- 12.1 The External Auditor noted that much of this report had been covered in the previous item and Members were asked to note the audit fee, taking into account the likely reduction to the grant certification element.

Resolved:

That the External Audit Fee for 2014/15 is noted.

13. AUDIT AND ACCOUNTS COMMITTEE UPDATE – EXTERNAL AUDIT PROGRESS REPORT

- 13.1 The External Auditor provided members with an update on work carried out to this stage in the year so far. It was noted that work was on track. Members' attention was drawn to the report which outlined useful guidance available. The External Auditor agreed to circulate the 'Guide to Local Authority Accounts' to committee members.

Resolved:

That the report is noted.

14. EXCLUSION OF PUBLIC AND PRESS

Resolved:

Members agreed that there was no requirement for exclusion of Public and Press for the remaining item as there were no new complaints to note.

15. STANDARDS COMPLAINTS UPDATE

- 16.1 The Chair informed the committee that no complaints had been made regarding standards matters.

Resolved:

That the update was noted.

The meeting commenced at 6.40pm and finished at 8.55pm

Signed (Chair)

Date