

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 10 FEBRUARY 2014

**REPORT OF DIRECTOR OF REGENERATION AND
COMMUNITIES**

Report prepared by Paul Riley

1. RECONCILIATION OF THE COLLECTION FUND 2012/13

1.1 Issue for Decision

1.1.1 This report updates the committee on the reconciliation of the financial management system to the council tax and business rates system.

1.1.2 The report is in response to the committee's request, at its meeting on 25th November 2013, to be updated on the actions taken to complete the reconciliation.

1.2 Recommendation of Head of Finance & Resources

1.2.1 That the Audit Committee notes the actions taken on completion of the reconciliation.

1.3 Reasons for Recommendation

1.3.1 The Audit Opinion letter from the external Auditor to the Chairman of the Audit Committee was considered by the committee at its meeting on 25th November 2013. The letter noted an uncertainty in the accounts. This related to the reconciliation of the accounts to the records of the revenue system (council tax and business rates). A copy of the letter is attached at Appendix A.

1.3.2 While the Audit opinion letter noted that the "amounts are not material to the financial statements, but with any uncertainty, there is always a note of caution" the Audit Committee rightly expressed concern and requested an update on progress at their next meeting.

1.3.3 At the time of the annual audit officers were unable to provide an appropriate reconciliation due to time pressures rather than an

inability to explain the variance. The reconciliations have now been completed and the primary issues and actions are detailed below.

1.4 **Variance on Business Rates**

1.4.1 The variance on the business rates account is the deferred element of business rates arising from the Non-domestic Rates Deferral Scheme instigated by the Government in 2009/10. The value of deferred business rates was reversed from the general ledger in that year to ensure the collection fund conformed to the return and payment made to central government. This value was not re-introduced to the ledger in the following year and the net result has been a difference in the record since that date.

1.4.2 As the business rates system has changed since the date of this transaction any adjustment must be accounted for in the new system. The adjustment has been made to the financial management system to increase arrears of business rates to match the business rates system and at the same time increase the bad debt provision for business rates.

1.4.3 When the collection fund is completed for 2013/14 the provision will be recalculated to meet the arrears as at 31st March 2014 and if this leads to an excess of provision the excess will be distributed to the government, county council, fire authority and this council as required by the regulations.

1.5 **Variance on Council Tax**

1.5.1 In a similar way this variance is attributable to a movement in the collectable amount of council tax that was identified after the year end entries for council tax had occurred. The value of council tax collectable in the council tax system for 2011/12 was adjusted post 31st March 2012 due to changes to the year end reports produced by the system supplier. These reports are changed on a regular basis as council tax and business rates regulations are amended and, on this occasion, the amendment was provided late and not reflected in the 2011/12 accounts.

1.5.2 As the required amendment is similar in nature to the amendment required for business rates the arrears brought forward and the provision for bad debts have been increased. This will allow the calculation of the provision required as at 31st March 2014 to lead to any necessary distribution of the balance between major preceptors and the council.

1.4 **Alternative Actions and why not Recommended**

1.4.1 The reconciliation had to be completed and amendments to the accounts must be made. These lead to an additional resource within the collection fund. The resource could be directed to the fund and preceptors could be notified of an additional distribution of the balance in 2014/15. This is not recommended because of the recent changes to the business rates system and the fact that the reconciliation increases the level of arrears in the accounts. Allocating the balance to the bad debt provisions for council tax and business rates enables evidence of any need for increased provision at year end 2013/14 to be considered in advance of any distribution.

1.5 **Impact on Corporate Objectives**

1.5.1 The major impact on the corporate objectives is to customer and corporate excellence. The failure to provide timely and accurate reconciled working papers to the external auditor reduces the quality of the final accounts process.

1.5.2 As part of the revised regulations concerning the accounting for business rates, the government intends to bring forward the completion deadline for the annual business rates return from September each year to May each year. This will cause administrative difficulties for local authority revenues officers but will ensure the accounts are closed on more accurate figures in future years.

1.6 **Risk Management**

1.6.1 The major risk to the Council is that the resources provided by this adjustment may be incorrectly allocated. Using the value to enhance the level of bad debt provision means that the Council will have completed the reconciliation for 2013/14 before reporting the value to preceptors. This allows a further year of reconciliation to occur to ensure the council has accurately identified the source of the imbalance.

1.7 **Other Implications**

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development

X

- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

1.7.1 The financial implications are set out in the body of the report.

1.8 **Relevant Documents**

1.8.1 Appendices

Appendix A – Audit Opinion on Maidstone Borough Council’s Financial Statements 2012/13

<u>IS THIS A KEY DECISION REPORT?</u>	
Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan?	
.....	
This is a Key Decision because:	
.....	
Wards/Parishes affected:	
.....	