

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 15 SEPTEMBER 2014

Present: Councillor Black (Chairman) and
Councillors Daley, Harper, Long and Perry

Also Present: Mr Keith Hosea and Mr Darren Wells of Grant
Thornton (External Auditor)

24. APOLOGIES FOR ABSENCE

It was noted that Councillor Harper had indicated that he would be late in arriving at the meeting.

25. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

26. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

27. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

28. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

29. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

30. MINUTES OF THE MEETING HELD ON 14 JULY 2014

RESOLVED: That the Minutes of the meeting held on 14 July 2014 be approved as a correct record and signed.

31. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 14 JULY 2014

Minute 12 – Local Code of Corporate Governance – Member Training

In response to a question by a Member, the Head of Finance and Resources confirmed that training would be arranged for Members/Substitute Members of the Audit Committee.

32. IRRECOVERABLE BUSINESS RATES

At the request of Councillor Daley, Stephen McGinnes, the Head of Revenues and Benefits, presented a report reviewing the risks associated with the business rates recovery processes adopted within the Revenues and Benefits Team. It was noted that whilst decisions relating to the writing-off of irrecoverable business rates were delegated to the Leader of the Council, the Audit Committee had a role in ensuring that the systems/controls in place were effective and proportionate.

In response to concerns about the length of some periods of non-payment, the Head of Revenues and Benefits confirmed that where the Council was unable to collect the business rates that were payable, it took a robust approach to recovery. This involved progressive action which would typically include:

- Reminder for non-payment
- Final notice for non-payment
- Summons for non-payment
- Application to the Magistrate's Court for a liability order
- Instruction of a bailiff to recover
- Bankruptcy or liquidation, where appropriate
- Proceedings to seek committal to prison (individuals, not limited companies)

In response to questions, the Officers confirmed that:

- In terms of Council Tax and business rates arrears, the Council was not a preferred creditor for the purposes of liquidation.
- The Council was proactive in the use of enforcement agents and bailiffs to recover debt.
- Having exhausted all recovery processes in trying to collect unpaid business rates, the Council could continue to hold the debt as outstanding or consider writing it off. If the debt was written off and the debtor subsequently identified, there was nothing to stop the Council reinstating the debt. There were risks associated with holding a debt as outstanding with no scope for recovery.
- With regard to speeding up/improving the process, the last internal audit inspection of business rates (valuation, liability and billing) had concluded that the controls in place provided a substantial level of assurance. The collection rate was benchmarked regularly against other local authorities in Kent with positive results. The Strategic Leadership and Corporate Services Overview and Scrutiny Committee would be reviewing the Council's Debt Recovery Policy, including the arrangements to recover unpaid business rates.
- Within the Revenues and Benefits Team, twenty members of staff were dedicated to billing local residents and businesses for Council Tax and business rates and collecting the same utilising all tools available.

Whilst the average in year collection rate in respect of business rates was 97.66%, the actual amount ultimately recovered was nearer 99%. The Council maintained a provision for bad debts, currently between 1% and 0.5% of the total amount billed.

The Committee, wishing to consider the specific details of a business rate debt identified for write-off in private:

RESOLVED: That the public be excluded from the meeting for the following item of business because of the likely disclosure of exempt information for the reason specified having applied the Public Interest Test:

**Head of Schedule 12 A and
Brief Description**

Consideration of the Specific Details 3 - Financial/Business Affairs
of a Business Rate Debt Identified
for Write-Off

It was noted that in this case the company had gone into liquidation and there were no funds available to pay unsecured creditors. Directors of limited companies were not individually liable, and could go on to set up new companies.

RESOLVED:

1. That the current arrangements whereby decisions relating to the writing-off of irrecoverable business rates are delegated to the Leader of the Council be noted.
2. That the intention of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee to review the Council's Debt Recovery Policy be noted.
3. That the Committee's concerns regarding the risk of companies, which have gone into liquidation with insufficient funds to pay creditors, setting up to trade under new companies be referred to the Strategic Leadership and Corporate Services Overview and Scrutiny Committee for consideration as part of its review of the Council's Debt Recovery Policy.

Note: Councillor Harper entered the meeting during consideration of this report (6.55 p.m.).

33. **INTERNAL AUDIT - FOLLOW-UP REPORT UPDATE**

Rich Clarke, the Head of Audit Partnership, submitted a report setting out the progress against the high priority recommendations identified in relation to the three audit projects which had received limited assurance in 2013/14 (Housing Options (Housing Allocations Policy), Museum Collections and Artefacts and Freedom of Information). The report also

detailed changes to the audit follow up process generally. It was noted that:

- The three reports highlighted by the Committee plus all other reports from 2013/14 were part of the new follow up process currently in train. Previously, the audit follow up process had been to re-visit projects in full at a fixed period after issue of the report. Although there was some flexibility depending upon the implementation dates of individual recommendations, in general, the process did not reliably capture follow up of longer term recommendations. The process was also inconsistent in the way that data was collated and reported both to senior management and to Members. The revised process for 2014/15 aimed to address these issues in order to provide more useful and timely information.
- As this was the start of a new process, there was a considerable backlog to work through, but it was hoped to report the first findings to Officers in mid-November 2014 and to the Audit Committee in January 2015.
- The audit report on Housing Options (Housing Allocations Policy) was only issued in June 2014, with the recommendations beginning to fall due from the end of September 2014.
- In terms of the audit report on the Museum Collections and Artefacts: A collections review methodology was being developed alongside a programme for undertaking cataloguing; in the meantime work was continuing on the cataloguing of the Collections. Funding constraints continued to restrict progress in cataloguing. Work had been undertaken with the Finance Team to ensure that VAT on items disposed of by sale was treated correctly.
- In terms of the audit report on Freedom of Information: A disclosure log detailing requests and responses had gone live on the Council's website on 1 September 2014. A Performance Indicator was being developed for Freedom of Information requests, Environmental Information requests and Subject Access requests. The current correspondence system was being reviewed to identify improvements for dealing with information requests. The Council had recently appointed an Information Manager who was compiling a procedure note setting out the relevant roles and responsibilities.

In response to questions and comments by Members, the Officers explained that:

- Recommendations were made by Internal Audit to management for implementation. In the case of the cataloguing of the Museum Collections and Artefacts, if the recommendations were not implemented by January 2015, and management continued to cite funding constraints, then the Committee would have the opportunity

to ask specific questions as to the reasons why and the action to be taken.

- They would refer Members' suggestions regarding the possibility of actively seeking bequests and funding from charitable trusts and foundations for the purpose of expediting the cataloguing of the Museum Collections to the Head of Commercial and Economic Development as the Officer responsible.

RESOLVED:

1. That the progress against the high priority recommendations identified in the Museum Collections and Artefacts and Freedom of Information audit reports be noted.
2. That the changes to the Internal Audit follow up process generally, as set out in the report of the Head of Audit Partnership, be noted.

34. EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT 2013/14

Ellie Dunnet, Chief Accountant, introduced a report setting out the audited Statement of Accounts for 2013/14, including the External Auditor's Audit Findings Report, in accordance with the requirements of the Accounts and Audit Regulations 2011.

The Chief Accountant advised the Committee that following the publication of the agenda, minor alterations had been made to the audited Statement of Accounts. These related to the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement and Note 5 to the Accounts (Adjustments between Accounting Basis and Funding Basis under Regulations).

The Chairman said that he had agreed to take the amended version of the audited Statement of Accounts as an urgent item as the Accounts needed to be considered in their entirety at this meeting of the Committee.

It was noted that:

- The audit was substantially complete and a small number of amendments had been made as a result, but none of these had affected the Council's General Fund Balance as at 31 March 2014. Changes had also been made to improve the presentation and clarity of the Statement of Accounts.
- The Audit Findings Report identified two control deficiencies arising from the audit of the financial statements. These related to access controls over the Academy system and improvements to the process for the reconciliation of this system to the main financial ledger. The External Auditor's recommendations relating to these matters had been accepted by the Officers and the actions would be implemented as agreed.

- Two further recommendations had been made in respect of the Value for Money conclusion. These recommendations related to the Council's approach to financial planning and the setting of minimum levels of reserves. They had been accepted by the Officers and would be addressed as part of the consideration of the Medium Term Financial Strategy by Overview and Scrutiny and the Cabinet .
- Overall the report concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources. The External Auditor intended to issue an unqualified opinion on the 2013/14 Statement of Accounts and an unqualified Value for Money Conclusion. There were a small number of outstanding issues to be addressed, but it was not anticipated that these would have any impact on the Statement of Accounts or the proposed audit opinion.

Reference was also made in the report to the minor reduction in the overall fee payable to Grant Thornton arising from a change in requirements for grant claim certification and to the Letter of Representation written by the Council to the External Auditor for the purpose of expressing an opinion as to whether the financial statements gave a true and fair view in accordance with International Financial Reporting Standards.

In response to questions by Members, the Officers explained that:

- The Council had approximately £5m in general reserves, which was low compared to some other local authorities, but in excess of 20% of the Council's net revenue spend. The decision could be made to increase the level of reserves, but it would be difficult to do so at present given the need to make budgetary savings. The External Auditor had made a recommendation that the Council should review the level of useable reserves, and this would be raised with the Strategic Leadership and Corporate Services Overview and Scrutiny Budget Working Group and with the Cabinet as part of its consideration of the Medium Term Financial Strategy. The External Auditor would be looking for the Council to justify its policy in relation to reserves whilst having regard to the financial pressures local authorities are under and the Council's ability to change the level of balances significantly.
- The reason for the amber rating in relation to two accounting areas (Revenue Recognition Policies and Estimates) was that an accounting policy had been omitted for two revenue streams. This had now been rectified and included in the amended accounts.

RESOLVED:

1. That the External Auditor's Audit Findings Report, as set out in draft form as Appendix A to the report of the Head of Finance and Resources, be approved and that in approving the report, the Committee notes the amendments to the draft Statement of

Accounts and agrees the response to the recommendations contained in the Action Plan.

2. That with the proviso that there are a few outstanding issues to be finalised, and this might result in some minor changes, the Statement of Accounts for 2013/14, as set out in amended Appendix B to the report of the Head of Finance and Resources, be approved.
3. That the Council's Letter of Representation to the External Auditor, attached as Appendix C to the report of the Head of Finance and Resources, be approved.
4. That the overall reduction in the audit fee payable to Grant Thornton be noted.

35. AUDIT COMMITTEE WORK PROGRAMME 2014/15

RESOLVED: That the Audit Committee Work Programme 2014/15 be noted.

36. DURATION OF MEETING

6.35 p.m. to 7.50 p.m.