

MINUTES OF: THE AUDIT AND ACCOUNTS COMMITTEE

Date of Meeting: 28th June 2016

**PRESENT: Councillor Aldred (Chair)
Councillors Bromley, Essex, Smith, Steen and Walmsley**

Mumtaz Ali (Co-opted Member)

**IN ATTENDANCE: Mr P Seddon, Head of Finance and Property Services
Mrs J Crawford, Finance Manager
Ms H Green, Senior Audit Manager, Grant Thornton
Ms R Lowry, Head of Internal Audit, Lancashire County Council
Mr C North, Internal Audit Manager, Lancashire County Council
Mrs P Couch, Democratic Services**

**ALSO PRESENT: 1 members of the public
Councillor Marriott
Councillor Cheetham**

1. CHAIR'S INTRODUCTION

1.1 The Chair welcomed everyone to the meeting and asked the Committee to introduce themselves.

2. APOLOGIES FOR ABSENCE

2.1 Apologies were received from Councillor Oakes.

3. MINUTES OF THE MEETING HELD ON 15TH MARCH 2016

Resolved:

The minutes of the meeting held on 15th March, 2016 were agreed as a correct record.

Councillor Essex asked for clarification on items within the minutes as follows;

Item 8.6 - whether outstanding actions had been implemented. The Head of Internal Audit indicated that this was in relation to the Internal Audit Progress Report and not the Improvement Plan.

Item 9.7 – Whether the head of Finance had confirmed the actual figure for the lottery funding. Following the meeting the Head of Finance confirmed the grant funding was £1.575m on a total project value of £2.1m.

Item 11.2 – Whether the 14/15 accounts had been completed. It was confirmed that they had not yet been completed.

Item 11.6 – In relation to the article, ‘Knowing the Ropes’ and if this had been incorporated into member training. The external auditor agreed to circulate the article to the Committee.

Item 13.7 – Whether the checklist for risk assessment on projects had been included in the job description of Portfolio Holders/Cabinet Members. The Scrutiny Support Officer agreed to ask the Committee and Member Services Manager and respond direct to the Committee.

Item 14.6 – Whether the Council’s Improvement Plan relating to the Empty Homes Programme had been concluded. The Head of Finance indicated that this item was on the agenda and was not a full report but a further progress report. The full report would be presented to the committee in September, following which it would be sent to Full Council for approval.

4. URGENT ITEMS OF BUSINESS

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

5. DECLARATIONS OF INTEREST

5.1 Councillors Essex and Walmsley declared an interest as they were Directors on the Board of Rossendale Transport Limited.

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. No questions were raised.

7. CHAIR’S UPDATE

7.1 There were no updates from the Chair.

The Manager of Internal Audit explained that the following two items were defined by the relevant standard setters, responsible for defining proper practices in terms of the Accounts and Audit Regulations who have issued Public Sector Internal Audit Standards (PSIAS) that require the Internal Audit Service to

establish and periodically review a charter and also implement a quality assurance and improvement programme.

8. INTERNAL AUDIT CHARTER

- 8.1 The Internal Audit Manager presented the Internal Audit Charter for the Committee to consider and approve.
- 8.2 The charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve Rossendale Borough Council and meets its professional obligations under applicable professional standards. It also defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position in relation to the council; authorises access to records, personnel and physical properties relevant to the performance of arrangements and defines the scope of internal audit activities.
- 8.3 The charter would be subject to periodic review by the head of Internal Audit and presented to the council's Management Team and Audit and Accounts Committee for approval.
- 8.4 A question was raised in relation to suspected or detected fraud, corruption or impropriety and whether the internal auditors had any indication of this? The Head of Internal Audit indicated that there was nothing other than the Empty Homes Programme. In relation to the National Fraud Initiative (NFI), the Head of Internal Audit explained that if something came up then the internal auditors would be expected to be expected to be informed. They do meet regularly with Managers. When asked if this any issues would be shared with the Committee, it was confirmed that if appropriate it would be, but may have to be take in Part 2 of the agenda.

RESOLVED:

That the Committee approves the Internal Audit Charter.

9. INTERNAL AUDIT QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME (QAIP)

- 9.1 The Internal Audit Manager outlined the Internal Audit Quality and Assurance Improvement Programme which formalises the arrangements in place to ensure the quality of internal audit work. It was a Lancashire County Council document approved by and reported to Lancashire County Council's Audit and Governance Committee. It was being shared with the Council's Audit and Account's Committee to demonstrate how it enables the Internal Audit Service to evaluate and demonstrate its conformance with the Public Sector Internal Audit Standards, to ensure the quality of the internal audit work.

- 9.2 The document would be subject to periodic review by the Head of Service – Internal Audit and presented to the Council's Management Team and Audit and Accounts Committee for approval.
- 9.3 Where the Internal Audit Service provides either the full internal audit function or ad hoc assurance for organisations external to the county council, its work for those organisations would be subject to the same quality assurance and improvement set out in the programme.
- 9.4 A question was asked in relation to Appendix B, Internal Audit Service performance targets and whether the outcomes are shared. It was confirmed that these were not shared with the Council, but whilst they cannot get retrospective information they would provide outcomes in future reports. When asked if this could be a standard item to the Committee, it was confirmed that progress is measured against the overall plan and the annual report provides details on its progress.

RESOLVED

That the Committee notes the Internal Audit Quality and Assurance Improvement Programme.

10. INTERNAL AUDIT ANNUAL REPORT YEAR ENDED 31st MARCH 2016

- 10.1 The Head of Internal Audit (LCC) outlined the Internal Audit Annual Report for year ending 31st March 2016, which the committee was asked to consider.
- 10.2 The report summarises the work that the Internal Audit Service undertook during 2015/16 and the key themes arising from it. It provides their opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control.
- 10.3 On the basis of the programme of work for the year, the Internal Auditor provides limited assurance overall over the council's governance, risk management and internal control arrangements for 2015/16.
- 10.4 Whilst there were generally sound systems of internal control over the council's key financial systems, the internal auditor's work on the Empty Homes Programme identified that the council's corporate governance and risk management framework, as well as a number of its internal control procedures were overlooked or overridden, with serious consequences for the organisation.
- 10.5 Management's responses to the issues raised by the failure of the Empty Homes Programme have been positive and although the improvement plan was still being drafted, the Internal Auditor understands that some of the actions set out in it had already been taken.

- 10.6 The Internal Auditor's work has been undertaken with regular liaison with the Council's external auditors to minimise any duplication and to allow the external auditors to place reliance on their work wherever possible.
- 10.7 Individual action plans have been agreed in respect of all completed areas of work and these indicate that positive action has been or would be taken and implementation of these plans would be followed up as part of their work in 2016/17.
- 10.8 Work on the council's financial systems found that there are generally sound systems of internal control to achieve the control objectives. However, some potential improvements have been identified and actions have been agreed with management to strengthen existing controls in these areas.
- 10.9 Work has also been undertaken to ascertain progress in implementing the actions agreed in relation to the 2013/14 operational review of asset management and planning and the 2014/15 operational reviews of elections, members allowances and operations.
- 10.10 Councillor Essex informed the Committee that he was disappointed that the internal auditors could only provide limited assurance of the council's governance, risk management and internal control arrangements for 2015/16.
- 10.11 Further questions were raised as follows:
- Of the 224 NFI matches completed there were 146 matches still in progress and asked if anything had arisen that the committee needed to know about. It was confirmed by the Head of Internal Audit that there was nothing of concern. The next monitoring report to the committee would include an update on the 146 matches still outstanding.
 - In relation to members' allowances, concern was raised that some allowances had been paid incorrectly. The Finance Manager responded that the finance team monitor allowances and if anything was found it would be reported.
 - With regard to business continuity and the fact that the internal auditors could only provide limited assurance over the controls in place. The Head of Finance indicated that this is being addressed and there was a programme of work being undertaken with Managers.
 - There was concern that there were still a few recommendations that had been followed up but had not been actioned and due to the limited assurance around the empty homes programme and the culture of the organisation, assurances need to be given that they will be actioned.

Resolved:

That the internal audit annual report for year ending 31st March 2016 be approved.

NB: The Head of Finance indicated that it would be appropriate to take the Annual Governance Statement as this stage of the meeting. This was included on pages 10-15 of the annual statement of accounts.

11. ANNUAL GOVERNANCE STATEMENT

11.1 The Head of Finance indicated that Rossendale Borough Council had a duty to ensure its business was legal, effective and economical in the use of public resources. The annual governance statement articulates the governance framework, role of members, the audit and accounts committee and other committees.

11.2 The Head of Finance indicated that there were significant issues in the medium term financial strategy (MTFS) and balancing the funding gaps.

11.3 In relation to the section on page 15 – Significant Governance Issues, the Head of Finance indicated that there was clearly a framework and control mechanism in place, with a need for a change in culture/behaviour in the organisation as it moves forward.

11.4 In relation to page 13 and the RBC section, Councillor Essex asked for an amendment to the wording of the following sentence to read

“Weekly formal meetings of the Leader of Council and Chief Executive; and monthly meetings with the Leader of the larger Opposition Group not ‘Conservative Group’.

It was agreed to amend the sentence.

11.5 Concern was also expressed that there was no mention of the 14/15 statement of accounts not being signed off and an explanation for this included. The Head of Finance agreed that this should be included and would be added to the Annual Governance Statement. In addition the External Auditor indicated that they were awaiting confirmation from the HCA regarding grant compliance and would in due course discuss with the Head of Finance appropriate wording within the Annual Governance Statement.

RESOLVED:

That the Annual Governance Statement be noted.

12 INTERNAL/EXTERNAL AUDIT PROTOCOL

- 12.1 The Internal Audit Manager outlined the internal/external protocol report to the committee, which sets out how Rossendale Borough Council's Internal Audit Service and Grant Thornton, as its external auditor, work together and established a framework for co-ordination, co-operation and exchange of information. The report formalises what already exists and demonstrates clarity and value for money.
- 12.2 The external audit responsibilities are set out in the Code of Audit Practice, as developed by the National Audit Office. Under the code the external auditors are responsible for:
- Expressing an opinion on the council's financial statements and
 - Reviewing whether the council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources
- 12.3 In addition, the external auditor may be required to certify some claims and returns for grants or subsidies paid by the government departments and public bodies of Rossendale Borough Council.
- 12.4 The Internal Audit Service is required to formulate an annual risk-based plan of work. This is directed to providing assurance over, amongst other internal controls, the systems that produce material figures in the council's financial statements: these systems control areas of significant financial risk to the council.
- 12.5 The Internal Audit Service is similarly obliged to provide an annual opinion to the council on its risk management, control and governance arrangements, which will inform the external auditor's work.
- 12.6 A question was asked about a formal review of the Internal Audit Service by Grant Thornton and it was confirmed that a formal review is not required but would be undertaken if this was considered necessary. External Audit consider the work of Internal Audit each year and if any issues were identified these would be highlighted to the Audit Committee.

Resolved:

That the internal/external audit protocol be noted.

**13. EXTERNAL AUDIT PROGRESS AND UPDATE REPORT – YEAR ENDED
31st March 2016**

- 13.1 The External Auditor outlined the report which sets out the progress in delivering their responsibilities as the council's external auditors. The report also includes a summary of emerging national issues and developments that may be relevant to the committee.
- 13.2 Much of the work of the Council's 2014/15 accounts was complete. However, they have yet to finalise their work in respect of the transactions relating to the Council's Empty Homes Programme and associated HCA grant. In relation to expenditure on the empty homes programme, the external auditors have discussed the expected accounting entries with management and they will audit the revised 2014/15 accounting entries in July 2016.
- 13.4 The external auditors have discussed the expected accounting entries with management and anticipate a revised set of the 2014/15 financial statements would be available alongside the 2015/16 financial statements. The revised accounting entries will be audited in July 2016, but may not fully conclude until September 2016.
- 13.5 Progress against the plan which was presented to the Audit and Accounts Committee in March 2016 was on track.
- 13.6 The findings from the final accounts work would be reported to the Audit and Accounts Committee on 27th September 2016.
- 13.7 The scope of the Value for Money (VfM) work has changed and was set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that 'the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'. The results of the VfM audit work and the key messages arising will be reported in the Audit Findings Report.
- 13.8 A question was raised in relation to a confirmed date for completion of 2014/15 accounts as September. The external auditor indicated that the HCA are aware of the timescales and the implication of the urgency for completion.

Resolved:

That the External Audit Report for 2015/16 be noted.

14. THE EXTERNAL AUDIT 2016/17 FEE LETTER

- 14.1 The External Auditor informed the committee that the Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Following the closure of the Audit Commission in March 2015, the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.
- 14.2 The audit planning process for 2016/17 including the risk assessment would continue as the year progresses and fees would be reviewed and updated as necessary as work progresses.
- 14.3 The Council's scale fee for 2016/17 has been set at £45,796.

Resolved:

That the Audit Fee Letter for the 2016/17 financial year be noted.

15. ROSSENDALE BOROUGH COUNCIL IMPROVEMENT PLAN – UPDATE

- 15.1 The Head of Finance presented a progress update on the Council's Improvement Plan following the publication of the Internal Audit report on the East Lancashire Empty Homes Scheme.
- 15.2 The management's response to the Internal Audit report on Empty Homes was presented to Members in December 2015.
- 15.3 In March 2016 at the Audit and Accounts Committee, a programme map and plan was presented to Members, together with a final format proposal.
- 15.4 The senior management team has reviewed each of the controls an organisation is expected to have and the majority of controls are in place other than those which officers have highlighted for further action. A final improvement plan would be presented to the next Audit and Accounts Committee in September 2016.
- 15.5 The report highlights a number of themes that are areas for improvement and each of these were explained by the Head of Finance.
- 15.6 A question was raised in relation to timelines and lead officers within the improvement plan and the fact that only section G of the plan provides details of lead officers and timelines for completion. The Head of Finance replied that these will be included in the final plan which will be presented to the committee in September 2016, followed by Full Council in December 2016.

- 15.7 A member commented that it was noted that actions are in place but would question whether the actions remain in place and it was for the internal and external auditors to provide assurance they are in place.

RESOLVED:

That the Committee note the report and progress made to date on the Improvement Plan.

16. ANNUAL GOVERNANCE STATEMENT AND STATEMENT OF ACCOUNTS 2015/16 - DRAFT

- 16.1 The Finance Manager introduced the report and provided members with a summary of the draft Statement of Accounts 2015/16. It was noted that the accounts had been passed to external audit and placed on deposit for public scrutiny, prior to final approval in September 2016.
- 16.2 In February 2016 the members approved a net services budget of £8,801k for 2015/16 along with contributions of £100k towards capital projects. In order to balance the budget, members approved the use of £182k from the Transitional Reserve.
- 16.4 The Finance Manager informed the committee that the council had made strong progress in identifying further savings required to meet the demands of the MTFs, implementing these early had contributed to the variance of the £1,683k, these savings were summarised on page 8.
- 16.5 The capital works undertaken by the Council in 2015/16 amounted to £2,128k, of which £998k related to work on the Council's own assets and £453k related to properties under the East Lancs Empty homes Scheme, which was summarised in Notes 17, 19 and 20a and 20b to the Core Statements.
- 16.6 In relation to public grants, the Disabled Facilities Grant for 2016/17 had been confirmed as £791k.
- 16.7 The Homelessness Grant was now being used by neighbouring authorities targeting young people.
- 16.8 Pages 72-75 cover the Collection Fund and the Finance Manager explained that Council Tax had returned a surplus of £374k overall, with £60k of that attributable to Rossendale Borough Council. In contrast, the business rates account returned a deficit of £2,172k but this was after making a further £1,291k provision for rating appeals. Rossendale Borough council element of this deficit was £869k. Both these in-year variances are shown in the Comprehensive Income & Expenditure Statement for 2015/16, but they are then held in the Balance Sheet

in the Collection Fund Adjustment Account until they are taken to/funded from the General Fund in the Full Council Budget Setting meeting in February 2017.

16.9 Pages 76-85 show the Group Accounts, adding in the draft accounts of Rossendale Transport Ltd as a wholly owned subsidiary of the Council. The provisional surplus for the year was £158k, though this is now subject to full audit before the final report goes the company's Annual General Meeting in July.

16.10 The Committee asked questions and made comments on the report to the Finance Manager and The Head of Finance, which included the following:

- With the huge increase in DFG grant funding, how are the council going to achieve value for money. The Finance Manager explained the process of ensuring that suppliers meet the standards required to do the work
- A suggestion was made to invite an officer to attend a future meeting to explain the process to the committee. When asked if the internal auditors could monitor this, the Head of Finance indicated that he would speak to the internal auditors to have it included on their work plan.
- A member asked for clarification on the intended use of the Leisure Reserve on page 61. The Head of Finance confirmed that this was being held to match the Leisure Trust's Balance Sheet deficit of £770k which is reported in the Related Parties, Note 13, on page 40.

16.11 A member asked for clarification in relation to the homelessness grant for young people. The Finance Manager indicated that the Housing Options Team had funds of over £200k a few years ago for several authorities, including Rossendale, for the 16-17 year old homeless. In light of these funds, a member asked whether the Clare House facility was being used by young people of Rossendale.

Resolved:

That the Committee notes the content of the draft statement of accounts.

17. STANDARDS COMPLAINTS UPDATE

17.1 The Chair informed the committee that there had been no standards complaints

Resolved:

That the update was noted.

The meeting commenced at 6.30pm and finished at 8.35pm

Signed (Chair)

Date