



# Audit Committee Agenda

7.30pm Wednesday 26 June 2013

**Bulbourne Room, Civic Centre, Hemel Hempstead**

The Councillors listed below are requested to attend the above meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Adshead	Harris
Doole	Taylor (Chairman)
Douris	W Wyatt-Lowe
Elliot	

Substitute Members: Councillors Anderson, Marshall, McKay and Townsend.

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## PART I

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## **1. APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

## **2. DECLARATIONS OF INTEREST**

To receive any declarations of interest

A member with a disclosable pecuniary interest or a personal interest in a matter who attends a meeting of the authority at which the matter is considered -

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent

and, if the interest is a disclosable pecuniary interest, or a personal interest which is also prejudicial

(ii) may not participate in any discussion or vote on the matter (and must withdraw to the public seating area) unless they have been granted a dispensation.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Members' Register of Interests, or is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal and prejudicial interests are defined in Part 2 of the Code of Conduct For Members

[If a member is in any doubt as to whether they have an interest which should be declared they should seek the advice of the Monitoring Officer before the start of the meeting]

## **3. MINUTES AND ACTIONS**

To confirm the minutes of the meeting held on 29 May 2013 and consider the actions (Appendix A)

## **4. PUBLIC PARTICIPATION**

An opportunity for members of the public to make statements and ask questions in accordance with the rules as to Public Participation.

## AGENDA ITEM: 5

### SUMMARY

<b>Report for:</b>	<b>AUDIT COMMITTEE</b>
<b>Date of meeting:</b>	<b>26 June 2013</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Statement of Accounts 2012/13</b>
Contact:	Cllr Nicholas Tiley, Portfolio Holder for Finance and Resources Sally Marshall, Corporate Director (Finance and Governance)
Purpose of report:	The purpose of this report is to present the Council's Statement of Accounts for 2012/13.
Recommendations:	It is recommended that Members of the Audit Committee: a) Review the financial out-turn position for 2012/13; b) Approve movements on earmarked reserves; c) Review and approve Capital Carry Forwards to 2013/14; d) Review the Statement of Accounts 2012/13; e) Approve the Annual Governance Statement included within the Statement of Accounts.
Corporate objectives:	Corporate Governance
Statutory Officer Comments:	<b>Section 151 Officer :</b> My comments are included within the body of this report and within the commentary and Explanatory Foreword to the Statement of Accounts.  <b>Monitoring Officer:</b> The Council has a statutory duty to approve the Statement of Accounts by 30 September in accordance with the Account and Audit Regulations 2011.
Consultees:	None
Background papers:	None

## **BACKGROUND**

1. The Account and Audit Regulations 2011 require that the Council's Section 151 Officer must certify, by 30 June each year, that the pre-audit Statement of Accounts presents a true and fair view of the financial position as at the end of the previous financial year.
2. The Council must then approve their audited financial statements by 30 September. The Council must therefore work with its External Auditor, which is now Ernst and Young, to enable them to present their audit opinion on:
  - whether the Statement of Accounts presents a "true and fair" view of the financial position of the audited body and its expenditure and income for the year in question; and
  - whether the Statement of Accounts has been prepared properly in accordance with relevant legislation and applicable accounting standards.
3. Once complete, the Auditor's opinion is added to the Statement of Accounts, with further detail of the audit findings provided in the Annual Audit Letter to the Council. This complete Statement of Accounts will be presented to the Audit Committee, for formal approval, at its meeting scheduled for 19 September 2013.

### **Final Outturn 2012/13**

4. The final outturn position for the Council is the fundamental basis for the Statement of Accounts. The Audit Committee is therefore requested to consider and approve final outturn prior to considering the Statement of Accounts.
5. The Provisional outturn for 2012/13 was considered by Cabinet at its meeting of 28 May 2013 and by this Committee at its meeting of 29 May 2013. Following continued work on the Statement of Accounts, there have been a number of further adjustments, as detailed below.

### **General Fund**

6. The final General Fund outturn is detailed at Appendix A.
7. The key change to note since the provisional outturn was reported is that the contributions to/(from) earmarked reserves (Appendix D) have been amended to reflect:
  - (£139k) additional use of the Vehicle Replacement Reserve to finance the capital programme. This does not impact upon the General Fund Working Balance;
  - (£56k) additional use of the Local Development Framework reserve to finance costs identified since provisional outturn was completed; and
  - £32k grant relating to the Maylands Partnership has been transferred to the Maylands Plus Reserve.
8. There are three further adjustments, which have impacted on both the Net Cost of Services and the General Fund Working Balance.

- (£214k) Recharge income for Strategic Housing costs charged from the General Fund to the Housing Revenue Account;
- (£133k) Reduction in the level of Bad Debt Provision, which was recalculated after the provisional outturn was set; and
- £56k additional provision has been made, relating to potential future litigation, based on the information that became available since the provisional outturn.

The net effect of all the above changes, together with several immaterial changes, has been to increase the General Fund Working Balance by £319k since the provisional outturn report. The closing balance of £2.991m is consistent with the Council's target of maintaining the Working Balance at between 5-15% of Net Cost of Service Expenditure.

9. The following year-end accounting adjustments impact upon the Net Cost of Services line but are adjusted below the line and do not impact on the General Fund Working Balance:
- (£861k) Statutory Pension Fund adjustments;
  - £176k Grant Income removed from service accounts;
  - (£94k) Leave Accrual; and
  - £74k Additional capital charges.

### **Housing Revenue Account**

10. The final Housing Revenue Account outturn position is shown in Appendix B.
11. The key point to note is that, as a result of the year-end adjustments the provisional closing balance of £3,299k has reduced by £522k to £2,777k.
12. There are three main adjustments, which account for the variance:
- £214k increase in the recharged costs for Strategic Housing between the General Fund and the Housing Revenue Account;
  - £210k increase in depreciation costs resulting from the increased valuation of the Council's housing stock; and
  - £77k increase in Bad Debt provision, mainly due to an increase in the age of debts.

## Capital Programme

13. The final Capital Programme position is summarised below and set out scheme by scheme in Appendix C.

	<b>Budget</b>	<b>Actual</b>	<b>C/Fwd</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
GF - Finance and Resources	6,028	5,105	783	(140)
GF - Housing and Community	3,597	3,633	(17)	19
GF - Strategic Planning & Environment	1,549	1,292	238	(19)
Housing Revenue Account	20,685	18,184	1,771	(730)
<b>Total Expenditure</b>	<b>31,859</b>	<b>28,214</b>	<b>2,775</b>	<b>(870)</b>
Major Repairs Reserve	(13,491)	(4,567)	0	(8,924)
Capital Receipts	(15,037)	(20,433)	(2,501)	7,897
Government Grants	(2,400)	(2,557)	0	157
Borrowing	0	0	0	0
Revenue Contributions	(730)	(506)	(224)	0
S106 Contributions	(201)	(151)	(50)	0
<b>Total Funding</b>	<b>(31,859)</b>	<b>(28,214)</b>	<b>(2,775)</b>	<b>(870)</b>

14. There has been one major change to the Capital Programme since the provisional outturn was reported:
- (£87k) reversal of an accrual relating to the Finance and Resources System project.

## Statement of Accounts

15. The Council's Statement of Accounts (Appendix E) is an essential means by which it accounts for its stewardship of the resources at its disposal and it presents financial performance in the use of those resources. The following paragraphs provide a summary of the key information contained within the accounts.

## Comprehensive Income and Expenditure Statement

16. The Comprehensive Income and Expenditure Statement (CIES) is fundamental to understanding the Council's activities, in that it reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
17. The CIES for the year reflects a net loss of £0.7m and consists of the following:
- Surplus on the Provision of Services of (£7.2m) (2011/12: loss of £371.2m); and
  - Other Comprehensive Expenditure of £7.9m (2011/12: £17.7m).
18. The change in the Deficit/(Surplus) on the Provision of Services of £378.4m between years is primarily due to the following changes within the Housing Revenue Account:

- £354m one-off charge in 2011/12 arising from the introduction of Housing Self Financing;
- £20m reduction in expenditure in 2012/13 due to the discontinuation of the negative subsidy payments to Central Government under the introduction of Housing Self Financing;
- £13.6m reduction as a result of a change in revaluation gains and losses between the two years;

Offset by:

- £11.5m increase in Interest Payable in 2012/13 arising from interest payments on the Housing Self Financing debt.

19. Other Comprehensive Income and Expenditure for the year was £7.9m and consists of:

- £1.6m net gain on the revaluation of property;

Offset by:

- £9.5m actuarial losses on the pension fund assets and liabilities.

These movements are subtotalled separately from the Provision of Services to reflect the fact that they result primarily from movements in market prices and indices outside the control of the Council.

### **Balance Sheet**

20. The Balance Sheet is fundamental to understanding the Council's financial position at the year end. It shows the balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

21. The Council's net worth was £383.4m as at 31 March 2013, which represents a decrease of £0.7m on the previous financial year.

### **Movement in Reserves Statement**

22. The Movement in Reserve Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and 'other reserves'.

### **Cash Flow Statement**

23. The Cash Flow Statement shows the movements in cash and cash equivalents held by the Council throughout the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

## **Housing Revenue Account**

24. The Housing Revenue Account (HRA) is 'ring-fenced' from the General Fund. This reflects the Council's statutory obligation to maintain a separate revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989.
25. The HRA statement shows a surplus of £9.3m for 2012/13. The HRA has now been operating within the new "Self Financing" regime for a year. The Council took on a £354m debt in exchange for the full control of the assets and resources. It manages the HRA through a 30 year business plan, which has allowed the Council to introduce a new build programme for the first time in 30 years.

## **Collection Fund**

26. This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

## **Conclusion**

27. This report represents a detailed picture of the Council's financial activity for 2012/13. I would like to thank all colleagues for their help, support and dedication in the preparation of the Statement of Accounts.











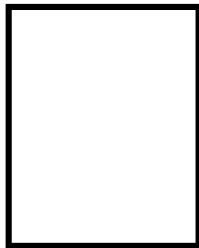
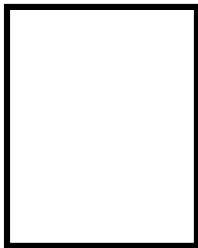
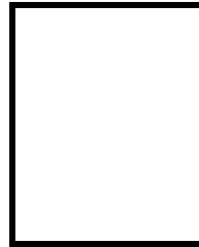
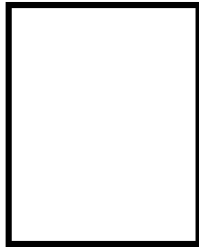
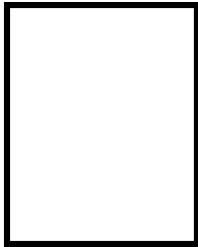
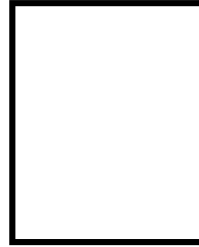
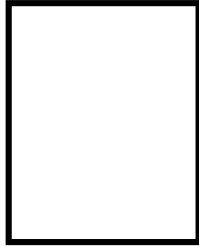
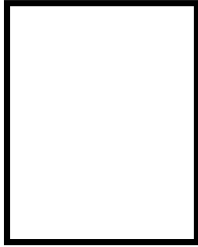


## **6. EXCLUSION OF THE PUBLIC**

To consider passing a resolution in the following terms:

That, under s.100A (4) of the Local Government Act 1972 Schedule 12A Part 1 as amended by the Local Government (Access to Information) (Variation) Order 2006 the public be excluded during the item in Part II of the Agenda for this meeting, because it is likely, in view of the nature of the business to be transacted, that if members of the public were present during this item there would be disclosure to them of exempt information relating to:

LGA 1972, Schedule 12A, Part 1, paragraphs 1 and 2



**APPENDIX A**

**DACORUM BOROUGH COUNCIL**

**AUDIT COMMITTEE MINUTES**

**29 MAY 2013**

**Present:**

**Councillors:** Adshead Harris  
Douris Taylor (Chairman)

Portfolio Holder for Finance and Resources, Councillor Tiley

**Officers:** J Deane Assistant Director (Finance & Resources)  
S Marshall Corporate Director (Finance & Governance)  
L Stone Member Support Officer (Minutes)

**Internal Audit:** M Clarkson Deloitte  
G Rubins BDO

The meeting began at 7.30 pm

**21. VICE-CHAIRMAN**

It was proposed by Councillor Adshead and seconded by Councillor Harris and agreed that Councillor W Wyatt-Lowe be Vice-Chairman of the Audit Committee.

**22. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Doole, Elliot and W Wyatt-Lowe.

**23. DECLARATIONS OF INTEREST**

Councillor Douris declared a personal interest as he was the Hertfordshire County Council Portfolio Holder for Waste Management which had a strategic role for Dacorum Borough Council.

**24. MINUTES AND ACTIONS**

The Part 1 and Part 2 minutes of the meeting held on 24 April 2013 were agreed by the Members present and then signed by the Chairman subject to the following amendment to the Part 1 minutes:

Within the Internal Audit Progress Report, sixth paragraph regarding the NNDR final report summary. It should state that printed signed copies of monthly reports should be *stored for one year plus the current year.*

**25. PUBLIC PARTICIPATION**

None.

**26. PROVISIONAL OUTTURN 2012/13**

S Marshall said this report was a pre-cursor to the financial statements which would be presented to the June meeting. This was an opportunity to review the figures and approve the draw down from reserves. The balances and reserves had been to Cabinet the previous evening who had recommended them to the Audit Committee for approval.

J Deane said this was a provisional report which was liable to change slightly on the final accounts. Section 2.2 of the report showed a summary of the controllable budget broken



down by Scrutiny area. There was an underspend of £1.161 million which included an additional £150k from the rent reviews and £150k win fall on business rates which officers could not have known about in advance. J Deane said that the underspend was better than last year, but that there was still work to be done with officers on budgeting.

J Deane then highlighted the balances and reserves and drew particular attention to the creation of a new reserve; a Pension Deficit Reserve. This was recommended in order to mitigate the potential costs to the Council arising from future reviews of the pension scheme.

J Deane explained that the Audit Committee had the ability to approve reserve movements. There was a proposal to draw-down £60k in 2013/14 from the On Street Car Parking reserve in order to fund a formal consultation on the introduction of a Controlled Parking Zone.

Councillor Harris asked why the Audit Committee needed to approve something within the remit of the reserve and if doing so this early would prevent other work from being carried out. S Marshall said that officers could not use money from a reserve without authority to bring it into the budget. Councillor Tiley added that it would not stop any other work, as there would still be sufficient funds in that reserve.

J Deane also drew attention to the Housing Revenue Account as outlined in the report. He said that the General Fund slippage was £973k which was a much better position than the previous year as additional controls had been put in place and this was the second revised budget of the year. The major variances were listed in the report.

Councillor Douris asked how there had been a business rates refund relating to Hemel Sports Centre when Sportspace was a charity. He also asked if this was a one off or a recurring saving. J Deane said the refund was from around 15 years ago and that it was a one off refund.

Councillor Tiley said that the £154k additional income from the rent reviews would also have a positive impact for 2013/14. S Marshall said that the Council had been strong in looking at rent reviews. She said there would be a limit to this as it would be necessary to strike a balance. Currently, there were very few void properties, but this could change if the rent increased too much.

Councillor Douris asked if there was a policy on where rents were set within the commercial market. S Marshall said an independent review had just been carried out on commercial assets which showed that the Council were achieving comparable figures. The rates of return were around 8%, it would be possible to achieve only 1% more. S Marshall added that although the assets were currently in a reasonable state; they would need investment at some point in the future. Councillor Tiley added that the Council also looked at the social value of the tenant and whether it was a solely commercial venture or with a benefit to the community such as a sports or youth club.

Councillor Taylor said that the Council currently had three void commercial properties, which when compared to the number of voids within the Marlowes was excellent.

Councillor Harris agreed that there was a limit as to how much the rent could be reviewed. He said that some shops were already struggling. Councillor Harris referred to Appendix A and said that on that report it looked as though most of the income came from Council Tax which was not the case. S Marshall said that the General Fund Service Expenditure was net, it did not show the income from fees and charges and grants.

**Resolved:**

The Audit Committee:

- a) Accept the provisional outturn position for the General Fund, Housing Revenue Account and Capital Programme;
- b) Accept the proposed transfers to and from earmarked reserves, to be included in the final outturn statements; and
- c) Approve a draw down from reserves of £60k in 2013/14 in order to undertake a formal consultation on the introduction of a Controlled Parking Zone in Apsley and Boxmoor, as detailed in the section 9 of the report.

**Actions:**

None.

## **27. DRAFT INTERNAL AUDIT ANNUAL REPORT 2012/13**

M Clarkson presented the report highlighting Deloitte's opinion which was that both financial and non-financial systems were fundamentally sound. The remainder of the report provided more detail of this. M Clarkson said that there were two reports still in progress: IT; and the website. He said that these audits were largely complete and that the result would not change the opinion.

Councillor Harris referred to the two audits given limited assurance and asked with regard to performance management if the targets were not checked. M Clarkson said the recommendation involved reviewing the performance indicators to ensure that they were relevant. J Deane added that previously, it had been impossible to tell if performance indicators had been reviewed or just carried forward. It was now not possible to roll a target forward, each one would need to be reviewed and approved.

With regard to virtual infrastructure, Councillor Harris asked about the 45 controls which did not comply with vendor's best practice and whether they included security issues. Councillor Taylor said a lot of work had been done to rectify the previous problems. Processes and policies had been put in place since the audit had been carried out. Councillor Douris said the recommendations needed to be considered in conjunction with the management response on page three of the report. M Clarkson said the recommendation was no longer outstanding; it had been completed.

Councillor Harris asked that timescales of each audit be added to this report next year. Councillor Taylor said there was also a detailed audit programme which included timescales.

Councillor Taylor, the Committee, Councillor Tiley and officers thanked M Clarkson and Deloitte for their work.

**Resolved:**

The Audit Committee accepted and noted the Draft Internal Audit Annual Report 2012/13.

**Actions:**

None.

## **28. INDICATIVE INTERNAL AUDIT PLAN**

G Rubins introduced the report which included the proposed internal audit plan for one year and the strategic plan for three years. He said that the plan had been developed by looking at the Council's risks and assurances and focusing on the gaps in assurances and the areas of high risk. G Rubins said that he had met with senior management since the last meeting and linked the plan to the Council's strategic risk register.

The report showed the operational plan which included a few changes since the last meeting. These included the Customer Services Unit project which would gear more on the transition to opening in line with the specification. Risk Management had also been added as strategic risk was currently seen as fairly generic. The remit of the waste management audit had also been amended to focus more on achieving value for money. The number of days for the housing maintenance audit had been reduced as an audit had been undertaken on this relatively recently. This audit, therefore, would mostly focus on following up from the previous recommendations. An audit on partnership working had been removed from the plan as it was not a priority for this year. A planning audit had been added as there were a lot of changes underway in this area. The work on capital development would focus on project management and would look at specific large projects.

G Rubins said that the plan also included the Internal Audit Charter which was a new requirement.

Councillor Harris asked whether there would be any testing on revenues and benefits in light of all the recent changes. Councillor Tiley said this was included in the plan.

Councillor Harris referred to the Community Infrastructure Levy (CIL) and questioned whether there should be testing on the decision making. He asked if the auditors only looked back or whether they helped in setting procedures up. G Rubins said they carried out a mix of work and that it was up to the Council how much time was spent on either. Councillor Douris said that it would be too early to look at CIL this year as there was still national negotiation on this and it was likely to change. S Marshall said the work on CIL had been delayed as the detail was still being clarified and had been delayed.

Councillor Tiley referred to the 40 days scheduled for financial systems and 20 days for the Customer Service Unit. He suggested that as the financial systems were running fairly well and that the Customer Service Unit was so crucial, that it may be better to spend 30 days on each. S Marshall said that the number of days on the Customer Service Unit had already been increased although added that there were some contingency days which could be used in this area. She added that 40 days for financial systems was due to the Internal Auditors being new to the Council and needing extra days on this area in the first year.

G Rubins said that the External Auditors were looking to change the way they worked and do more of the work themselves. He said that it may therefore be possible to use some of those days elsewhere. S Marshall said she would need to check if this change would have an impact to the Council.

Councillor Tiley questioned why the work on the Customer Service Unit was not scheduled until Quarter 3. G Rubins said work would start here very soon and it should state Quarters 2 and 3.

Councillor Taylor thanked G Rubins for the report.

**Resolved:**

The Audit Committee accepted and noted the indicative internal audit plan.

**Actions:**

None.

**29. WORK PROGRAMME**

**Resolved:**

That the following amendments be made:

- The meeting on 19 September 2013 would be brought forward one day to 18 September 2013. This would be subject to agreement at the next Full Council meeting;
- The Statement of Internal Control be added to the June meeting; and
- The Internal and External approval of the Audit Plan 2014/15 be added to the February meeting.

The meeting ended at 8.30 pm

AUDIT COMMITTEE: Work Programme 2013-14

<b>MEETING DATE</b>	<b>DEADLINE TO MONITORING OFFICER</b>	<b>DEADLINE TO MEMBER SUPPORT</b>	<b>ITEMS:</b>	<b>WHO RESPONSIBLE</b>
<b>18 September 2013</b>	5 September 2013	9 September 2013	Internal Audit Reports (TBC)	Internal Audit
			Internal Audit Progress Report	Internal Audit
			Statement of Accounts	DBC
			Governance Report	External Audit
<b>18 December 2013</b>	5 December 2013	9 December 2013	Internal Audit Reports (TBC)	Internal Audit
			Internal Audit Progress Report	Internal Audit
<b>12 February 2014</b>	30 January 2014	3 February 2014	Internal Audit Reports (TBC)	Internal Audit
			Internal Audit Progress Report	Internal Audit
			Approval of Internal Audit Plan 2014/15	Internal Audit
<b>30 April 2014</b>	16 April 2014	22 April 2014	Internal Audit Reports (TBC)	Internal Audit
			Internal Audit Progress Report	Internal Audit