

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT SUB-COMMITTEE**

**EXTERNAL AUDIT RECOMMENDATIONS – PROGRESS REPORT**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To report progress on the implementation of external audit recommendations.
- 1.2 Regular reporting on action taken to implement external audit recommendations is an important source of assurance for Members to fulfil their role and provides supporting evidence for the annual approval of the Governance Statement.

**2. BACKGROUND INFORMATION**

- 2.1 Progress on the implementation of external audit recommendations was last reported to Members in September 2012. Key annual reports are considered in this report, namely:
- Annual Audit Letter
  - Annual Governance Report
  - Certification of Claims and Returns.

An interim system report was also issued in April 2011.

**2.2 Annual Audit Letter**

The Annual Audit Letter for 2010/11 was reported to the audit committee in January 2012. The report was positive and the key messages were:

- An unqualified audit opinion was issued on the 2010/11 accounting statements on 30<sup>th</sup> September 2011.
- An unqualified value for money conclusion was issued on 30<sup>th</sup> September 2011. This means External Audit is satisfied that the council made proper arrangements to secure economy, efficiency and effectiveness of its use of resources.

The report contained one recommendation to improve internal control arrangements, specifically, 'Members should review the structure, representation and attendance of the Audit Committee'. The chairman and vice-chairman's meeting with the Leader and Group Secretary of the council's Labour Group, in January did not resolve the matter of audit

committee/sub-committee membership and attendance. Therefore the structure, representation, and attendance of the Audit Committee will be reviewed and considered at the Annual Meeting of the Council in May 2012,

### **2.3 Annual Governance Report**

The Annual Governance Report for 2010/11 was reported in September 2011. The main findings of the report were:

- an unqualified opinion on the council's accounts.
- the closedown process met the necessary statutory deadlines.
- a number of recommended adjustments to the accounts, of which the majority were minor.

The report contained one recommendation to 'evaluate the reason for the errors in the accounts and build in checking arrangements for the 2011/12 process to mitigate the risk of repeated errors. A formal risk assessment of the risk of error of each material item of account would improve arrangements'. This has been addressed and further qualitative work is planned for the 2011/12 final accounts work.

### **2.4 Certification of Claims and Returns – Annual Report**

The Certification of Claims and Returns Report summarises the council's arrangements for claiming grants in 2010/11, and the level of assurance it provides on the operation of the council's procedures. Overall there were no significant weaknesses in the council's arrangements to prepare grant claims reported and improvements in supporting working papers were also noted. Recommended improvements identified in the previous year's report were implemented and any issues identified during this year's testing have been addressed

### **2.5 Interim Systems Report**

The Systems Report was reported to Members in April. No major control failures were identified however some improvements to third party transaction verification were identified and appropriate action was agreed. Appendix A summarises the progress made and shows all recommendations have now been addressed.

## **3 OPTIONS FOR CONSIDERATION**

- 3.1 The Sub-Committee is asked to consider whether or not this update provides sufficient assurance on the progress made on external audit recommendations. The Sub-Committee is invited to consider the report and seek clarification on its contents as necessary.
- 3.2 If the Sub-Committee considers the report does not provide sufficient assurance as a response to external audit recommendations further work may be required to be carried out.

#### **4. ANALYSIS OF OPTIONS**

- 4.1 The report sets out progress made on key recommendations, complies with professional guidance available and is designed to provide the Sub-Committee with the assurance required. Members should ask sufficient questions to ensure adequate assurance is provided.
- 4.2 The option set out in paragraph 3.2 indicates an opportunity missed to provide an important source of assurance to assist the Sub-Committee to fulfil its role effectively if adequate clarification is not provided.

#### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY.IT)**

- 5.1 None.

#### **6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)**

- 6.1 External Audit and inspection duties are statutory requirements under the provisions of the Audit Commission Act 1998, the Code of Audit Practice and the Local Government Act 1999.

The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs and under the Accounts and Audit (England) Regulations 2011. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

- 6.2 Proper consideration and implementation of recommendations made by external audit promotes good internal control and governance arrangements.

#### **7. OUTCOMES OF CONSULTATION**

- 7.1 This report is the result of updates from all named officers and the approach adopted has been discussed and agreed with the council's external auditors.

## 8. RECOMMENDATION

- 8.1 The Audit Sub-Committee should consider whether the response to external audit recommendations as detailed in this report provides a sufficient level of assurance on action taken.

DIRECTOR OF FINANCE

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### **Background Papers used in the preparation of this report**

Annual Audit Letter - January 2012

Governance Report - September 2011

Certification of Claims and Returns – Annual Report – September 2011

Interim Systems Report – April 2011

## Appendix A – Interim Systems Report Related Party Transactions

Code Requirements	Current Arrangements	Improvement Area	Response	Responsible Officer	Date	Update
Relationships that result in Related Parties	Legal services maintain a register of members interests. Yearly reminders that require a positive return are sent out. Declaration of Interest forms are sent to Officers of Grade 11 and above, and staff at schools and BSF. Finance follows up and monitors the returns.	Consider whether the current arrangements adequately cover all officers with influence over financial transactions. The current arrangements exclude some officers with delegated responsibility for ordering goods.	The Related Parties process will be amended to include all Authorised Signatories including those in schools	Mark Kitching	30 April 2011	Actioned
Identifying Material transactions.	The Council carry out a search of various systems to identify transactions with the related parties identified above	Consider whether the transactions are material to the related party as well as the Council for the accounts notes.	A judgment will be made on a case by case basis once all the officer declarations have been received	Mark Kitching	31 May 2011	Actioned

Code Requirements	Current Arrangements	Improvement Area	Response	Responsible Officer	Date	Update
Presentation and Disclosure of Relationships, Transactions and Balances	The Council plan to declare the transaction and balances with related parties in their statements consistent with prior years. There may be inadequate information to allow the reader to understand: <ul style="list-style-type: none"> <li>■ how the transaction was undertaken; and</li> <li>■ what if any influence did the related party have on the transaction or balance</li> </ul>	Ensure enough information included in the notes to the accounts to allow the reader to understand: <ul style="list-style-type: none"> <li>■ how the transaction was undertaken; and</li> <li>■ what if any influence did the related party have on the transaction or balance.</li> </ul>	Once identified as material each transaction will be investigated and reported	Mark Kitching	31 May 2011	Actioned
Fraud Controls	The process is a reactive yearend approach to provide the information for the statements disclosure. Arrangement are not in place to ensure that where connections exist to a third party relevant officers are not	Officers with commissioning powers are made aware of staff or members with connections to third parties contracting with the Council. Related parties should not be part	The requirements will be communicated to a list of key procuring and commissioning staff identified by the Assistant Director Procurement and	Mark Kitching	31 July 2011	To be implemented as part of this years disclosure work

<b>Code Requirements</b>	<b>Current Arrangements</b>	<b>Improvement Area</b>	<b>Response</b>	<b>Responsible Officer</b>	<b>Date</b>	<b>Update</b>
	part of any decision making relating to the third party.	of the decision making when contracting with the related parties.	VFM Team			