

NORTH LINCOLNSHIRE COUNCIL

AUDIT SUB-COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider external audit's Update Report.

2. BACKGROUND INFORMATION

- 2.1 The Update Report provides the Audit Sub-Committee with a summary on progress in delivering external audit's statutory responsibilities. It also highlights key emerging national issues and developments which may be of interest to Members.
- 2.2 The report includes an update on external audit appointments. The report is attached at appendix A. It also contains 2 questions designed for the Sub-Committee to consider, namely:
- Arrangements to complete the Audit Commission's annual fraud and corruption survey?
 - Has the Council made arrangements to introduce the 2012 Capital Regulations and, where appropriate, the guidance on the minimum revenue provision (MRP)?

The council has taken appropriate action to address both of these issues:

- Relevant information has been submitted on detected fraud;
- and
- Although the new regulations remain to be approved changes in capital regulations have been considered and implemented where appropriate.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Audit Sub-Committee should consider external audit's report and the assurance that has been given or can be implied from their conclusions. The Sub-Committee should seek clarification from the Audit Commission or council officers as necessary.

3.2 To take no action would invite adverse judgments in future.

4. ANALYSIS OF OPTIONS

4.1 Update reports provide the Sub-Committee with specific information on progress on external audit's work. This will help Members consider whether current assurance coverage is sufficient.

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.

6.2 There are no environmental, diversity, Section 17 or other implications.

7. OUTCOMES OF CONSULTATION

7.1 The Update Report has been discussed and agreed with the Director of Finance.

8. RECOMMENDATIONS

8.1 That the Audit Committee notes the external audit Update Report

DIRECTOR OF FINANCE

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Date: 22 March 2012

Background Papers used in the preparation of this report

Audit Commission reports:

Audit Committee Update - Audit 2011/12

Audit **Committee** **update**

North Lincolnshire Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in meeting our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Damian Murray

District Auditor

21 March 2012

Progress report

Interim Accounts Work progress

5 Interim Work on your financial statements is in progress. We are working with corporate finance discussing your response to:

- recommendations from 2010/11;
- accounting risks such as accounting for pensions, valuation of investments; accounting for BSF; accounting for academies and,
- new issues such as Heritage Assets.

6 Having completed most of our work we are able to place reliance on controls assurance gained in the previous two years for most of your systems. Where we plan to take a substantive approach, we will as far as possible coordinate our work with internal audit.

7 Based on our work so far there are no significant issues that we need to bring to your attention.

VFM

8 We have reviewed your financial plans and budget and performance monitoring, discussing key issues with key staff. At this stage, there are no significant issues to report.

9 We will continue to monitor progress on the delivery of the Council's savings programme in 2012/13, before completion of my VFM opinion in September 2012.

Update on the outsourcing of the Audit Practice

10 The outcome of the Audit Commission's exercise to outsource the work of its in-house Audit Practice was leaked to the press over the previous weekend, but was formally announced on Tuesday 6 March.

11 The successful tenderer in Yorkshire and Humberside is KPMG, and most of those in the Audit Practice in that area will have the opportunity to transfer to KPMG under TUPE terms on 1 November 2012. KPMG will be the auditor for continuing Audit Commission appointments from 2012/13 audits onwards, initially for five years. As you will be aware the government's ambition longer term is for local government and local NHS bodies to appoint their own auditors, as NHS foundation trusts currently do.

12 Locally, we will engage with KPMG once the Commission centrally has met with the new suppliers to discuss transition arrangements, but I will obviously keep you informed of developments. Our plan is to make the changes as smooth as possible and to avoid any disruption to the audit

Other matters of interest

Annual fraud and corruption survey 2011/12

13 On 2 April 2012 the Audit Commission will be issuing its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

14 The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative Consultation

15 The Audit Commission is currently consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

16 The NFI, which takes place every other year, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

17 The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11 that is £3,650.

18 The consultation will close on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

Local government capital finance system

19 In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

20 A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

21 DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

22 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. The amendments to the statutory guidance relate to Housing Revenue Account reform only and impact from 2012/13. The changes to the guidance are to ensure that the authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

Openness and accountability in local pay

23 On 17 February 2012 the Department for Communities and Local Government (DCLG) published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

24 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement which must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

25 The statement must be:

- approved by full council, or a meeting of members in the case of a Fire and Rescue Authority; and
- published on its website.

Key considerations

26 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Arrangements to complete the Audit Commission's annual fraud and corruption survey?
- Has the Council made arrangements to introduce the 2012 Capital Regulations and, where appropriate, the guidance on the minimum revenue provision (MRP)?

Contact details

27 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

28 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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- any third party.



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