

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To consider external audit's Certification of Grant Claims and Returns Fee Letter and Progress and Technical Update Report.

2. BACKGROUND INFORMATION

- 2.1 The annual fee letter issued on the 18 April 2013 set out the indicative composite fee for the certification work of £20,700. Since then the Audit Commission have announced some changes to their programme of claims and returns they are making certification arrangements for in 2013/14 resulting a reduced fee of £17,880. This 12% reduction reflects the change in the indicative fee for the Housing Benefit Subsidy Claim as a result of the abolition of the council tax benefit.
- 2.2 The Certification of Grant Claims and Returns Letter (appendix A) sets out the audit arrangements for 2013/14 Housing Benefit Subsidy Claim. The fee only provides for basic audit work and does not include additional testing requirements or if the claim or return is amended or qualified by external audit.
- 2.3 The Annual Audit Fee letter for 2014/15 which sets out the work and fee for 2014/15 was reported to the Audit Committee in April.
- 2.4 The Progress and Technical Update report provides the Audit 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. A copy of the report is attached in appendix B.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Audit Committee should consider the external auditor's Certification of Grant Claims and Returns Fee Letter and Progress and Technical Update

Report. The Committee is invited to seek clarification from the external auditors or council officers as necessary.

4. ANALYSIS OF OPTIONS

4.1. External audit reports are designed to provide regular updates on statutory work undertaken and key developments to help the Audit Committee to fulfil its terms of reference.

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

5.1. The audit fee of £17,880 is met within existing budgets.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1. An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1. The indicative fees were included in previous committee reports.

7.2. There are no conflicts of interests to declare.

8. RECOMMENDATION

8.1. That the Audit Committee notes the Certification of Grant Claims and Returns Fee Letter and Progress and Technical Update Report and receives further reports as the work is concluded in the Certification of Grant Claims and Returns Report, Annual Governance Report and Annual Audit Letter.

DIRECTOR OF POLICY AND RESOURCES

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Date: 02 June 2014

Background Papers used in the preparation of this report: None



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Our ref JP/LW/let662

Contact Linda Wild

28 April 2014

Dear Simon

Certification of 2013/14 Grant Claims and Returns

We are writing to you to confirm our arrangements for certifying your 2013/14 grant claims and returns. We issued our Annual Audit Fee 2013/14 letter on 18th April 2013 which set out that the indicative composite fee for the certification work in 2013/14 was £20,700 (plus VAT).

However, since then the Audit Commission has announced some changes in the programme of claims and returns they are making certification arrangements for in 2013/14. The revised indicative fee for 2013/14 is £17,880. This includes a reduction of 12% for the indicative fee for the Housing Benefit Subsidy claim to reflect the reduction in work from the abolition of Council Tax Benefit.

This is based on certifying the following scheme as notified by the Audit Commission in March 2014:

- Housing Benefit Subsidy claim.

To assist you in providing high quality working papers to enable us to deliver the certification work we have provided a *Prepared by Client List (PBC)* for the Housing Benefit Subsidy claim at Appendix A. The PBC sets out what working papers we will require to carry out the certification work.

The indicative composite certification fee set by the Audit Commission is based on a number of assumptions. We may need to charge additional fee where:

- Claims require more work in 2013/14 than previously;
- As a result of our testing, the claim or return is amended or qualified; or
- We do not receive accurate and complete claims and supporting working papers to our agreed timetable which leads us to carry out additional certification work.



KPMG LLP
Certification of 2013/14 Grant Claims and Returns
28 April 2014

Where any of these factors apply to your certification work, we will discuss the impact on your fee at an early stage. Where we have to complete additional work and request a fee variation from the Audit Commission our additional fee will be billed at the Audit Commission's standard hourly rates less the 40% reduction in fees.

If you have any queries about our certification work for the coming year, please contact Linda Wild.

Yours Sincerely

John Prentice
Director

Cc: Mike Wedgewood, Director of Finance, Policy and Resources
Carol Andrews, Audit, Risk & Insurance

Appendix A
Prepared by Client list for Housing Benefit grant claim

Our certification work on your Housing Benefit claim is determined by the Audit Commission’s HBCOUNT approach. This approach does not enable auditors to reduce the amount of testing by relying on the control environment. Instead auditors are required to carry out:

- Standard tests, covering such areas as analytical review and reconciliation of the claim form to the benefits system;
- Initial testing of 20 claims from each of the applicable benefit types (Rent Allowance, HRA Rent Rebates, Non-HRA Rent Rebates);
- Initial testing on un-cashed cheques and modified schemes
- Specific testing on any cells qualified in the previous year; and
- Extended ‘40+’ testing of an additional 40 cases in all cells where our initial testing identifies errors.

As in previous years, we have the following expectations of the Council in respect of testing:

- access to a terminal and the benefit system
- staff to assist with queries on the initial testing
- Council testing the initial samples
- Council testing the extended 40+ samples
- Council completing the HBCOUNT workbooks.

We will select the samples for all the testing, and be in touch to agree the details of the work in May/June.

	Requirements	Reference
1	The completed original claim form signed by the chief financial officer	CI Test 2
2	An electronic (PDF) copy of the claim form	CI Test 3
3	Screen prints or system reports showing the 2013/14 up-rating for Housing Benefit cross referenced to HB Circular HB/CTB A2/2013 (revised). These should include all the up-ratings in the appendices in the HB Circular HB/CTB A2/2013 (revised) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225669/a2-2013_revised.pdf	Module 2
4	A transaction breakdown of all headline cells, to include the HB reference number and benefit paid. The total of the breakdown should agree to the headline cell. Where this is different a reconciliation and explanation should also be provided	Module 3
5	A comparison of 2013/14 subsidy cell values to 2012/13. Please provide an explanation for values that have increased/decreased by more than 5%	Module 4
6	System report(s) showing the latest version and patches installed for the software used to produce the final subsidy claim	Module 5
7	System report(s) used to reconcile the subsidy paid to subsidy received	Module 5
8	System report(s) showing each section of the subsidy form	CI Test 4

9	The reconciliations for each headline cell for benefits granted to benefits paid	CI Test 5
10	A breakdown of all current year un-cashed cheques and other payments	CI Test 8a
11	A breakdown of all prior year un-cashed cheques and other payments included in the claim form	CI Test 8b
12	A breakdown of all modified schemes included in the claim form	CI Test 9
13	DWP letter showing the amount of administration subsidy and payments on accounts included in the claim form for 2013/14	CI Test 10/11
14	General ledger report showing the payments on accounts included in the claim form received in 2013/14	CI Test 11



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External audit progress report and technical update

North Lincolnshire Council

June 2014



This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Council and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

Progress report				
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Technical Update				
Department of Health publishes directions and an explanatory note for the 2014 transfer of funds from the NHS to local authorities	●	5	Audit Commission 14/15 Scale Fees confirmed	●
Housing Revenue Account Borrowing Programme	●	5	Local Audit and Accountability Act 2014	●
LAAP Bulletin 98: Closure of the 2013/14 Accounts and Related Matters and	●	6	Rural Services Delivery funding announcement	●
CIPFA Technical Accounting Alert – Frequency of Valuations for Property, Plant and Equipment	●	7	Value for money data briefing on waste collection	●
Whole of government accounts (WGA) timetable	●	7	Financial ratios tool	●
Audit Commission consultation on 2014/15 work programme and scales of fees for the National Fraud Initiative	●	8		
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Progress report

This document provides the **Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.**

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report

Area of responsibility	Commentary
Audit planning	We have completed our risk based audit planning for the 2013/14 audit of your financial statements and VFM conclusion. We agreed the Audit Plan with management and presented it to the Audit Committee in April.
Financial statements	Our interim audit took place during March 2014 and we reported findings from the interim visit to the Audit Committee in April. Our audit of your draft financial statements will take place during July/August. We will issue our opinion on your financial statements by 30 September 2014.
Value for Money	Our work on the VFM conclusion commenced during our interim audit visit in March and will conclude during our final accounts visit in July/August. We will issue our VFM conclusion by 30 September 2014
Certification of claims and returns	Our work on grants certification, including the Housing Benefits claim will commence in June/July 2014. We will report our overall findings from our grants certification work in December 2014.
Other work	We have no other work planned at this time.



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Technical update

Area	Level of Impact	Comments	KPMG perspective
<p>Department of Health publishes directions and an explanatory note for the 2014 transfer of funds from the NHS to local authorities</p>	<p>● High</p>	<p>On 4 April, the Department of Health (DH) issued the National Health Service Commissioning Board (Payments to Local Authorities) Directions 2014. The 2014 directions, which apply in respect of NHS England's (NHSE's) payment of £1.1 billion to local authorities in respect of their social care functions for the financial year 2014/15, came into force on 1 April.</p> <p>Each local authority and NHS England should enter into an agreement in relation to the payments to be made and the conditions that apply. The 2014 Directions, and the updated National Health Service (Conditions relating to Payments by NHS Bodies to Local Authorities) Directions 2013, impose certain conditions that must be met in relation to each payment. These include conditions that:</p> <ul style="list-style-type: none"> ■ the funding must be used to support adult social care services which also have a health benefit; ■ the local authority and its local clinical commissioning groups (CCGs) agree how the funding is best used within social care and the outcomes that are expected from the investment; ■ local authorities and CCGs have regard to the Joint Strategic Needs Assessment for their local population and existing commissioning plans for both health and social care in deciding how the funding is to be used; and ■ local authorities must be able to demonstrate how the funding transfer will improve social care services and outcomes for their users. <p>NHSE must not place any other conditions on the funding transfers without the written agreement of the DH and must ensure that it has access to timely information on how the funding is being used locally.</p>	<p><i>The committee may wish to seek assurances that the Council has complied with the DH Directions</i></p>
<p>Housing Revenue Account Borrowing Programme</p>	<p>● High</p>	<p>On 7 April the government launched the Housing Revenue Account Borrowing Programme which makes £300 million of borrowing available to provide 10,000 new affordable homes in 2015/16 and 2016/17. This funding will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership.</p> <p>The government also published a revised set of General Consents under Section 25 of the Local Government Act 1988 which allows councils to dispose of vacant housing land to private registered providers and non-registered providers at less than market value.</p> <p>For more information visit https://www.gov.uk/government/news/extra-borrowing-powers-for-councils-to-build-10000-affordable-homes & https://www.gov.uk/government/publications/general-consents-for-privately-let-housing</p>	<p><i>The committee may wish to seek further information as to how this affects the Council</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>LAAP Bulletin 98: Closure of the 2013/14 Accounts and Related Matters</p>	<p>● Medium</p>	<p>CIPFA has issued LAAP Bulletin 98: Closure of the 2013/14 Accounts and Related Matters which clarifies a number of issues regarding the preparation of 2013/14 financial statements in response to FAQs in relation to:</p> <ul style="list-style-type: none"> ■ public health reform; ■ Non-Domestic Rates – provision for appeals against the rateable value of business properties; ■ component accounting; ■ accounting for pension interest costs in relation to current service cost and pension administration costs; and ■ disclosure requirements for dedicated schools grant. <p>The bulletin also highlights a number of other issues affecting the closure of the 2013/14 accounts:</p> <ul style="list-style-type: none"> ■ accounting standards that have been issued but have not yet been adopted; ■ use of example financial statements for preparation of the 2013/14 accounts; ■ minor amendment to Code 2013/14 guidance notes on the use of indices; ■ technical alerts; and ■ notification of the discontinuance of Icelandic and capital interest rates bulletins. <p>With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 and on the measurement of transport infrastructure assets in 2016/17.</p>	<p><i>The committee may wish to enquire when reviewing the financial statements that all relevant guidance has been considered.</i></p>

Area	Level of Impact	Comments	KPMG perspective
CIPFA Technical Accounting Alert – Frequency of Valuations for Property, Plant and Equipment	<p style="text-align: center;">● Low</p>	<p>CIPFA has issued a Technical Accounting Alert on the Frequency of Valuations for Property, Plant and Equipment. The Alert provides guidance to local authorities in interpreting the requirements for the revaluation of property, plant and equipment, but confirms that there are no changes to the requirements of the <i>CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14</i> which is still based on the underlying requirement to comply with IAS 16: <i>Property, Plant and Equipment</i>.</p> <p>For more information visit: http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Panels/Local%20Authority%20Accounting%20Panel/Technical%20Alert%20Frequency%20of%20Valuations%20Final%20for%20publication.pdf</p>	<p><i>The Council should ensure that revaluation programmes are compliant with the Code.</i></p>
Whole of government accounts (WGA) timetable	<p style="text-align: center;">● Low</p>	<p>HM Treasury has now published a corrected timetable for the submission of draft and audited Whole Government Accounts returns following the release of the WGA Newsletter – March 2014, which contained incorrect information.</p> <p>The revised timetable is on their website alongside various templates that audited bodies will be required to complete during the WGA process.</p> <p>For more information visit https://www.gov.uk/government/publications/whole-of-government-accounts-2013-to-2014-guidance-for-preparers</p>	<p><i>The Council should ensure it is working to the correct WGA submission deadlines</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Audit Commission consultation on 2014/15 work programme and scales of fees for the National Fraud Initiative</p>	<p>● Low</p>	<p>From Monday 31 March the Audit Commission consulted on its proposed work programme and scales of fees for the 2014/15 National Fraud Initiative (NFI). The transfer of the Commission's data matching functions (the NFI) to the Cabinet Office is expected to take place when the Commission closes at the end of March 2015.</p> <p>The NFI 2014/15 work programme and scale of fees covers the Commission's final set of data matching activities and there will be work-in-progress at 31 March 2015 which will need to be completed by the Cabinet Office after the transfer.</p> <p>Work Programme Existing mandatory data matches will continue to be a part of the NFI 2014/15 work programme. In addition the Commission is also proposing to introduce two new mandatory requirements in the NFI 2014/15:</p> <ul style="list-style-type: none"> ■ Council tax to electoral register data sets will be requested from local authorities every year - currently this data is requested every two years; and ■ Personal budget (direct payments) data will be introduced. <p>Consultation The Commission is proposing to carry out the NFI work programme, including the additional elements, within the existing scale of fees for mandatory participants. The consultation commenced on 31 March and continued until 12 May. The Commission will publish the final work programme and scales of fees for the NFI 2014/15 on 30 June. The consultation documents were available on the Commission's website from Monday 31 March.</p> <p>For more information visit http://www.audit-commission.gov.uk/fraud/nfi/public-sector/pages/fees.aspx</p>	<p><i>The committee may wish to consider whether the Council has responded to the consultation</i></p>

Area		Level of Impact	Comments
Audit Commission 14/15 Scale Fees confirmed		● For information	<p>The 2014/15 work programme and scales of fees are now available, alongside the lists of fees for individual bodies. A summary of the responses to the Audit Commission consultation on the work programme and fees is also available.</p> <p>For more information visit http://www.audit-commission.gov.uk/audit-regime/1415WPSF</p>
Local Audit and Accountability Act 2014		● For information	<p>The Local Audit and Accountability Act 2014 received Royal Assent on 30 January. The Act makes it possible for the Audit Commission to close, in line with the Government's expectations, on 31 March 2015. In its place there will be a new framework for local public audit, due to start after the Commission's current contracts with audit suppliers end in 2016/17, or in 2019/20 if they are extended. A transitional body, which is being set up by the Local Government Association, will oversee the contracts in the intervening period.</p> <p>In the statement the Commission's Chairman explains the main aims of the organisation in its final 14 months. Jeremy Newman also confirms plans are already in place for many of the residual responsibilities that will transfer to new organisations and highlights those for which a new owner has not yet been agreed.</p> <p>The Audit Commission's press release is available to view on its website: http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/</p>
Rural Services Delivery funding announcement		● For information	<p>The Department for Communities and Local Government (DCLG) has confirmed that a settlement of £11.5 million will be made available to rural local authorities in 2014/15 to support them in transforming services and promoting efficiencies. This funding comprises £9.5 million of Rural Delivery Services funding, and £2 million additional funding targeted at the most rural councils.</p> <p>For more information, visit https://www.gov.uk/government/publications/rural-grant-allocations-for-2014-to-2015</p>

Area	Level of Impact	Comments
Value for money data briefing on waste collection	<p style="text-align: center;">● For information</p>	<p>The Audit Commission has published Local Authority Waste Management, the latest in a series of value for money (VFM) data briefings analysing data in the VFM profiles tool. The briefing examines spending and performance on household waste management.</p> <p>In 2012/13 the average spending on household waste management varied between local authorities with similar responsibilities. For example most authorities that both collect and dispose of waste (58 per cent) spent between £125 and £175 per household in 2012/13 but thirteen per cent spent more than £200 per household.</p> <p>In 2012/13, the amount of waste recycled varied from 12 per cent up to 67 per cent, with 40 authorities recycling less than 30 per cent of their household waste. And while landfill has reduced everywhere some regions are still more reliant than others.</p> <p>The variation in performance and spending suggests there may be opportunities to reduce expenditure. If councils were able to reduce their spending to the average for their authority type and waste responsibilities potentially up to £464 million could be saved overall. Any savings could be used to support more sustainable forms of waste management or be reinvested in other services.</p> <p>Previous briefings on councils' expenditure on benefits administration, council tax collection, social care for older people, income from charging and business rates are also available on the Commission's website.</p> <p>For more information visit http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p>
Financial ratios tool	<p style="text-align: center;">● For information</p>	<p>On 4 April, the Audit Commission published its updated financial ratios analysis tool.</p> <p>The ratios tool has been updated to include:</p> <ul style="list-style-type: none"> ■ data for the 2012/13 financial year; and ■ the restatement of the 2011/12 data where relevant. <p>The ratio tool continues to include data from 2007/08 for district, unitary and county councils, data from 2008/09 for Greater London Authority bodies and data from 2009/10 for standalone fire authorities.</p> <p>Information is included for police and crime commissioners for 2011/12 and 2012/13 reflecting the data available for these new bodies.</p>



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Appendix

Appendix 1 – 2013/14 Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We discuss and agree each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2013	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	April 2014	Complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	April 2014	Complete
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2014	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2014	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2014	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2014	TBC



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