

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL AUDIT LETTER

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To report on the council's Annual Audit Letter and to consider the assurance that has been given or can be implied from their conclusions.

2. BACKGROUND INFORMATION

- 2.1 Each year the council's auditors provide the council with an annual audit letter. This gives an overall summary of the Audit Commission's assessment of the council, drawing on final accounts and value for money work. The annual audit letter for 2009/10 is attached as appendix A.
- 2.2. Key messages are:
- An unqualified audit opinion was issued on the 2009/10 accounting statements on 30th September 2010.
 - An unqualified value for money conclusion was issued on 30th September 2010. This means External Audit is satisfied that the council made proper arrangements to secure economy, efficiency and effectiveness of its use of resources.
 - The council made good progress in dealing with the improvement areas highlighted in last year's assessment
 - The Audit Committee monitors progress on the recommendations detailed in audit reports issued during the year
 - It is too early to assess the impact of the transformation plan developed in response to the expected future reduction in central government grants
 - The council has made good progress in implementing the requirements of International Financial Reporting Standards (IFRS).

- 2.3 Some areas for improvement were identified as a result of work carried out during the year such as:
- Continue to raise public awareness of the local standards framework
 - Ensure overall risks facing the council are more explicit
 - Fully implement journal approval policies
 - Ensure that strong controls are in place for all bank accounts including those held by the council on behalf of others
 - Confirm signed agreements are in place for the major partnerships

All action plans have been agreed with officers concerned.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee should consider the external auditor's report and the assurance that has been given or can be implied from their conclusions. The Committee should seek clarification from the Audit Commission or council officers as necessary. In addition, to maintain or improve its assessment in future years the council will implement action plans in order to address the improvements raised by the auditors.
- 3.2 To take no action would invite adverse judgments in future.

4. ANALYSIS OF OPTIONS

- 4.1 The council should ensure it adopts the actions recommended.

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

- 5.1 There are no staffing, property or IT implications.

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 Committee should note that external audit work is carried out to fulfill these requirements and does not provide specific assurance to the Committee other than in particular instances such as the Opinion given on the final accounts. However the Committee may imply assurance from its conclusions and the implementation of recommendations made.

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 Regulations 2003. 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 corporate governance arrangements. These are an integral part of the council's improvement process.

7. OUTCOMES OF CONSULTATION

- 7.1 This report is the result of inspections where appropriate members and officers are consulted.

8. RECOMMENDATION

- 8.1 That the Committee consider the Annual Audit Letter, the assurance that has been given or can be implied from its conclusions, and agrees that the improvement actions recommended be implemented and monitored.

CHIEF EXECUTIVE
AND SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Carol Andrews
Date: 20 December 2010

Background Papers used in the preparation of this report :
Audit Commission - Annual Audit Letter – 2009/10

Annual Audit Letter

North Lincolnshire Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Actions	2
Current and future challenges	2
Financial systems and annual governance statement	3
Overall conclusion from the audit	3
Key issues from the financial statements	3
Weaknesses in internal control	4
Implementing International Financial Reporting Standards (IFRS)	4
Value for money	5
2009/10 use of resources assessments	5
VFM conclusion	5
Approach to local value for money work from 2010/11	6
Current and future challenges	8
Financial position	8
National Fraud Initiative	9
Closing remarks	10
Appendix 1 Audit fees	11
Appendix 2 Glossary	12

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (pages 3 to 4) and my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7). I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on your 2009/10 financial statements.

Value for money

2 I also issued an unqualified conclusion stating I was satisfied you made proper arrangements to secure economy, efficiency and effectiveness of your use of resources. You have made good progress in dealing with the improvement areas I highlighted in last year's assessment.

Actions

3 Your Audit Committee monitors progress on the recommendations detailed in audit reports issued this year.

Current and future challenges

The Council is developing a transformation plan to respond to the expected future reduction in central government grants. It is too early to assess the impact on services until the financial settlement is known.

Financial systems and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

4 I gave an unqualified audit opinion on your financial statements for 2009/10 on 28 September 2010.

Key issues from the financial statements

Material Amendment

5 I identified the need for one material amendment to the accounts presented for audit. On creation of a local academy officers reduced the total recorded for tangible fixed assets by £8.4 million. The initial lease agreement for the academy lasts for five years, pending completion of the Building Schools for the Future (BSF) scheme. Officers agree the school should have remained on your balance sheet as an operational asset until the long-term lease is agreed and signed and your accounts were corrected.

Accruals accounting policy

6 Your financial statements included a £0.5 million accrual for housing benefit payments which represented block payments made to housing providers. The accrual did not comply with your accounting policy. There is no impact on your net expenditure in your income and expenditure account because the amount is grant aided and additional expenditure would be met by grant income. I discussed this matter with your officers and the Audit Committee and your accounting policy was revised.

Adjusted misstatements

7 I found a higher level of errors compared with 2008/09 and officers have responded by reviewing your arrangements with a view to reducing the level of errors in future.

Weaknesses in internal control

8 You addressed the most of the weaknesses I found in 2008/09 in your accounting controls, reconciling school bank accounts and deferred government grants. As a consequence, I was able to place greater reliance on your controls in my work in 2009/10.

9 I made the following recommendations to deal with control weaknesses:

- fully implement journal approval policies, a weakness from 2007/08 and 2008/09;
- ensure that strong controls are in place for all bank accounts including those held by the Council on behalf of others; and,
- confirm signed agreements are in place for the all major partnerships.

10 An action plan has been agreed.

Implementing International Financial Reporting Standards (IFRS)

11 In response to major accounting scandals in the private sector, new accounting rules have been introduced that aim for greater comparability of financial statements internationally and across sectors. Your 2010/11 accounts are to be the first set produced in accordance with the new standards. I am pleased to note that officers have made good progress that includes:

- preparing your revised opening balances and re-stating 2009/10 accounts;
- improving supporting records so the information they need should be available; and,
- setting up arrangements to revalue your assets such as buildings and roads.

12 I will continue to monitor your progress.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

13 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments. However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the use of resources work to inform my 2009/10 conclusion.

VFM conclusion

14 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission.

15 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes

Criteria	Adequate arrangements?
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

16 I issued an unqualified conclusion stating that I was satisfied you made proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

17 Overall, I can report good progress in the improvement areas reported in 2008/09: Most of the recommendations have been addressed. I have seen:

- clearer integration of financial and performance reports;
- better information to the Audit Committee to allow more effective scrutiny;
- improved assessment of the risk of incorrect performance indicators and checking arrangements; and
- updated partnership governance procedures.

18 While your arrangements have improved, it is too early in some areas to assess the full impact on outcomes. This was particularly so in the governance, internal control and risk management areas. The main improvement needs identified as part of our 2009/10 work are to:

- raise public awareness of the local standards framework; and
- ensure overall risks facing the Council are more explicit.

19 I have agreed an action plan with your officers.

Approach to local value for money work from 2010/11

20 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

21 I will be basing my independent judgements on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

22 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial position

23 The Council has maintained spending within budgets in 2009/10 and with general reserves of £6.9 million. In 2010/11 officers report that you are on track to manage spending within your revenue and capital budgets despite grant reductions of £2.1 million for revenue and £1.9 million capital.

Icelandic Investments

24 Last year, I also assessed your treasury management arrangements as you had investments of £5.5 million in two Icelandic Banks when they collapsed. At the time your investments were made the institutions had good credit ratings but circumstances changed before the investments were due to be returned.

25 You have been advised that the Council will receive 85 per cent of the £3.5 million Heritable investment and 95 per cent of the £2 million Landbanki which would mean your total potential loss would be £0.6 million. The priority status of UK Local authorities is under challenge in the case of Landbanki which potentially increasing the loss. You have reserves in place to cover the full extent of any shortfall.

Financial plans

26 The Council has an established medium term planning process in place including a three year financial plan. Work has started to assess the impact of what are expected to be significant grant reductions in future years and develop a transformation plan and a realistic balanced budget. This will be used to inform your forthcoming budget process culminating in the setting of next year's council tax and a revised medium term financial plan in February 2011.

National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI). The exercise matches electronic data within and between audited bodies in local government and Health to prevent and detect fraud.

27 The NFI has helped trace £215 million in fraud, overpayments and errors in 2008/09. The figure for 2008/09 represents a 54 per cent increase on the figure of £140 million identified in 2006/07.

28 In February 2009, the Audit Commission issued the most recent set of data matches to the Council. There were over 1,000 possible matches investigated. Locally savings generated from three frauds and two errors to date total £21,670. Your revenues staff are currently working through updated data to identify ineligible council tax single persons discount is likely to generate further savings.

29 The 2010/11 NFI exercise will continue as planned with matches available from January 2011.

Closing remarks

30 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 25 January 2011 and will provide copies to all board members.

31 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	February 2009
2008/09 Grants Report	January 2010
Opinion Audit Plan	January 2010
Value for money	August 2010
Annual Governance Report	September 2010
Annual Accounts Memorandum	September 2010

32 The Council has taken a positive and helpful approach to our audit. I wish to thank officers for their support and cooperation during the audit.

Mark Kirkham
District Auditor
October 2010

Appendix 1 Audit fees

Table 1: **Audit fee**

	Actual £
Financial statements and annual governance statement	129,416
Value for money	96,318
Total audit fees	225,734
Managing Performance	16,630
Total Fee	242,364
Non-audit work - grants	50,000 (estimate)
Total	292,364

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946