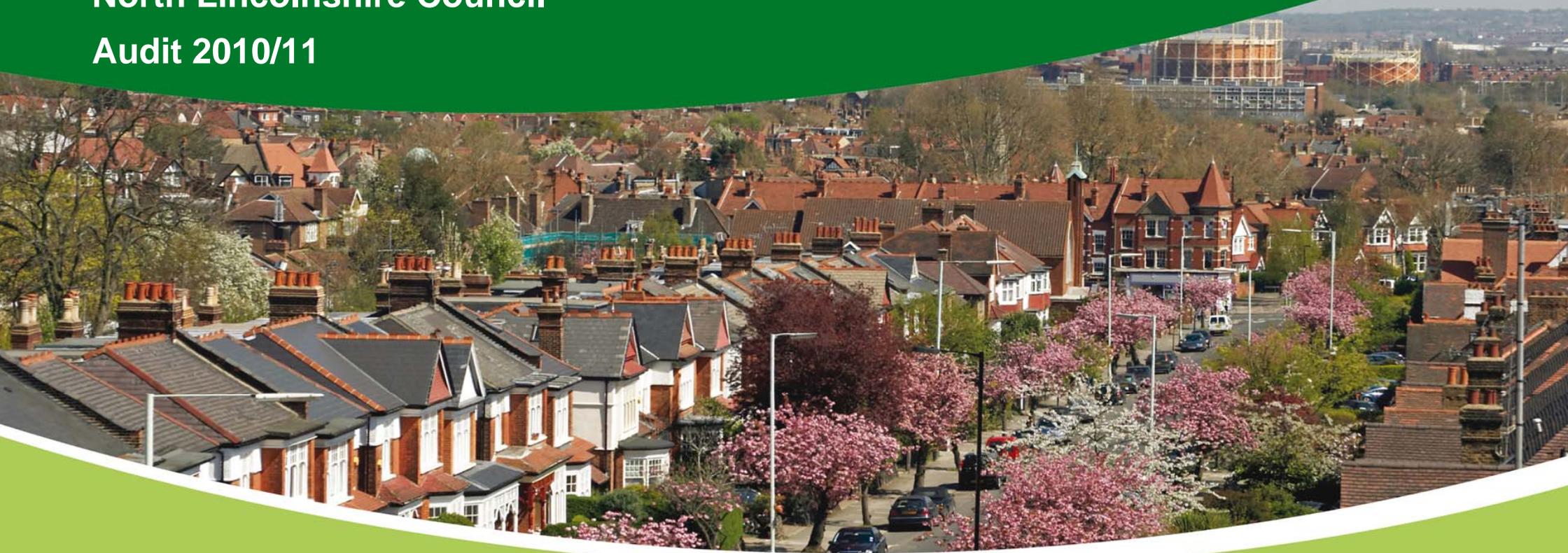


# Annual governance report

North Lincolnshire Council

Audit 2010/11



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**Traffic light explanation**

Red ■ Amber ◆ Green ●

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## **Audit opinion and financial statements**

- I plan to issue an audit report including an unqualified opinion on the financial statements.
- The Council prepared the financial statements to a reasonable standard and we identified a number of errors and omissions.
- Working papers provided in support of the accounts were generally good although there is scope to improve evidence for Property, Plant and Equipment balances.

- After amendment the financial statements complied with the requirements of international financial reporting accounting standards.

## **Value for money**

- I plan to issue an unqualified value for money conclusion.
- Your arrangements aim to secure financial resilience while responding to significant reductions in government grant funding.
- Proper arrangements are in place for challenging economy, efficiency and effectiveness in your use of resources.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £15,000. We reviewed your Strategic Housing Arrangements this does not constitute an ethical threat because it was not completed by the audit team and it covered work outside the financial system and controls.

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## I ask you to confirm to me

### I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - take note of the significant matters that were discussed or subject to correspondence with management (page 10);
  - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and,
  - agree your response to the proposed action plan (Appendix 4).
-

# Financial statements

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**I plan to issue an unqualified opinion on the financial statements on completion of my work. Several errors were identified in the financial statements and the majority of these have been amended by management.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Amended Errors**

I identified a number of errors in the draft statements and these are contained in Appendix 2. The key changes made are summarised below:

- **Balance Sheet - Note 12 Property Plant and Equipment** - Land and Buildings additions included £10million incurred on Melior College as part of BSF. You have re-classified this spending as assets under construction, as work was not fully completed at the balance sheet date.
- **Balance Sheet - Note 12 Property Plant and Equipment** – Land and Buildings additions included £2.8m incurred on Foxhills College as part of BSF. You have re-classified this spending as assets under construction, as work was not fully completed at the balance sheet date.
- **Balance Sheet - Note 12 Property Plant and Equipment** – Land and Buildings additions included £0.8m on Brumby College as part of BSF. You have re-classified this spending as assets under construction, as work was not fully completed at the balance sheet date.
- **Balance Sheet - Note 12 Property Plant and Equipment** – Land and Buildings Cost 31.3.11 and Depreciation 31.3.11 were overstated by £25.8million. The Net Book Value remained unaltered
- **Balance Sheet - Cash and Cash Equivalents** – Cash and Cash Equivalent balance initially included £2.7million for the remaining outstanding Icelandic investments. Cash and Cash Equivalent are for assets held for short term cash flow purposes. You therefore reclassified the investment to short term investments in the revised balance sheet.
- **Corporate and Democratic Core overheads - Comprehensive Income and Expenditure Account** - You have reallocated to other service headings £2.7million of expenditure that was initially allocated to Corporate and Democratic Core.
- **Pension Passed Service Cost - Comprehensive Income and Expenditure Account** - Following clarification of the accounting guidance, you reclassified the £60.6million as negative expenditure, rather than income.

## Errors not amended

There are no errors not amended

# Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

Key audit risk	Finding
<b>International Financial Reporting Standards</b> The Council produced financial statements under International Financial Reporting Standards (IFRS) for the first time in 2010/11. This is a significant change in the reporting arrangements and I undertook audit procedures to understand how you have sought to deal with this risk and prevent material misstatement.	I found that you had appropriate arrangements to manage the move to IFRS. You engaged additional technical support and developed a project plan with progress monitored through the audit committee. My initial work on the prior year restated accounts identified some minor areas for attention and these were addressed. Work on the 2010/11 financial statements also identified errors summarised at Appendix 2.
<b>IAS19 Pensions Liabilities</b> I have re-assessed the audit risk of the pension liability reported in the accounts totalling £177million in 2010/11 compared to £323million in 2009/10. I have classified this as a significant audit risk because the estimate involves a high degree of uncertainty and volatility. I amended my testing strategy to address this risk.	I found that you have arrangements aimed at ensuring the accuracy of the information sent to your actuary and the pension contributions paid. The controls involved help you to deal with the risk of uncertainty in estimating the liability.

# Financial statements

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## Significant weaknesses in internal control

### Related Parties

Following my initial audit visits I identified a number of weaknesses in the Councils internal control arrangements in respect of related party transactions. I am pleased to note you have improved arrangements in all the areas identified. I am informed that there is one area where you intend to strengthen arrangements in 2011/12 and this is highlighted below:

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### Internal control issues and our findings - Related party Transactions

Description of weakness	Potential effect	Management action
<p>Arrangements to identify officers with commissioning powers and connections to third parties are completed at the year end on a reactive basis.</p> <p>Proactive arrangements would ensure such officers were not part in any decision making process.</p>	<p>Officers involved in material transactions could be unaware of potential conflicts of interest. It could be difficult to demonstrate that the related party had no influence in the decision making process.</p>	<p>Improved communication to procurement teams introduced to help ensure officers with related parties are not involved in future procurement decisions</p>

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### Weaknesses identified by Internal Audit

Internal control weaknesses identified by internal audit and reported to you in June 2011 also affected my testing strategy. I carried out additional substantive testing to address the audit risk.

## Internal control issues Identified as part of Internal Audit Work

Description of weakness	Potential effect	Management action
<p><b>Ledger Journal Controls</b></p> <p>I have reported years that journals were not being authorised in accordance with your policies over the past three years. Internal audit testing also identified failures in 2010-11.</p>	<p>Many accounting balances within budget reports and the annual accounts are from Journals created by accountancy staff. Strong controls are vital to ensure that the reported financial position is correct in both budget reports and the annual accounts.</p>	<p>Further work to ensure all accountancy staff follow agreed policies is in progress.</p>
<p><b>Miscellaneous Income</b></p> <p>Internal controls were found not to be operating in some leisure centres over income and cash.</p>	<p>This is an important control to reduce the risk of fraud and error although the level of takings from leisure centres is not material to the opinion.</p>	<p>Action plans have been agreed to improve arrangements.</p>
<p><b>IT Access Controls – Leavers</b></p> <p>Internal controls were found not to be operating satisfactorily and we identified that a number of staff who had left the Council and had accessed general IT systems.</p> <p>These did not include Financial systems.</p>	<p>This is an important security control to reduce the risk of inappropriate access, and potential damage to systems and data within the Council.</p>	<p>IT has removed all staff identified as having left from the IT systems. However, an action plan needs to be agreed to ensure that all staff are removed from all IT systems as soon as possible.</p>

### Recommendation

**R1** Agree an action plan that will ensure that all movers and leavers are removed from all IT systems as soon as possible.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

# Financial statements

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. In common with many local authorities, the additional work needed in 2010/11 to complete the re-stated IFRS accounts resulted in some errors in the draft annual accounts. You identified the risk in your planning processes and strengthened arrangements but the extra disclosure notes reduced the time available to check the accounts. .

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### Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p><b>Quality Assurance</b></p> <p>I have detailed in appendix 2 all the changes that have been agreed to the Council accounts.</p>	<p>Your quality assurance arrangements did not identify all errors in the draft accounts. You should evaluate the reasons for the errors in the accounts and consider whether additional arrangements are needed to mitigate the risks in future. A formal risk assessment of the risk of error of each material item of account would improve arrangements.</p>

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# Financial statements

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## Recommendation

**R2** Evaluate the reasons for the errors in the accounts and consider whether additional arrangements are needed for the 2011/12 process to mitigate the risks. A formal risk assessment of the risk of error of each material item of account would improve arrangements.

## Significant difficulties encountered during the audit

No such difficulties were encountered during the audit. Officers have responded positively to queries raised and provided necessary supporting documentation.

## Significant matters that were discussed or subject to correspondence with management

You have operated a policy of charging staffing and administration costs against asset sales for a number of years. You show revenue costs as prepayments in your balance sheet if the sale is in progress at the year-end. In 2010/11 the value of this prepayment increased significantly to £0.3m. Recent guidance clarifies the accounting treatment required and states that administration costs should be charges to revenue until receipt of sale proceeds. Management intend to review accounting policies in 2011/12

## Other significant matters relevant to the reporting process

I have no matters to report.

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The letter is attached at Appendix 3.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b> Focus for 2010/11: The organisation has systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>The Council has proper arrangements in place to secure financial resilience.</p> <p>You continue to achieve your financial targets reporting a small under-spending of £0.5million dealing with in year budget cuts of £4million.</p> <p>Your medium term financial plan has been updated during the year supported by detailed savings plans to reflect significant reductions in government grant funding support. You plan to maintain general and earmarked reserves at consistent levels and are also minimising the use of loans to support future capital spending reducing loan costs.</p> <p>The 2011/12 budget setting process was integrated with your existing 'worksmart' business change program allowing savings to be targeted at back office services. You demonstrated effective challenge and scrutiny of financial assumptions by Members and the views of the electorate have been considered through consultation.</p> <p>The latest financial and performance reports analyse risks more effectively highlighting some budget pressures and work is on-going to address those risks.</p>

Criterion	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness in the use of its resources.</p> <p>You continue to monitor the economy, efficiency and effectiveness of services supported by detailed financial analysis targeting savings in the few high cost services you have. My analysis of benchmarking information confirms you are a relatively low cost Council.</p> <p>Your future savings program aims to find over £21m savings over 4 years. You aim to deliver this by changing the way you provide services with personalised care away from establishment settings and commissioning more services. You are also re-organising back office services rationalising the number of offices making better use of your existing accommodation.</p> <p>You plan to deliver more future services in partnership to minimise the need for front line service reductions; building on your existing joint procurement arrangements and shared back office services with neighbouring councils.</p>

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## Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

No such matters have come to my attention.

# Appendix 1 – Draft audit report

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## Independent Auditor's Report to the Members of North Lincolnshire Council

### Opinion on the Council's accounting statements

I have audited the accounting statements of North Lincolnshire Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of North Lincolnshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Service Director Finance and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of North Lincolnshire Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Council's responsibilities**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects North Lincolnshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

**Certificate**

I certify that I have completed the audit of the accounts of North Lincolnshire Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham

Officer of the Audit Commission

27<sup>th</sup> September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Note	Findings:
Accounting policies	Minor amendments made to the accounting policies clarifying the level of capitalised expenditure, post employment benefits, Leases, financial asset and cash
Cash held on behalf of others	Missing disclosures of cash held on behalf of others at 31.3.11.
CIES – Service Headings	Incorrect overhead charges of £2.7million included in Corporate and Democratic Core
CIES – Past Service Gain	Missing link to Note 5 to explain exceptional pension index gain of £60million and re-classification as a negative cost rather than income.
Note 12 Property Plant and Equipment	Incorrect classification of £10.6m of BSF spending for Melior College as additions to Land and Buildings when they are Assets under Construction.
Note 12 Property Plant and Equipment	Incorrect classification of £2.8m of BSF spending on Foxhills College as additions to Land and Buildings when they are Assets under Construction
Note 12 Property Plant and Equipment	Incorrect classification of £0.8m of BSF spending on Brumby College as additions to Land and Buildings when they are Assets under Construction
Note 12 Property Plant and Equipment	The Gross value of Land and Buildings was overstated due to incorrect accounting treatment of the Revaluations carried out in year.
Note 15 Financial Instruments	Fair Values the comparator values for financial liabilities amended to the correct figure of

	<p>£11.7million</p> <p>Removal of Taxation based transactions which do not meet the definition of a financial instrument</p> <p>£6million</p>
Note 25 Cash flow	Additional disclosure added for interest received £0.3million and interest paid £6.5million
Note 25 Cash flow	Amending narrative explanations depreciation and impairments so consistent with other notes
Note 26 Cash flow note	The detail in the note in the draft statements has been amalgamated for consistency
Note 34 Members Allowances	A small reclassification of the expenditure was required between basic allowance and special responsibility allowance £0.022million
Note 35 Officers Remuneration	Further information needed for benefits in kind
Note 37 DSG disclosures	Incorrect year included in the note
Note 38 Grant Income	Note 38 disclosed the detail of the unallocated Capital grants reserve and not Grant Income. The detail in note 38 has been moved to support note 24, and note 38 has been re-written to provide the required disclosures of Grant income.
Note 40 - Capital Expenditure and Capital Financing	The explanation of movement was overstated in the draft statements and this has been amended by removing the value of MRP £5.5million
Note 40 - Capital Expenditure and Capital Financing	The Minimum Revenue Provision disclosed in note 40 corrected for consistency with other statements.
Note 47 Defined Benefit Pension Scheme	Missing values were identified in the History of experience gains and losses in the Other Comprehensive Income and Expenditure Tables:
Note 47 Defined Benefit Pension Scheme	Transposed error identified in the Present Value of Unfunded Liabilities line, and Unrecognised Past Service Cost in the "Net pension Liability" table in note 47
Note 51 Monies Held on Behalf of Others	The disclosure note was not included in the draft statements this was added in the revised statements in note 51.
Note 5 Collection Fund and Main Statement - comparator balances	Charity, etc, relief error corrected from £5,5million to £2.9million – plus additions in note Income collectable corrected from £67.4million to £70.1million, and payment to National Pool from £67.1million to £69.8million.

# Appendix 3 – Letter of Representation

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September 2011

Mike Wedgewood  
Director of Finance  
North Lincolnshire Council  
Pittwood House  
Scunthorpe  
North Lincolnshire  
DN16 1AB

**Direct line** 01724 296149  
**Email** m-kirkham@audit-  
commission.gov.uk

Dear Mike

## **Audit of Accounts Letter of Representation 2010-11**

International Standards on Auditing (UK and Ireland) requires auditors to obtain written confirmation of appropriate representations from management before auditor's reports are issued. Those representations should be included in a Letter of Representation which will need to be considered by 'those charged with governance' (the Audit Committee).

Management representations are a useful means for auditors to gain assurance over the completeness and accuracy of information included in the financial statements. The aim is to ensure that the Council has considered all material issues that could have a bearing on the audit opinion and has drawn any such issues to our attention.

If you are unable to provide representations in relation to any of the matters below, please provide me with the details. Such information will aid the completion of our audit and provide assurance as to the accuracy and completeness of the Council's Accounts.

If, during the final stages of the audit, I identify any additional issues upon which further management representations are considered appropriate, then I will let you know at the earliest opportunity.

In terms of dealing with this request, I would ask that the letter of representation be:

- subject to appropriate enquiries and presentation to other officials of the Council;
- signed by you; and,
- subject to an early response so that I can include it in my final 2010/11 report to those charged with governance required by professional auditing standards.

Yours sincerely

Mark Kirkham  
District Auditor

Mark Kirkham  
District Auditor  
Audit Commission  
3 Leeds City Office Park  
Holbeck  
Leeds  
LS11 5BD

## Draft management representation letter North Lincolnshire Council 2010/11

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of North Lincolnshire Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

### Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

### Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

### Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements. For all assumptions made with respect to financial liabilities, loans and receivables, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and,
- if subsequent events do not require adjustment to the fair value measurement.

## **Specific Representations**

I can confirm that:

- All schemes relevant contracts containing service concessions have been considered and identified in light of IRFIC 12, and all relevant disclosures made;
- there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements; and,
- since 1996 the Council has agreed and delivered annual maintenance programmes for the assets classified as infrastructure in the accounts such that no impairment in value is necessary. This includes the assets to the value of £17.6 million transferred to the Council in 1996 from the Humberside County Council and now valued at approximately £11 million.

## **Related party transactions**

I confirm that I have disclosed the identity of North Lincolnshire Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

**Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of North Lincolnshire Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27th September 2011

Signed

Signed

Director of Finance  
North Lincolnshire Council

Chair of the Audit Committee  
North Lincolnshire Council

# Appendix 4 – Action Plan

## Recommendations

### Recommendation 1

Agree an action plan that will ensure that all movers and leavers are removed from all IT systems as soon as possible.

<b>Responsibility</b>	Martin Oglesby (Assistant Director of IT Services)
<b>Priority</b>	High
<b>Date</b>	31 October 2011
<b>Comments</b>	All leavers will be checked against current IT access rights and removed from the systems. A system be introduced to ensure that all leavers be notified to IT so they can remove from the systems

### Recommendation 2

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.

<b>Responsibility</b>	Mark Kitching (Corporate Finance Manager)
<b>Priority</b>	High
<b>Date</b>	31 January 2012
<b>Comments</b>	A formal review will be undertaken of all errors identified during the audit. An evaluation of the errors will lead to enhanced checking arrangements, which will include a formal risk assessment. These will be brought into the 2011/12 final accounts closedown arrangements which will be presented to the audit committee in early 2012.

# Appendix 5 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the

addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## 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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;

- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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

