

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To consider external audit's Interim Report and Certification of Grant Claims and Returns Letter for 2013/14.

2. BACKGROUND INFORMATION

- 2.1 External audit's Interim Report (appendix A) summarises key findings arising from:
 - Interim work in relation to the 2012/13 financial statements; and
 - Vfm conclusion work.No additional risks were identified at this time. One area to improve organisational and IT control environment was identified i.e. to remove leavers from e financials immediately rather than monthly however no unauthorised access was noted. This will be addressed as described in management's response on page 9. The recommendation in the Audit Commission's ISA 260 Report for 2011/12 has been addressed to improve information included in Property, Plant & Equipment in the financial statements.
- 2.2 The Certification of Grant Claims and Returns Letter (appendix B) sets out the audit arrangements for 2012/13, covering the schemes subject to audit, the indicative composite fee, audit fee assumptions and working paper requirements. The proposed fee for the audit of £24,000 is in line with the scale fee recommended by the Audit Commission. 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 Audit Fee Letter presented to this Committee in April contained a minor error in the planned fee for grants certification work for 2013/14. It incorrectly stated £21,741 when it should have been £20,700.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Audit Committee should consider the external auditor's Interim Report and the assurance that has been given or can be implied from its conclusions and Certification of Grant Claims and Returns Letter. The Committee is invited seek clarification from the external auditors or council officers as necessary.

4. ANALYSIS OF OPTIONS

- 4.1 External audit's Interim Report is designed to provide a summary of interim work in relation to the 2012/13 financial statements and Vfm conclusion work.

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

- 5.1. The audit fee of £24,000 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 Interim Report has been discussed with the Director of Policy and Resources.

- 7.2. There are no conflicts of interests to declare.

8. RECOMMENDATION

- 8.1. That the Audit Committee notes the Interim Report and the change to the Audit Fee Letter and receives further reports as the work is concluded in the Certification of Gant Claims and Returns Report, Annual Governance Report and Annual Audit Letter.

DIRECTOR OF POLICY AND RESOURCES

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Date: 11 June 2013

Background Papers used in the preparation of this report: None



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Interim Audit Report 2012/13

North Lincolnshire Council

June 2013



Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gsi.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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Section one Introduction

This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at North Lincolnshire Council (the Council) in relation to the 2012/13 financial statements; and
- our work to support our 2012/13 value for money (VFM) conclusion up to March 2013.

Financial statements

Our *External Audit Plan 2012/13*, presented to you in January 2013, set out the four stages of our financial statements audit process.



During March to April 2013 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;
- testing of certain controls over the Council's key financial systems; and
- review of the Council's accounts production process, including the specific work on the arrangements for the accounting for Property, Plant & Equipment values in the Financial Statements.

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages;
- Section 3 sets out our key findings from our interim audit work in relation to the 2012/13 financial statements; and
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Section two Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	Your organisational and IT control environment is effective overall. We noted an area for further improvement: Leavers of the Council should be removed from E-Financials immediately.
Controls over key financial systems	No risks were identified, in respect of any financial process we reviewed, that need to be brought to your attention. We have been able to place reliance on your budgetary controls to reduce testing at final accounts stage. This is in line with our Audit Plan.
Accounts production and specific risk areas	The process for producing the financial statements is the same as in previous years. No significant risks have been identified over this process from our work so far. The Council has implemented the recommendation in the Audit Commission's <i>ISA 260 Report</i> for 2011/12.
VFM risks	We have assessed the Council over the two criteria: financial resilience and securing Value for Money. We have not identified the need for any additional risk based work at this stage.

Section three – financial statements

Organisational and IT control environment

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

In completing this work, we have considered internal audit's reviews of Remote access, IT Governance, and Network controls. This has been complemented by our own testing of the following controls by our IT trained auditor:

- Network Controls (Passwords, Superusers, New Starters, Leavers, and Access to Finance Folders);
- E-Financials Controls (Password, Superusers, New Starters and Amendments, Leavers, review of Access Rights);
- IT Helpdesk;
- Server Security;
- Back ups and Restoration; and
- Programme Changes.

Key findings

We consider that your organisational and IT controls are effective overall, but noted :

- Where employees leave the Council they are not immediately removed from E-Financials. Instead this is done at the month end, meaning staff could access E-Financials during the intervening period.

However, we can confirm that we have not identified any inappropriate access by any such staff who have left the Council.

Therefore the plan to rely on the control environment and the General IT controls remains valid and there is no need to amend the Audit Plan.

Recommendations are included in Appendix 1.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

- Key:
- ① Significant gaps in the control environment.
 - ② Deficiencies in respect of individual controls.
 - ③ Generally sound control environment.

Section three – financial statements

Controls over key financial systems

The controls over all of the financial systems we reviewed are sound.

Work completed

Our interim work on the key financial systems involved reviewing the financial processes that we identified as being key to our understanding of the Council's accounts.

As part of this work we documented the processes around Property, Plant and Equipment, Cash, Journals, Budgetary Control and Accounting for Pensions and considered whether controls were in place to mitigate risks of material misstatement.

Internal audit

We will review internal audit's reports on the Council's financial systems to identify any risks arising from control weaknesses they identify in their work.

At the time of the interim audit, we have reviewed the following reports:

- treasury management;
- cash receipting;
- E-financials;
- creditors; and
- payroll.

We have not identified any issues that will impact on our proposed audit plan as the reports are providing significant assurance, or in the case of cash receipting and payroll, adequate assurance.

Key findings

No risks were identified, in respect of any financial process we reviewed, that need to be brought to your attention.

We noted that there are robust systems in place around budget setting, monitoring and reporting. We can place reliance on this high level control to identify material misstatements arising through fraud or error.

This will reduce the amount of testing we need to carry out in our final accounts audit visit and supports our initial audit plan.

Section three – financial statements

Accounts production process

The Council's overall process for the preparation of the financial statements is adequate.

The Council has implemented the recommendation in the Audit Commission's *ISA 260 Report* for 2011/12.

Work completed

We issued our 'Prepared by Client' checklist to Corporate Finance Manager on 8 March 2013. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide to support our audit work. We discussed our requirements in detail in a meeting on 12 March 2013 .

We continued to meet with the Corporate Finance Manager on a regular basis to help support the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Council's progress in addressing the recommendations in the Audit Commission's *ISA 260 Report* for 2011/12,

More specifically we reviewed the arrangements for producing the values that are included in the value for Property, Plant and Equipment. We concentrated on the items that, if incorrect, would cause a material misstatement. These included the following:

- accounting for academies;
- significant capital expenditure;
- assets under construction;
- disposals; and
- investment properties.

Key findings

The Council has incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This includes Corporate Finance taking a leading role in the maintenance of the valuation adjustments in Tech-Forge.

We consider that the overall process for the preparation of your financial statements is sound. We have provided detailed feedback to the Corporate Finance Manager for the areas in which you need to pay attention in accounting for Property, Plant and Equipment in your financial statements.

The Council has implemented the recommendation in the Audit Commission's *ISA 260 Report* for 2011/12 relating to the financial statements in line with the timescales of the action plan. The table below sets out the Council's progress against the recommendation.

Issue	Progress
The Council will review its arrangements for the Accounting for Property, Plant & Equipment (PPE). This review will consider the timing of the process and a range of technical changes.	The Council has implemented a number of arrangements to help ensure that the information included in PPE in its financial statements is presented correctly.

Section four – VFM conclusion VFM audit approach

**Our VFM conclusion
considers how the Council
secures financial resilience
and challenges how it
secures economy, efficiency
and effectiveness.**

**We follow a risk based
approach to target audit
effort on the areas of
greatest audit risk.**

**Our External Audit Plan
2012/13 describes in more
detail how the VFM audit
approach operates.**

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Specific VFM risks

We have not identified the need for any additional risk based work at this stage.

Work completed

In line with the risk-based approach set out on the previous page, we have:

- assessed the Council's key risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years; and
- considered the results of relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Work still to complete

- Consider any issues relevant to our VFM conclusion as part of our financial statements audit .

Key findings

We have not identified any significant VFM risks from our work so far.

We have not identified the need for any additional risk based work;

We will continue to update this and report our final conclusions in our *ISA 260 Report 2012/13*.

Appendix 1

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations			
No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	②	At present staff who leave the Council are still able to access E Financials until the end of the month they leave. We recommend that all staff have the access to E Financials removed on the day they leave the Council to ensure that no inappropriate access is gained.	A single-sign on solution is being introduced for e-Financials and all associated systems. This will link e-Financials access to the users network password. Access to e-Financials will therefore be removed at the same time as the IT disable the users network access. Responsible – Corporate Finance Manager – Due 31 March 2014



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Our ref

Contact **Damian Murray**

10 May 2013

Dear Mike

Certification of Grant Claims and Returns

We are writing to you to confirm our arrangements for certifying your 2012/13 grant claims and returns. As communicated to you in our Annual Audit Fee 2012/13 letter dated 22 August 2012 the indicative composite fee for the certification work is £24,000 (plus VAT). This fee is based on certifying only the following schemes:

- Housing and council tax benefits; and
- NNDR annual return; and
- Teachers' pensions return.

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:

- Housing and Council Tax Benefits – Appendix A; and
- All other grants and returns – Appendix B.

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 2012/13 than previously because they now fall above the Commission's audit thresholds;
- Claims require detailed testing of the claim or return entries under 'Part B' of the CI tests in 2012/13, because of either a change in the control environment or the Commission's cyclical testing requires it in 2012/13;
- 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.

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 Commission our additional fee will be billed at the Audit Commission's standard hourly rates.

If you have any queries about our certification work for the coming year, please contact Linda Wild (linda.wild@kpmg.co.uk) or Matthew Moore (matthew.moore@kpmg.co.uk).

Yours sincerely

Damian Murray
Director

Appendix A**Prepared by Client list for Housing Benefit/Council Tax Benefit grant claim**

Our certification work on your Housing and Council Tax 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, Non-HRA Rent Rebates, Council Tax);
- 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.

To facilitate an efficient and smooth audit, we have agreed the following with council officers:

- We will be given access to a terminal and the benefits system;
- Staff will be available to assist with queries on the initial testing which will be carried out by ourselves;
- Any extended testing – extended 40+ samples – will be carried out by Internal Audit, the output of which will be reviewed by us; and
- Completion of the HBCOUNT workbooks.

We will select the samples for all the testing and our named contact, Matthew Moore, will make contact with relevant officers to agree the detail of the work in early June 2013.

	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 2012/13 up-rating for Housing and Council Tax Benefit cross referenced to HB Circular HB/CTB A1/2012. These should include all the up-ratings per the appendices in the HB Circular <i>HB/CTB A1/2012</i> http://www.dwp.gov.uk/docs/a1-2012.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 2012/13 subsidy cell values to 2011/12. 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 2012/13	CI Test 10/11
14	General ledger report showing the payments on accounts included in the claim form received in 2012/13	CI Test 11

Appendix B
Prepared by Client List for all other claims & returns

	Requirements
1	The original copy of the claim or return signed by an appropriate financial officer
2	Working papers to support entries in the claim/return, cross referenced to the claim/return
3	General ledger or other system prints supporting the entries in the claim/return, cross referenced to the claim
4	Where the amounts in the claim are not easily visible on the general ledger codes, a reconciliation of income and expenditure figures in the claim/return to working papers and account codes
5	Copies of original approvals, later variations and all other relevant correspondence with the grant paying body
6	Details of payments made on account, supported by relevant remittance advice notes from the grant paying body
7	A reconciliation of the balance on each claim or return with the accounts at the date of the responsible finance officer's certificate
8	An explanation of variances, greater than 5% from the previous period and from any in-year forecasts
9	Notes on the basis of any expenditure apportionment in the claim/return
10	A description of relevant internal controls and a note on the extent of any relevant internal audit coverage with cross references to files
11	If the claim/return includes expenditure incurred on contracts, evidence that the contracts were let in accordance with standing orders
12	Evidence that claim/return working papers have been reviewed by an appropriate officer
13	Copies of any internal audit reports relevant to the claim/return or associated financial systems or processes.

Please note this is a generic working paper requirement for claims and returns. We may also require additional working papers and further evidence for other specific aspects to support amounts in claims and returns and demonstrate compliance with scheme requirements. Once the relevant Certification Instructions are issued by the Audit Commission we will discuss any specific additional requirements with you. If you wish to have a copy of the Certification Instructions we will provide these to you.