

NORTH LINCOLNSHIRE COUNCIL

AUDIT SUB-COMMITTEE

EXTERNAL AUDIT RECOMMENDATIONS – PROGRESS REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To report progress on the implementation of external audit recommendations.

1.2 Regular reporting on action taken to implement external audit recommendations is an important source of assurance for Members to fulfil their role and provides supporting evidence for the annual approval of the Governance Statement.

2. BACKGROUND INFORMATION

- 2.1 Progress on the implementation of external audit recommendations was last reported to Members in April 2011. Key annual reports are considered in this report, namely:
- Annual Audit Letter
 - Annual Governance Report
 - Certification of Claims and Returns.

For the first time an interim system report was also issued in April 2011.

2.2 Annual Audit Letter

The Annual Audit Letter for 2009/10 was reported to the audit committee in January 2011. The report contained some very positive messages such as; an unqualified audit opinion and an unqualified value for money conclusion were issued. The report did not include an action plan but incorporated areas for improvement. An update on progress made was reported to Members in April.

The Annual Audit Letter summarises issues highlighted as a result of audit work carried out throughout the year and therefore the implementation of areas identified for improvement is monitored through report action plans as detailed in paragraphs 2.3, 2.4 and 2.5. The Annual Audit Letter for 2010/11 is due to be published in January 2012 and will be reported to the Sub-Committee.

2.3 **Annual Governance Report**

Recommendations in the 2009/10 report were implemented. The Annual Governance Report for 2010/11 is presented elsewhere on this agenda.

2.4 **Certification of Claims and Returns – Annual Report**

The 2009/10 report was presented in January and an update on the implementation of recommendations was reported in April 2011. The overall assessment was that there were no significant weaknesses in the council's arrangements to prepare grant claims and the report identified some improvements in the handling of grant claims. All the grants recommendations implementation dates were initially delayed as key staff were heavily involved in the 2011/12 budget setting process. However all recommendations have now been implemented. (Appendix A).

2.5 **Interim Systems Report**

The Systems Report is new and was reported to Members in April. It is designed to brief the Sub-Committee on any major findings from external audit's interim work. No major control failures were identified however some improvements to third party transaction verification were identified and appropriate action was agreed. Appendix B summarises the progress made in addressing these recommendations. Two of the four recommendations have been fully implemented and a further recommendation has been substantially met. The remaining recommendation will be implemented as soon as possible. .

3 **OPTIONS FOR CONSIDERATION**

- 3.1 The Sub-Committee is asked to consider whether or not this update provides sufficient assurance on the progress made on external audit recommendations. The Sub-Committee is invited to consider the report and seek clarification on its contents as necessary.
- 3.2 If the Sub-Committee considers the report does not provide sufficient assurance as a response to external audit recommendations further work may be required to be carried out.

4. **ANALYSIS OF OPTIONS**

- 4.1 The approach adopted was approved by the Audit Committee and complies with best practice identified through the former CPA Use of Resources regime that *'the council should develop a process for following up all external audit recommendations and include as a regular item on the Audit Committee agenda'*. The report sets out progress made on key recommendations, complies with professional

guidance available and is designed to provide the Sub-Committee with the assurance required. Members should ask sufficient questions to ensure adequate assurance is provided.

- 4.2 The option set out in paragraph 3.2 indicates an opportunity missed to provide an important source of assurance to assist the Sub-Committee to fulfil its role effectively if adequate clarification is not provided.

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 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 (England) Regulations 2011. 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 governance arrangements.

7. OUTCOMES OF CONSULTATION

- 7.1 This report is the result of updates from all named officers and the approach adopted has been discussed and agreed with the council's external auditors.

8. RECOMMENDATION

- 8.1 The Audit Sub-Committee should consider whether the response to external audit recommendations as detailed in this report provides a sufficient level of assurance on action taken.

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Background Papers used in the preparation of this report

Annual Audit Letter January 2011

Certification of Claims and Returns – Annual Report – January 2011

Interim Systems Report – April 2011

Appendix A - Certification of Claims and Returns – Annual Report 2009/10 Action Plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Update
R1 - Contract Procedure Rules must be followed in all Directorates. Monitoring of compliance should be carried out.	3	Tracy Elliott, Finance Manager (CYP)	Yes	Finance Manager (CYP) will liaise with the Children's and Young Peoples Service to ensure that an independent check on the degree of compliance with the terms and conditions of the Sure Start Grant will take place.	April 2011	Actions completed Checks carried out and records maintained.
R2 - Arrangements are put in place to ensure adequate asset records are held for grant funded assets.	3	Tracy Elliott, Finance Manager (CYP)	Yes	See above	April 2011	

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Update
R3 - Quality control procedures for all grant claims be improved to ensure compliance with grant terms and conditions is upheld. This review process should be evidenced on the claim file.	3	Mark Kitching, Corporate Accountant	Yes	The grants return control sheet will be redesigned to include a requirement for the Manager responsible for the grant claim to confirm that all the terms and conditions of the grant have been complied with.	March 2011	Completed

Appendix B – Interim Systems Report Related Party Transactions

Code Requirements	Current Arrangements	Improvement Area	Response	Responsible Officer	Date	Update
Relationships that result in Related Parties	Legal services maintain a register of members interests. Yearly reminders that require a positive return are sent out. Declaration of Interest forms are sent to Officers of Grade 11 and above, and staff at schools and BSF. Finance follows up and monitors the returns.	Consider whether the current arrangements adequately cover all officers with influence over financial transactions. The current arrangements exclude some officers with delegated responsibility for ordering goods.	The Related Parties process will be amended to include all Authorised Signatories including those in schools	Mark Kitching	30 April 2011	Actioned
Identifying Material transactions.	The Council carry out a search of various systems to identify transactions with the related parties identified above	Consider whether the transactions are material to the related party as well as the Council for the accounts notes.	A judgment will be made on a case by case basis once all the officer declarations have been received	Mark Kitching	31 May 2011	Actioned however transactions with charities were not included – now included

Code Requirements	Current Arrangements	Improvement Area	Response	Responsible Officer	Date	Update
Presentation and Disclosure of Relationships, Transactions and Balances	The Council plan to declare the transaction and balances with related parties in their statements consistent with prior years. There may be inadequate information to allow the reader to understand: <ul style="list-style-type: none"> ■ how the transaction was undertaken; and ■ what if any influence did the related party have on the transaction or balance 	Ensure enough information included in the notes to the accounts to allow the reader to understand: <ul style="list-style-type: none"> ■ how the transaction was undertaken; and ■ what if any influence did the related party have on the transaction or balance. 	Once identified as material each transaction will be investigated and reported	Mark Kitching	31 May 2011	Actioned
Fraud Controls	The process is a reactive yearend approach to provide the information for the statements disclosure. Arrangement are not in place to ensure that where connections exist to a third party relevant officers are not	Officers with commissioning powers are made aware of staff or members with connections to third parties contracting with the Council. Related parties should not be part	The requirements will be communicated to a list of key procuring and commissioning staff identified by the Assistant Director Procurement and	Mark Kitching	31 July 2011	Not yet implemented

Code Requirements	Current Arrangements	Improvement Area	Response	Responsible Officer	Date	Update
	part of any decision making relating to the third party.	of the decision making when contracting with the related parties.	VFM Team			