

NORTH LINCOLNSHIRE COUNCIL

AUDIT 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

2. BACKGROUND INFORMATION

- 2.1 This report provides an update on the implementation of external audit recommendations as last reported to Members in April 2008. It was agreed with external audit that the implementation of recommendations would be confirmed and reported to the Audit Committee in respect of the following annual key reports:
- Annual Audit and Inspection Letter
 - Use of Resources Report
 - Report to those charged with governance (matters arising from the audit of the council's accounts – ISA 260).

In addition other recommendations resulting from specific one-off reports will be followed up and reported as appropriate. Two reports are included in this report under this category:

- Tackling Drugs Misuse through Joint Working
- Consequences of flooding in summer 2007.

2.2 Annual Audit and Inspection Letter

The report identified action needed by the council and highlighted the following high-level actions:

- Ensure that the areas for improvement identified in the corporate assessment are incorporated into the council's plans. The action taken is summarised below

Area for improvement	Management response
Communicating its vision for the area in a more effective way	Areas for improvement have been incorporated in the Strategic plan

Adding capacity within the council to provide additional leadership and impetus to partnership working	Partnership development activity has been undertaken
Providing additional support to councillors in their community and strategic leadership roles	Member development has been enhanced
Enhancing the work of scrutiny within the council	Two training sessions have been undertaken with scrutiny

- Get assurance that actions to address the auditor's findings on the use of resources are happening and delivering improvements in:
 - producing an annual report in a variety of formats
 - integrating financial and performance management arrangements more closely for partnerships in which the council is engaged
 - improving the timeliness and accuracy of grant claims submitted for audit.

Progress made on these recommendations is reported in paragraphs 2.3 and 2.5.

2.3 Use of Resources

Progress against the updated action plan for the Use of Resources 2006 as reported in April 2008 showed that all recommendations had been implemented (one was no longer necessary). The outcome of the Use of Resources 2007 evaluation was also reported to the Audit Committee in April 2008. Grant Thornton's report did not include an action plan for management to agree but did highlight some opportunities for improvement. These have been considered and the following action has been taken:

Theme	Opportunity for Improvement	Management response
Financial reporting	The Council should build on progress it has made in producing an annual report and consider the benefits of producing it in variety of formats	The council consults regularly through the Direct magazine on the suitability of the financial information it provides, both on budget plans and outturn performance. It used this approach to determine whether there was demand for annual reports. An annual report was produced for 2006/07 and a similar report will be produced for 2007/08. All information printed in Direct Magazine is available in a number of formats. Similarly information held on the council's website is available in other forms and links to translation services are made

Financial Management	The council can further improve arrangements through strengthening the role of partnerships within financial plans, strategies and the council's objectives, and fully embedding procedures for the management of assets.	In progress through the Strategic Plan revision and Local Area Agreement (LAA) preparations.
Internal Control	The council can improve arrangements through: <ul style="list-style-type: none"> • Ensuring continuity in membership and attendance at the Audit Committee • Introducing formal procedures for updating and assessing performance of partnerships 	The effectiveness of the Audit Committee has been evaluated against best practice and includes attendance and continuity of membership. Some opportunities for improvement were identified and incorporated into an action plan. A governance toolkit has been developed for new and existing partnerships, which includes performance. All strategic partnerships have been evaluated and other significant service partnerships are currently being evaluated.

2.4 **ISA 260 Report**

All recommendations in the ISA 260 action plan for 2006/07 (appendix A) have been addressed. The ISA 260 report for 2007/08 is now due and progress against the action plan will be reported at future meetings.

2.5 **Grants Report 2006/07**

External Audit's reports on 2005/06 and 2006/07 Grant Returns were reported to the Audit Committee in January 2008. The Grants Protocol has been re drafted and incorporated into the updated Finance Manual. Good progress has been made against the action plan as 6 of the 7 agreed actions have been implemented (appendix B). The target date for the remaining recommendation is not due yet.

2.6 **Tackling Drugs Misuse through Joint Working**

Although this report was issued in May 2007 a copy was not issued to Finance and it therefore bypassed the usual progress monitoring process. The action plan attached at Appendix C shows 7 of the 9 recommendations have been completed and work is in progress in respect of the other recommendations.

2.7 **Consequences of flooding in summer 2007**

In August 2008 the Audit Commission issued a letter on the outcome of their work. It provided follow up work to the Commission's national study of the summer floods in 2007 'Staying Afloat – Financing Emergencies', but focussed on the consequences of the flooding for

North Lincolnshire Council. The purpose of the work was to gain assurance that the risks associated with flooding are adequately managed by the council, ascertain the total costs of the flood and examine the impact of the floods on services and performance.

Four conclusions were drawn

- The council has a good awareness of the cost of the flooding and has identified spending and funding extending over a four-year period from 2007/08.
- Appropriate action has been taken to manage risks associated with flooding, including leading a Multi-agency Flood Forum Group; revised business continuity plans and disaster recovery arrangements and extended insurance flood cover.
- There is a good understanding of the impact on performance and despite considerable disruption to services performance has not been drastically affected.
- Prompt action was taken on reconstruction work. Work to reduce the likelihood of flooding and to make assets less susceptible to future flooding is planned. There is also an increased focus on flooding risk in considerations of planning applications.

Two recommendations were made:

Recommendation	Management response
The council carried out a cost/benefit analysis to find out whether there is additional risk management work that would be cost effective in terms of reducing the insurance premium	A meeting was held with the insurers, the insurance and risk manager and the Head of Highways and Planning in February 2008 at which details of the extensive work carried out and planned to reduce the risk of flooding was provided. No response has been received from the insurer yet.
The council includes some form of estimation of the number of staff days diverted from normal work to emergency-related work in its disaster recovery arrangements.	This may provide useful management information and its implementation will be considered.

3 OPTIONS FOR CONSIDERATION

- 3.1 Options are limited in this type of report. Audit committee are invited to consider the action plans and seek clarification on progress made in implementing external audit recommendations as necessary.

4. ANALYSIS OF OPTIONS

4.1 The approach adopted was approved by the Audit Committee and complies with one of the recommendations made in the CPA Use of Resources report 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'*. This represents good practice.

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 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 corporate 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. RECOMMENDATIONS

8.1 To note progress made as detailed in this report

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Background Papers used in the preparation of this report

Annual Audit and Inspection Letter – March 2008
External Audit 2007/2008: Use of Resources Updated Scores January 2008
External Audit 2006/2007: Report to those charged with governance September 2007
External Audit Grant Claims and Returns 2006/2007 December 2007
Tackling Drugs Misuse through Joint Working – May 2007
Consequences of flooding in summer 2007 – August 2008

Action Plan - Accounts

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility	Update /progress
Issues relating to proposed adjustments					
<p>Pump Priming Grant</p> <p>The Council receives income for its LPSA agreement which has conditions attached and which is not necessarily received in the period in which the Council earns the right to the income.</p> <p>Two adjustments have been agreed to:</p> <ul style="list-style-type: none"> match receipt of £461k LPSA2 income to the associated associated expenditure in 2007-09 appropriate £448k from the earmarked reserve set up from receipt of performance reward grant received in the prior year 	The council have agreed to adjust the accounts in accordance with accounting guidance.	The Council should develop guidance on the application of income recognition principles	Agreed to be introduced for 2008/09 accounts.	Mark Kitching December 2007	After agreeing to this action it was felt that a more proportionate approach was required to resolve this problem. As this is the first and only identified error with income recognition we are offering advice on the treatment of each unusual transaction rather than developing a policy.
<p>Safer and Stronger Communities</p> <p>Internal Audit's review of the Cleaner Safer Greener claim identified:</p> <ul style="list-style-type: none"> revenue costs erroneously included as capital ineligible expenditure for 2007/08 <p>Additional errors were identified during our audit.</p>	The council have agreed to adjust the accounts in accordance with the terms of the grant.	As part of the grant monitoring procedures the council should ensure that grant income claimed is in accordance with grants terms and conditions.	<p>The grant protocol will be amended to include further guidance on this subject.</p> <p>The capitalisation policy and income recognition guidance will also give guidance directly related to the errors identified.</p>	<p>Peter Fijalkowski January 2008</p> <p>Mark Kitching December 2007</p>	<p>Grants protocol has been revised and incorporated in the Finance Manual</p> <p>The Capitalisation policy was introduced with effect from 2008/09.</p>
<p>Government Grants Deferred (GGD)</p> <p>The Council has made progress in implementing an action plan to ensure full compliance with the SoRP. However, our audit identified:</p> <ul style="list-style-type: none"> items included in GGD which should be included in deferred income 	The council has agreed to adjust the accounts in accordance with accounting guidance.	The council should continue to implement the accounting treatment of GGD in accordance with the proposed timetable in the action plan.	Work is ongoing to the timetable previously agreed.	Mark Kitching April 2008	This is a key issue in the accounts closure and subject to on-going discussion with External Audit.

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility	Update /progress
<ul style="list-style-type: none"> grant income received which does not relate to an asset 					
<p>Internal Recharges</p> <p>The council did not eliminate all internal recharges from within the service lines on the I&E account. Net expenditure is accurately stated, however gross expenditure and gross income was overstated by £43,500k. We understand that this is due to a revised coding method used in year, which ensures internal recharges are more visible, however the adjustments were not eliminated when preparing the accounts.</p>	<p>The council has agreed to adjust the accounts to eliminate internal recharges from the gross expenditure and income in the I&E account.</p>	<p>The council should ensure all internal recharges are removed from the accounts, with the expenditure being recognised in the department which has received the benefits.</p>	<p>Agreed the closedown procedure will be amended to ensure internal income will be completely eliminated.</p>	<p>Mark Kitching January 2008</p>	<p>The working papers used to prepare the Income and Expenditure Account (I&E) have been amended to include a section on internal income. This directly links to the main statement, automatically eliminating internal income.</p>
Wider control issues identified during the audit					
<p>Capitalisation of Expenditure</p> <p>Last year we recommended that the council produce a capitalisation policy to ensure that expenditure capitalised is in accordance with 2006 SoRP guidance. The council is in the process of finalising the capitalisation policy, which should be implemented to provide a means of checking expenditure capitalised meets the requirements, including accounting for capital expenditure as non-value enhancing.</p> <p>Capitalisation of staff costs should be reviewed against the capitalisation policy once issued and information produced to support capitalised staff costs within the Council's final accounts.</p> <p>Impairment Review</p> <p>Our audit identified that the council does not have formal procedures in place to review assets for impairment.</p>	<p>None</p>	<p>The Council should formalise its procedures for identifying capital expenditure which enhances the value of assets so that it can be confident that materially correct values for all of its assets are recorded in the balance sheet at the end of each financial year. These procedures will enable the Council to better support any capital expenditure that it judges to be non-value enhancing, which, under current SoRP guidance, can be</p>	<p>The draft capitalisation policy will be introduced as soon as possible.</p> <p>The closedown procedure will be amended to include the requirement for working papers to support the capitalisation of staff costs.</p>	<p>Mark Kitching December 2007</p> <p>Mark Kitching January 2008</p>	<p>The capitalisation policy was implemented fully from 2008/09. A review of the current capital programme was undertaken in early 2008 and some non capital items were Transferred to revenue.</p> <p>The Finance Managers were reminded of the requirement to provide working papers supporting the capitalisation of staff time.</p>

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility	Update /progress
		written off to reserves. The Council should formalise procedures for reviewing assets for impairment.	A procedure will be put in place to review assets for impairment, where material.	Mark Kitching April 2008	Asset management and culture staff have been asked to carry out impairment reviews.
<p>Pooled Budgets The council participates in 3 pooled budget arrangements with North Lincolnshire PCT. The Learning Disability Pooled Budget has overspent for the last 3 years. The council should review budget monitoring procedures to ensure that the pooled budgets are managed effectively within budget.</p>	None	The council should review monitoring of pooled budgets to ensure that these are managed effectively within budget.	Budget monitoring procedures have consistently and accurately highlighted issues with pooled budgets. To deal with these issues requires changes to the budgeting and operational relationships between NLC and the PCT. Discussions are to take place to make these changes and will involve senior management from both organisations.	Mike Wedgewood December 2008	Improvements are in progress such as post by post budget monitoring and better vacancy management; improved tracking and forecasting of residential and home care costs; better understanding and scrutiny of budgets and monthly meetings with PCT staff. This has resulted in more effective financial management and to forecast underspends within Mental Health and Learning Disability. The position has been resolved for Continuing Care cases and budget adjustments made.
<p>Building Control Account The building control account is required to breakeven over a period of three years. Surpluses have been made, with the cumulative surplus at 31/3/07 being £436k, with a turnover for 2006/07 of £524k.</p>	None	The Council should review budget setting arrangements to ensure the building control trading account breaks even on a rolling three year basis.	A review of the Building Control account will be undertaken to ensure it breaks even over three years.	Mark Kitching March 2008	An informal review of the Building Control was carried out. It found that trading conditions had become more difficult and a deficit was forecast for 2008/09.

Appendix B – Grants Action Plan

Recommendation	Action Agreed	Responsibility & Timescale	Management Response
<i>Arising from the 2005/06 report, updated to reflect findings in 2006/07</i>			
<p>The council should improve procedures for the submission of grant claims within deadlines, which could incorporate the following:</p> <ul style="list-style-type: none"> during the main grants period (i.e. August to December) the grants coordinator provides fortnightly updates to the council's auditors of progress in submitting in accordance with claims deadlines to allow planning for the completion of the audits to be undertaken; the grants coordinator reports to the Service Director Finance (SDF) if claims are not submitted within a week of the deadline for submission to the auditors, in line with the grants protocol; and inclusion of grant claims submission within the annual closedown procedures to act as a reminder to finance managers to ensure procedures are in place to complete the grant claim certification process. 	<p>An update on the status of auditable claims will be sent to our external auditors fortnightly through the August to December period.</p> <p>The Grants coordinator will report to the Service Director Finance if claims are not submitted within a week of the deadline</p> <p>An annual project plan incorporating the closedown timetable and other key finance activities will be developed including the key dates for auditable grants.</p>	<p>Peter Fijalkowski August 2008</p> <p>Peter Fijalkowski September 2007</p> <p>Mark Kitching April 2008</p>	<p>An updated programme was provided for external audit during the 2007/08 financial year</p> <p>The reporting process is now undertaken on a regular basis</p> <p>An annual project plan has been prepared for 2008/09 and will be used to track the submission of grant claims.</p>
<p>Training on completion of grant claims should form part of the annual training cycle for officers involved in the grants claim process.</p>	<p>Grants training will be offered to all staff involved in the grants claim process. The training will be targeted at those where performance</p>	<p>Peter Fijalkowski By April 2008</p>	<p>Following the update of the grants protocol an offer has been made through the finance teams of training on the protocol requirements. None requested</p>

Recommendation	Action Agreed	Responsibility & Timescale	Management Response
	requires improvement.		to date. Grants training will be incorporated into the Corporate Training Programme.
<p>The grants protocol developed in 2004-05 should be updated to take account of changes in certification requirements and personnel within the council. Officers involved in the grant claims process should be reminded of the protocol following revision.</p>	<p>The grants protocol will be revised to include: -</p> <ol style="list-style-type: none"> 1) Changes in the certification requirements 2) Changes to personnel and structures within the council 3) Changes to the grants submission process. With many grants now being submitted electronically it is essential effective controls are maintained. 4) Revision to procedures for amending claims as suggested below. <p>A requirement to hold a file for each grant that contains</p>	<p>Peter Fijalkowski January 2008</p>	<p>The grants protocol has been revised to include the agreed changes, and the protocol has been incorporated into the finance manual (March 2008)</p>

Recommendation	Action Agreed	Responsibility & Timescale	Management Response
	all the documentation relating to the grant.		
<p>Procedures for amending claims be revised as follows:</p> <ul style="list-style-type: none"> • audit confirm with claim preparer required amendment; • audit notify claim preparer and grants coordinator amendments following completion of the audit; • revised claim to be submitted to audit within two weeks of notification following the standard grant submission procedures; and • audit to notify the Service Director Finance of any claims not received within two weeks of notification. 	See changes to grant protocol above	Peter Fijalkowski January 2008	The grants protocol has been revised to include the agreed changes, and the protocol has been incorporated into the finance manual (March 2008)
A file should be maintained with supporting documentation for each grant claim. Working papers should be cross-referenced and the file should be made available for auditing the claim. This should be incorporated in the updated grants protocol.	See changes to grant protocol above	Peter Fijalkowski January 2008	The need to keep a file for each grant claim -always implicit- is now an explicit requirement in the protocol.
<i>Arising from 2006/07</i>			
Procedures for maintaining asset registers should be reviewed and improved so that grant funded assets are clearly identified. This should be linked to the capitalisation strategy, to be implemented by the council, and included in the updated grants protocol.	Discussions are taking place with the council's asset register software supplier concerning changes to the system to enable the required information to be recorded.	David Lyons April 2008 now September 2008	The latest upgrade now included this feature. It is yet to be installed and populated with data. Revaluation data required for closedown will take priority therefore the target date has been revised to September 2008



Tackling Drugs Action Plan
Report name: Tackling drug misuse
(recommendations relating to North Lincolnshire Primary Care Trust)

No.	Recommendation	Link to relevant standards	Officer Responsible	Implement by when	Status
1	R1 Develop stronger engagement with a broader range of partners, including public, private and voluntary sector housing providers, the Prison Service and social care.	D2 (c) - co-ordinated to provide a seamless service	Ian Cameron, Deputy Head Safer Neighbourhoods (Substance Misuse)	September 2007	North Lincs Homes rep on Joint Commissioning Group, Housing support link-worker in post, Social care liaison through Hidden Harm agenda. Regular Prison/DIP clinic attended.
2	R2 Implement a workforce development strategy to ensure a systematic and targeted approach to staff learning and development.	C11 - staff development	Mandy Bartlett, Commissioning Manager	September 2007	Completed. Strategy in place, on course to meet 2008 targets.
3	R3 Develop a clear framework for ensuring that operational staff are clear about the partnership's priorities and their contribution to those priorities.	C7 (f) - performance management	Ian Cameron	September 2007	Completed. Part of workforce strategy see above.

No.	Recommendation	Link to relevant standards	Officer Responsible	Implement by when	Status
4	R4 Manage service user expectations and perceptions of services through improved communication, particularly when users are transferring between services with different treatment regimes.	C16 - provision of information	User and Carer Post (to be appointed)	September 2007	"Fresh Steps" user group meets regularly, "Empathy" carer group meets regularly. Service users represented on "Expert Group" – feeds in to strategic planning
5	R5 Explore in more depth with service users how they feel their confidence can be built and how peer support can be developed, and where appropriate build this into programmes. A peer mentoring scheme is planned as a future target. User and carer training Program will support peer mentoring and run in line with NOCN accreditation level3. This includes confidence building, communication skills survey and etiquette skills This will then contribute towards quarterly monitoring for service users.	D8 - continuously improve the service user experience based on feedback	User and Carer Post (to be appointed)	June 2007	Proactive approach of user and carer groups (above). Some service user training commenced. Peer Mentoring remains an ambition
6	R6 Routinely gather service user views and use this information to improve services. Continue consultation on issues that affect service users through participatory models, examples evident in alterations to the reception area at DIP. Develop and implement service user involvement accreditation in line with NOCN to build skills, confidence and obtain survey and evaluations of services by service users. This will form the basis of service user quarterly monitoring and provide further pathways into ETE. A quarterly newsletter is planned to run concurrent to this system and be the medium for service user views.	D8 - continuously improve the service user experience based on feedback	User and Carer Post (to be appointed)	June 2007	Fresh Steps user group discussions "Praise and Grumble Scheme introduced. Suggestion box in reception.

No.	Recommendation	Link to relevant standards	Officer Responsible	Implement by when	Status
7	R7 Complete contract negotiations in a timely manner.	C7 - governance and financial management	Mandy Bartlett	June 2007	Completed – no outstanding negotiations.
8	R8 Implement a clear structure for clinical leadership relating to the treatment of drugs misuse, including forums for bringing together clinicians from different agencies.	C7 (a) - clinical governance	Kay Aisthorpe, Models of Care Manager	September 2007	Ongoing. Lead GP identified, with Consultant supervision. Supervision model being developed. Shared care forum outstanding.
9	R9 Strengthen planning processes so as to incorporate a more robust commissioner and provider dialogue and increased staff consultation.	C7 - clinical governance	Ian Cameron	September 2007	Completed. Integrated service Manager's meeting in place. Revised format for quarterly monitoring meetings to include consultation and feed back.