

NORTH LINCOLNSHIRE COUNCIL

AUDIT SUB-COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider external audit's reports:
- Audit Plan 2011/2012
 - Audit Committee Update Report
 - Certification of Claims and Returns – Annual Report; and
 - Annual Audit Letter.

2. BACKGROUND INFORMATION

- 2.1 The Audit Plan 2011/12 sets out external audit's work required to give an opinion on whether the accounts give a true and fair view and a statutory conclusion on the council's arrangements to secure economy, efficiency and effectiveness. The report is attached at appendix A. The proposed fee for the audit of £229,633 shows a significant reduction on that for 2010/11 of £255,148.
- 2.2 External audit's Update Report is designed to provide the Audit Sub-Committee with a report on progress in delivering their statutory responsibilities. The update also seeks to highlight key emerging national issues and developments which may be of interest to Members. The report includes an update on the externalisation of the Audit Practice and ongoing discussions with the Audit Commission. The report is attached at appendix B.
- 2.3 Listed below is the council's response to a series of questions contained in the Update Report designed for the Sub-Committee to consider

Has the Council considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?

Tough Times was considered as part of the budget process as was VFM profiling. The Audit Commission has evaluated the council's financial management arrangements as robust and this is evidenced through continued

	meeting of budgets and financial targets.
Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?	No instead the Council has carried out extensive data comparison work using Experian software and thorough investigation of National Fraud Initiative (Data Matching) output.
Has the Council completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?	Yes this demonstrates a high level of compliance and is covered in more detail in the counter fraud report elsewhere on this agenda.
Has the Council circulated the fraud briefing to all school governors?	This will be circulated to schools
Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?	This will be considered and a report will be prepared for Members.

2.4 The Certification of Claims and Returns Report summarises the council's arrangements for claiming grants in 2010/11, and the level of assurance it provides on the operation of the council's procedures. The report is attached at appendix C. Overall there were no significant weaknesses in the council's arrangements to prepare grant claims reported and improvements in supporting working papers were also noted. Recommended improvements identified in the previous year's report were implemented and issues identified during this year's testing have been addressed.

2.5 Each year the council's auditors provide the council with an annual audit letter. This gives an overall summary of the Audit Commission's assessment of the council, drawing on final accounts and value for money work. The annual audit letter for 2010/11 is attached as appendix D. The report is positive and the key messages are:

- An unqualified audit opinion was issued on the 2010/11 accounting statements on 30th September 2011.
- An unqualified value for money conclusion was issued on 30th September 2011. This means External Audit is satisfied that the council made proper arrangements to secure economy, efficiency and effectiveness of its use of resources.

The report contains 1 recommendation to improve internal control arrangements, specifically, 'Members should review the structure, representation and attendance of the Audit Committee'.

3. OPTIONS FOR CONSIDERATION

3.1 The Audit Sub-Committee should consider the external auditor's reports and the assurance that has been given or can be implied from their conclusions. The Sub-Committee should seek clarification from the Audit Commission or council officers as necessary. In addition, to maintain or improve its assessment in future years the council will implement action plans in order to address the improvements raised by the auditors

3.2 To take no action would invite adverse judgments in future.

4. ANALYSIS OF OPTIONS

4.1 The Audit Plan is the result of a risk assessment and complies with statutory requirements governing external audit and inspection work. Update reports provide the Sub-Committee with specific information on progress on external audit's work. This will help Members consider whether current assurance coverage is sufficient.

4.2 Table 1 of the Certification of Claims and Returns – Annual Report provides a summary of improved performance compared to previous years.

4.3 The Audit Sub-Committee should ensure it adopts the actions recommended in the Annual Audit Letter.

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

5.1 Audit Plan fees of £229,633 (plus £40,000 for certification of claims and returns) are met within existing budgets.

5.2 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.

6.2 There are no environmental, diversity, Section 17 or other implications.

7. OUTCOMES OF CONSULTATION

7.1 Each report has been discussed and agreed with the Director of Finance and Chief Executive as appropriate.

7.2 The Annual Audit Letter is the result of inspections where appropriate members and officers are consulted.

8. RECOMMENDATIONS

8.1 That the Audit Committee notes the Audit Plan report and receives further reports as the work is concluded in the Annual Governance Report and Annual Audit Letter.

8.2 That the Audit Committee notes the external audit Update Report and Certification of Claims and Returns Annual Report.

8.3 That the Audit Sub-Committee considers the Annual Audit Letter, the assurance that has been given or can be implied from its conclusions, and what action to take in respect of the recommendation that 'Members should review the structure, representation and attendance of the Audit Committee'.

DIRECTOR OF FINANCE

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Author: C Andrews
Date: 07 January 2012

Background Papers used in the preparation of this report

Audit Commission reports:

Audit Committee Update - Audit 2011/12

Audit Plan 2011/12

Certification of Claims and Returns – Annual Report 2010/11

Annual Audit Letter 2010/11

Audit plan

North Lincolnshire Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council , including assessing your own risk management arrangements;
- considering the financial performance of the Council ;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council 's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
Accounting for Pension Costs. This is a large item on the balance sheet which is based on an estimate and has fluctuated significantly in recent years.	As I did on 2010/11, I will evaluate the management controls you have in place to recognise and value your pension liabilities. I will also undertake testing to check that you have accounted for pension liabilities in accordance with the Code.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. Whilst I have not identified any significant risks my work will focus on the

- delivery of your 2011/12 savings plans;
- impact on operational services of your redundancy programme; and
- realism of your future financial plans.

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 2: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	By 31 March 2012	We will report any control failures or significant matters to the audit committee.
Opinion: receipt of accounts and supporting working papers	By 30 June 2012	
Opinion: substantive testing	July and August 2012	
Present Annual Governance Report at the Audit Committee	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Damian Murray District Auditor	d-murray@audit-commission.gov.uk 0844 798 6620	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Rob Walker Audit Manager	rj-walker@audit-commission.gov.uk 07815 876297	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £229,633 as set out in my letter of 25 February 2011.

The audit fee

The Audit Commission has set a scale audit fee of £229,633 representing a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions that the Council could take and provide ongoing audit support. For future, improving the quality of working papers to support Property Plant and Equipment disclosures will have the most significant impact.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 4: Fees

	2011/12 proposed	2010/11 actual	Comments
Audit	229,633	255,148	Reduction in scale fee
Certification of claims and returns	40,000	52,000	Based on the expected number of grant claims in 2011/12
Non-audit work		15,000	None currently planned in 2011/12
Total	269,633	322,148	

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 5: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

This is the annual report on your system of internal control supporting achievement of your policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

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

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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

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

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



Audit Committee update

North Lincolnshire Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Damian Murray

District Auditor

January 2012

Progress report

Financial statements and VFM conclusion

5 Our interim work, testing financial systems and reviewing your VFM arrangements, will commence in early 2012 detailed in the audit plan on the agenda.

Other matters of interest

Update on the externalisation of the Audit Practice

6 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

7 The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

8 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

9 Further details are available on the Audit Commission's website. We will continue to keep you updated on developments.

10 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

2011/12 Final Accounts Workshops

11 We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

12 The closest event for North Lincolnshire is at Car House Centre 19 January 2012. Please contact Rob Walker, if you have not received an invite to these workshops or if you would like to discuss the events in more detail.

Dealing with the economic downturn

13 On 17 November 2011 the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'.

14 The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

15 The key findings in the report are as follows.

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books;
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets;
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years; and
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

16 The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

Procurement Fraud in the Public Sector

17 The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

18 The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

19 The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

Protecting the Public Purse 2011

20 In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'

21 This report is based on the Audit Commission's annual fraud survey - which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

22 The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

23 The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts - £22 million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

24 We have therefore developed a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average and this can be found on our website.

25 The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

26 The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

27 In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

Localism Act 2011

28 On 15 November 2011 the Localism Bill received Royal Assent.

29 The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Committee.

30 Subject to commencement, key measures of the Act include the following.

- Introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything - provided they do not break other laws.

- Giving communities the right to approve or veto - by way of a referendum - Council Tax increases higher than a limit determined by the Government.
- Opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies.
- Abolishing the Standards Board.
- Clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge.
- Enabling councils to return to the committee system of governance, if they wish, regardless of their size.
- Giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs.
- Promoting openness regarding the pay of senior officers; and
- Allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

31 Many of the measures in the Localism Act are expected to be in place by April 2012.

Openness and Accountability in Local Pay

32 The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

33 On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council.

34 Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

35 There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

Key considerations

36 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council* completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the fraud briefing to all school governors?
- Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?

Contact details

37 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

38 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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Certification of claims and returns - annual report

North Lincolnshire Council

Audit 2010/11



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Introduction

Under Section 28 of the Audit Commission Act 1998 the Audit Commission may, at the request of the Council make arrangements for certifying grant claims and returns.

1 In 2010/11, my audit team certified 11 claims with a total value of £140 million. Of these, we carried out a limited review of 6 low risk and smaller claims and a full review of 5 claims. Overall there were no significant weaknesses in your arrangements to prepare grant claims. You provided good supporting working papers, better than prior years and responded promptly to our queries. We did identify improvement areas in benefits administration related to Single Residency Discounts and where manual adjustments take place to Benefits which have been addressed.

2 Your relative performance of grant claim administration continues to improve the number of claims amended or qualified reduced in 2010/11 following the trend seen in previous years. Supporting working papers were good throughout.

Table 1: **Qualified, Amended and Late Claims**

	2010/11	2009/10	2008/09
Number of individual claims certified	11	15	16
Number of qualified claims	2	4	3
Percentage%	18%	26%	19%
Number of claims amended	1	2	4
Percentage%	9%	13%	25%

Certification fees

3 The fees I charged for grant certification work in 2010/11 are expected to be £52,000 compared to £56,596 for 2008/09.

2009/10 follow up

4 In last years report I recommended improvement to

- Compliance with Contract Procedure Rules;
- Asset recording for grant funded assets; and,
- Overall quality assurance arrangements.

I am please to report identified no similar problems in my work in 2010/11

Specific Claims

Disabled Facilities Grant

5 The Council did not fully comply with one of the terms of the grant. Tenants are required to sign an occupation certificate confirming their intention to stay in the property after completion of the adaptations to the property. Sixteen claims relating to North Lincolnshire Homes did not include this particular form before June 2010. Staff instead, relied on verbal assurances. Arrangements were changed after June 2010 certificates are received for all subsequent relevant applications.

Housing benefits

6 The Audit Commission agree the Housing benefit testing approach with the Department of Works and Pensions (DWP), designed to identify possible grant over-claims, via a grant report. We often cannot conclude on the impact of any errors we find because of the size and nature of this complex claim. In this circumstance, we qualify the claim and report the matter to the DWP. The DWP may then ask you to carry out testing to quantify the impact of the errors accurately.

2009/10 follow up testing

We carry out testing of the issues raised in the 2009/10 qualification letter. All prior year errors had been amended in 2010/11 and there were no issues to report to the DWP.

2010/11 Testing

7 Following our testing of 2010/11 transactions you made a small number of amendments to the claim. I issued a qualified certificate on the 28 November 2011 in time for the 30 November 2011 deadline.

8 During a period of increasing workload for your staff we found more errors in our initial work compared with 2009/10, illustrated in table 2 below.

Table 2: **Housing benefit Errors and Workload**

	2010/11	2009/10
Initial Sample	59	66
Errors	7	3
Percentage	11.9%	4.5%
Benefit Claimed	£52.8million	£49.1million

9 There were two main issues we identified during the testing:

- **Single Residency Discount (SRD) Council Tax** - We identified a weakness in the arrangement for the removal of Council Tax SRD liabilities for clients on benefit. When the discount is removed for example if the tax payer fails to return a confirmation that SRD still applies, the benefit is increased on the system, to compensate for the removal of the discount. Housing benefit regulations require confirmation of the change from the claimant, in these circumstances. Officers carried out sufficient work to identify all cases, this has resulted in the benefit claimed in 2011/12 falling by £243,000. The system has been corrected during 2011/12.

- **Manual Adjustments to overpayments** - During the year a small number of cases (underlying entitlement cases) require a manual adjustment. The benefit system, does not take account of these manual adjustments for subsidy entitlement. Following queries raised as part of the audit, your officers carried out a check of all these adjustments. A small number were found to be incorrect, both for the benefit claimed and the subsidy claim reducing rent allowances claimed by £2,402 and council tax benefit by £747. Consequently, you made a minor manual adjustment to the subsidy claim in 2010/11 following this check. Carrying out this check is very time consuming when retrospective.

I have been informed that controls have been strengthened:

- For SRD cases a report is now scheduled to be produced monthly from the Northgate system to highlight and correct any discrepancies
- Checks on manual adjustments have always been part of the 4% normal daily quality check, however because there are so few they are seldom picked. From now on a monthly check is planned along with a 10% check will be carried out as part of the subsidy form completion.

Summary of Certified Claims

Claims and returns above £500,000

Claim	Value in year £	Full reliance on Control environment	Amended	Qualification letter
Ben 1 Housing benefit	52,800,747	No - Inherently high risk and qualified in 2009/10	Yes	Yes
RG33 - Acquisition of Club 2000 (Scheme total £1,144,600)	46,000	Yes	No	No
RG33 - Scunthorpe Urban Renaissance Management (Scheme total £558,956)	82,038	Yes	No	No
RG33 - Crowle Market Place Phase 2	882,041	No - Qualified in 2009/10	No	No
RG33 - The Pods	3,360,044	Yes	No	No
PEN 05 - Teachers Pensions	9,813,073	Yes	No	No
LA01 NNDR 3	64,695,855	No - three year rule	No	No
EYC02 - Sure Start, Early Years and Childcare	7,338,387	No - Previous qualification	No	No
HOU 21- Disabled Faculties Grant	791,000	No - Previous qualification	No	Yes

Claims between £100,000 and £500,000

Claim	Value in 2009/10 £	Amended
EDU06 – School Centred initial teachers training	402,928	No
RG33 - South Humber Bank Management (Scheme total £135,138)	5,113	No

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



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January 2012

Annual Audit Letter

North Lincolnshire Council

Audit 2010/11



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Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have included only significant recommendations in this report. The Council has accepted these recommendations.

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

Audit opinion and financial statements

- I issued my audit report including an unqualified opinion on the financial statements on 27 September 2011.
- You prepared financial statements to a reasonable standard and we identified a number of errors and omissions.

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

Value for money

- I also issued an unqualified value for money conclusion on 27 September 2011.
- You have arrangements to secure financial resilience while responding to significant cuts in government grant funding.
- Proper arrangements are in place for challenging economy, efficiency and effectiveness in your use of resources.

Current and future challenges

Economic downturn and pressure on the public sector

The Council is dealing with the effect of the economic down turn and pressures on services that include:

- significant cuts in central government grant income resulting in £25.7 million savings over the next four years; and
- increased demand for services such as housing benefit (2008/09 £41.2 million, 2009/10 £49.1 million and 2010/11 £52.8 million).

In response you have updated your financial and operational plans. You plan to move away from direct provision of some services and maintain financial stability with reserves remaining at £7million over the next few years. Currently you are managing a small overspending in revenue budgets.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion on your financial statements. 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 for officers to check the accounts.

I presented my Annual Governance Report to your Audit Committee on 27 September and highlighted the following matters:

- a £25.8 million grossing error in the Property Plant and Equipment note 12 in the balance sheet;
- a £2.7 million amendment between Investments and Cash also in the balance sheet; and
- corrections to the classification on the face of the Comprehensive Income and Expenditure statement. This included disclosing £60 million pension cost reduction as negative expenditure rather than income, and a correction to central overhead charges of £2.7 million in Corporate and Democratic core.

There was no impact on the overall net valuation of your assets, reserves or overall financial position. We recommended improvements in your accounts quality assurance arrangements which I agreed with officers.

Significant weaknesses in internal control

As part of my work I reported weaknesses in your arrangements for identifying and recording potential related party transactions and in password controls. You have already implemented improved controls to address the weaknesses.

Following the election in May 2011 you set up a new Audit Committee with 19 members with 10 from the leading conservative group and 9 from opposition labour members. The Committee appointed an Audit Sub-Committee of 5 members to carry out most of its activities with 3 from the leading group and 2 the opposition. Only members from the leading group have attended the meetings so far.

Your constitution allows Sub-Committee meetings with 3 attendees, however, this reduces the Committee's effectiveness and has the potential to undermine your overall governance arrangements. Chapter 5 of the 2005 CIPFA guidance confirms that audit committees '*should be independent of the executive and scrutiny functions*'. It is a clear principle that audit committee independence is a vital part of the governance structure of any organisation and reducing independence weakens internal control.

I note that you acknowledged this weakness in your Annual Governance Statement. We will continue to monitor your response to this weakness and assess the audit risk and impact on our work programme.

Recommendation

R1 Members should review the structure, representation and attendance of the Audit Committee.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I concluded the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusions for the criteria specified are set out below.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. 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 £0.5 million dealing with in year budget cuts of £4 million in 2010/11.</p> <p>You updated your medium term financial plan during the year and have detailed savings plans to reflect significant cuts in government grant funding support.</p> <p>You plan to maintain general and earmarked reserves at consistent levels and are also minimising the use of borrowing. .</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 were 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>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</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 and use detailed financial analysis to target 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 £25.7 million savings over four 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 to make 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>

Closing remarks

I have discussed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee in January 2012 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan	January 2011
Grants Report 2009/10	January 2011
VFM Plan	February 2011
Interim Systems Report	April 2011
Annual Governance Report	September 2011

You have taken a positive and constructive approach to our audit. I wish to thank officers for their support and co-operation during the audit.

Mark Kirkham

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	255,148	255,148	0
Grants	Est 55,000	Est 55,000	0
Non-audit work - review of strategic housing	15,000	15,000	0
Total	325,148	325,148	0

Appendix 2 – Glossary

Annual governance statement

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

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

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

Audit opinion

On completion of the audit of the 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.

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.

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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