Report of the
Service Director Finance

Agenda Item No:
Meeting: 13 April 2010

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

    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 September 2009. Key annual reports are considered in the report, namely:
    - Annual Audit and Inspection letter
    - Annual Governance Report
    - Use of Resources Report.

    There is no further progress to report on data quality recommendations following the update given to the Committee in January in the Data Quality Progress Report; a further update will be provided in June. The outcome of the Grants Audit 2008/2009 is reported elsewhere on this agenda.

    2.2 **Annual Audit and Inspection Letter**
    The Annual Audit and Inspection Letter was reported to the audit committee in January 2010. The report did not include an action plan but incorporated areas for improvement for the council. Good progress has been made to address the recommendations made in the report and further work is planned such as:
    - The shortfalls in efficiency targets are being addressed through better service engagement with the efficiency agenda. In addition the council has taken a strategic approach to address underperformance in achieving the level of planned efficiencies

through the transformation plan incorporating the Worksmart initiative and engagement of a transformation consultant to carry out a high level review of efficiency and improvement opportunities. The Internal Programme Board has approved a change in the process of reporting financial and performance data. Key cost drivers are included in budget monitoring reports to monitor volumes and cost impact. The financial strategy makes explicit links between performance and budgets to inform budget decisions.

- The Audit Committee receives information to enable it to provide robust scrutiny of data quality and Internal Audit work and continues to develop the assurance framework,
- The carbon action plan and environmental policy have been encompassed into an overarching strategy to drive forward the reduction in the use of natural resources

2.3 **Annual Governance Report**

The report was considered by the Committee in September. It summarised findings from 2008/2009 audit work including the audit of financial statements and Use of Resources work. No significant issues were reported and an unqualified audit opinion was issued. Good progress has been made to implement the 4 recommendations made in the report. This is summarised in Appendix A.

2.4 **Use of Resources Report**

The report was considered by the Committee in September. Sixteen recommendations for improvements were identified. Progress made against these recommendations is being considered within this year's Use of Resources self assessment which is currently underway. The outcome of the evaluation will be reported to the Committee when the results are announced in September. Action plan progress is summarised in appendix B.

3 **OPTIONS FOR CONSIDERATION**

3.1 The Committee is asked to consider whether this update provides sufficient assurance on the progress made on external audit recommendations. The Committee is invited to consider the report and seek clarification on its contents as necessary.

3.2 The Committee may consider that the report does not provide sufficient assurance as a response to external audit recommendations and may require further work to be carried out.

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. The report sets out progress made on key recommendations, complies with professional guidance available and is designed to provide this 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 represents an opportunity missed to receive an important source of assurance to assist the 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 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 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. RECOMMENDATIONS

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

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Carol Andrews
Date: 21 March 2010

Background Papers used in the preparation of this report
Annual Audit and Inspection Letter January 2010
Annual Governance Report September 2009
Use of Resources Report September 2009

Annual Governance Report – Action Plan Appendix A

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Date	Update
	Annual Governance Report 2008/09 - Recommendations				
7	R 1 The Council should carry out a post completion review of the annual accounts process and consider the effectiveness of quality control arrangements to further improve the quality of the accounts.	2	Corporate Accountant	December 2009	The quality assurance process will be strengthened as part of the 2009/10 closure of accounts. An additional accountant will be tasked with an in depth review of the accounts. In the timetable the officer responsible for checking each element of the accounts has been recorded.
8	R 2 The Council needs to ensure that all bank account balances forming part of the coverall bank/ledger reconciliation are in place	3	Corporate Accountant	October 2009	The recommendation relates purely to the reconciliation of two schools bank accounts. These accounts have been regularly reconciled in 2009/10 and will cease on the 31st March 2010.
8	R 3 The Council needs to agree a practical authorization procedure for ledger journals as soon as possible	3	Corporate Accountant	October 2009	A protocol was introduced during 2009/10 but has not been universally applied across Finance until March 2010.
10	R 4 The Council needs arrangement to ensure there is detailed evidence to support all overhead apportionments and ensure information is available to support all disclosure	2	Corporate Accountant	December 2009	This relates to the apportionment of Neighborhood Services Costs. A system has been developed to more accurately apportion the costs of this Service Division. This will be enhanced in 2010/11.

Use of Resources – Action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Response to recommendations audit	Date	Update
Review arrangements in place to identify efficiency gains and ensure plans are in place to meet future efficiency targets.	3	Mike Wedgewood (lead) / Peter Fijalkowski (support)	Will review budget & efficiency monitoring processes, & training. These mechanisms will engage the whole organisation to pursue targets.	31/03/10	Improvement to process made. Possible examples of outcomes through Worksmart business case and work with Tribal on efficiencies
Ensure whole life costing/option appraisal is an integral part the Council's planning processes.	2	Peter Fijalkowski (lead)/ Jason Whaler/ Chris Ellerby (support)	Developed in places. Will aim to establish a standard method for comprehensive use.	31/03/10	Whole life costing has been an embedded part of the option appraisal process across the council for at least two years (key examples are the capital programme, highways maintenance programme and many procurement examples. A protocol is in place (Finance Manual) which sets out the principles by which the council applies whole life costing to its decisions. A draft methodology has been developed.

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Response to recommendations audit	Date	Update
Review financial and performance reporting to ensure such reporting is fully integrated to further improve resource allocation and improve the VfM agenda.	3	Peter Fijalkowski (lead)/ Caroline Barkley (support)	Already part of budget process. Will aim to ensure this is routine for the performance management of key priorities and variables.	31/03/10	Process agreed. Good evidence of linking financial and performance through the SRTG process. Other outcomes were shown in the budget report to Council in February and will be included in the Annual Report
Ensure the 3 year VFM Programme of targeted VFM improvement projects is closely aligned to the overall commissioning/procurement strategy within the VFM strategy.	2	Jason Whaler Strategic Procurement and VFM Manager	To be implemented through the VFM Strategy which will be approved shortly.	31/12/09	VFM Strategy was approved in February.
Ensure that there is a clear focus on outcomes in performance reporting and project and programme management.	3	Caroline Barkley Head of Strategy Development	The council already uses an outcomes framework for reporting in its annual report. Its quarterly reports are done against council ambitions but consideration can also	31/12/09	Development of framework in place has been undertaken and emphasis on outcomes through: - Revised QPR process

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			be given to using the outcomes framework for this. A review of project management arrangements needs to be undertaken and consideration given to integrating meiltool into these arrangements	31/03/10	- LSP reporting - Annual Improvement Summaries - Service Plans - Annual Report
Ensure controls across all data systems are documented and evaluated with the programme of data checks focussing on key risk areas to ensure this is in place.	2	Caroline Barkley Head of Strategy Development	The council's performance management arrangements require controls to be documented and a risk analysis is used to identify areas for data checks. This process will be further reviewed.	31/12/09	Corporate arrangements completed. Services required to update process maps by end of Feb.
Provide the Audit Committee with more information on the internal review programme on data quality to enable them to provide them with assurance that data quality arrangements are in place and allow robust scrutiny of	2	Caroline Barkley Head of Strategy Development	The Audit Committee can be provided with the data quality risk analysis and a report on findings is being included in the annual data quality report.	31/01/10	This has been actioned

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data quality.					
Use the partnership toolkit to demonstrate the positive impact on outcomes from partnership working including VFM outcomes.	2	Caroline Barkley Head of Strategy Development	An update of the toolkit is in progress and will be emphasised as part of the review	31/12/09	This has been actioned but service focus on outcomes still needs improving.
Be more explicit promoting the council' governance arrangements with members of the public and stakeholders and consider greater publication of senior officer and member expenses.	2	Mike Wood Service Director Legal and Democratic Services	Examples of best practice used elsewhere will be investigated and adapted for use within the council as appropriate	31/12/09	Members' expenses have been published on the council's website. A report has been prepared for CMT in January on Senior Officers' expenses and is likely to lead to disclosure in the final accounts as part of the new accounting requirements. A report was prepared on promotion of the ethical framework for the Standards Committee to consider. At the meeting on 28 January the Standards Committee considered a report 'Assessing the

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					Impact of Standards Committees' The report had been produced for Standards for England and contained 9 case studies of notable practice by Standards Committees. Action agreed was to look at the notable website highlighted in the report and invite a representative from the regional body to a future meeting.
Improve risk reporting to the Audit Committee by ensuring there is compliance with the reporting timetable and ensure risk registers focus on the risks relating to the achievement of service planning objectives.	2	Carol Andrews Audit and Risk Manager	Support to achieve reporting deadlines will be sought through SRMG. Expertise will be sought through the council's risk management advisors and Audit Commission to comment on the current risk registers. Appropriate guidance will be updated and training will be provided to service	31/03/10	Will be highlighted through the updated Risk Management Strategy and supported by appropriate training and guidance.

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Response to recommendations audit	Date	Update
			managers.		
Develop more quantifiable measures on the amount of prevention and detection of fraud and corruption work in the internal audit programme to provide the Audit Committee with more assurance on the work carried out.	3	Carol Andrews Audit and Risk Manager	The outcome of NFI work will be reported to the Audit Committee along with more information on proactive and reactive counter fraud work carried out through the audit plan	31/12/09	More information to be provided to the Audit Committee in Jan 2010
Implement a more systematic follow up of Internal Audit recommendations and ensure key recommendations not implemented are reported to the Audit Committee to ensure action is taken.	3	Carol Andrews Audit and Risk Manager	All recommendations are followed up however more information will be provided to the Committee; especially instances of failure to implement key/ high risk recommendations	31/12/09	Systematic approach adopted and reported to the Audit Committee
Adopt standardised wording on the level of assurance given for each Internal Audit assignment to inform the assurance framework.	3	Carol Andrews Audit and Risk Manager	The report format has been revised to provide greater consistency and clarity on the level of assurance reported through each audit review.	31/12/09	Standard wording has been adopted

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Develop an over-arching strategy to drive forward the reduction in the use of natural resources. All aspects of the strategy should be supported by action/delivery plans and ensure the role of partners is clear.	3	Tim Allen Environment Team Manager	Production of an overarching strategy has been built into the action plan and work programmes for taking forward work on managing natural resources.	31/03/11	
Ensure that clear outcomes are determined at the start of projects which are set out in the Carbon Action plan and the environmental strategy. Also ensure that performance against these outcomes are measured and reported.	3	Tim Allen Environment Team Manager	To be included in the carbon management plan	31/3/10	Carbon Management Plan approved at cabinet 3/2/10. Further progress to be checked with TA on his return (KLoE not subject to assessment this year)
Ensure that a full suite of reliable information is available to monitor performance and manage progress in achieving the strategy to reduce the Council's use of natural resources.	3	Tim Allen Environment Team Manager	Collection of environmental data is now a priority.	31/3/10	