

**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 Letter
- Annual Governance Report
- Use of Resources Report
- Certification of Claims and Returns – Annual Report 2008/09.

There is no further progress to report on data quality recommendations following the update given to the Committee in June in the Data Quality Progress Report; a further update will be provided in January.

**2.2 Annual Audit Letter**

The Annual Audit 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. Progress made to address the recommendations made in the report was reported in April 2010. Further work to address shortfalls in efficiency targets has had a positive impact such as:

- A Performance Improvement Panel was held in November 2009 and an action plan agreed. This captured substantial savings generated outside the budget-setting process and increased to

£8m the identified cash-releasing savings made by 31 March 2010, a substantial step towards the three year target of £15.3m.

- 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 the use of a transformation consultant to carry out a high level review of efficiency and improvement opportunities. Substantial savings have been identified, but delivery is largely after 2008/11
- For 2010/11 therefore a further exercise will be carried out to capture service efficiencies on top of the £1.6m savings generated through the budget setting process. The aim is to replicate the success of the 2009/10 exercise and get as close as is feasible to the three year target.

Similarly improvements continue to be made to integrate financial and performance reporting:

- 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 2009/10 Annual Report has been redesigned to make explicit the link between resources invested in council ambitions and the measurable change in key performance indicators

### **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. Action plan progress is summarised in appendix B. Progress made against these recommendations was also considered within this year's Use of Resources self assessment and the outcome of the 2009/10 evaluation is reported elsewhere on this agenda.

### **2.5 Certification of Claims and Returns – Annual Report**

This was reported at the last meeting in June. Action plan progress is summarised in appendix C.

### **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

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### **Background Papers used in the preparation of this report**

Annual Audit Letter January 2010

Annual Governance Report September 2009

Use of Resources Report September 2009

Certification of Claims and Returns – Annual Report – Audit 2008/09 – Feb 2010

# Annual Governance Report – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Date	Update
<b>Annual Governance Report 2008/09 - Recommendations</b>					
7	R1 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 was strengthened as part of the 2009/10 closure of accounts. An additional qualified accountant was tasked with an in depth review of the accounts. In the timetable the officer responsible for checking each element of the accounts was recorded.
8	R2 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 were regularly reconciled in 2009/10 and one school bank account ceased on the 31 <sup>st</sup> March 2010.
8	R3 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 was not been universally applied across Finance until March 2010.
10	R4 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 was developed to more accurately apportion the costs of this Service Division. The enhanced system was used

					in 2010/11.
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## 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	PIP action plan implemented from Nov 09 delivered substantial improvement in 2009/10 £8m savings towards £15.3m target through direct engagement of SMTs and sharing of processes between peers. This exercise to capture service efficiencies generated outside the budget process will be rerun in 2010/11.
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,

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					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.
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. An explicit link was made in the budget report to Council in February 2010 and in the Annual Report For 2009/10. This will now be standard practice
Ensure the 3 year VFM Programme of targeted VFM improvement projects is	2	Jason Whaler Strategic Procurement and	To be implemented through the VFM Strategy which will be	31/12/09	VFM Strategy was approved in February.



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closely aligned to the overall commissioning/procurement strategy within the VFM strategy.		VFM Manager	approved shortly.		
Ensure that there is a clear focus on outcomes in performance reporting and project and programme management.	3	Caroline Barkley Head of Strategy Development	<p>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 be given to using the outcomes framework for this.</p> <p>A review of project management arrangements needs to be undertaken and consideration given to integrating meiltool into</p>	<p>31/12/09</p> <p>31/03/10</p>	<p>Development of framework in place has been undertaken and emphasis on outcomes through:</p> <ul style="list-style-type: none"> <li>- Revised QPR process</li> <li>- LSP reporting</li> <li>- Annual Improvement Summaries</li> <li>- Service Plans</li> <li>- Annual Report</li> </ul> <p>The review of project management is nearing completion</p>

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			these arrangements		
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	This has been actioned
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 data quality.	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
Use the partnership toolkit to demonstrate the positive impact on outcomes from	2	Caroline Barkley Head of Strategy	An update of the toolkit is in progress and will be emphasised as part	31/12/09	This has been actioned but service focus on outcomes can still be

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partnership working including VFM outcomes.		Development	of the review		enhanced.
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	Further action based on good practice elsewhere include: <ul style="list-style-type: none"> <li>- Preparation of an annual report which will be presented to council and form the subject of an article in Direct.</li> <li>- Improvements to the website to heighten the profile of standards including publication of members' register of interests and commencement of discussions with town/parish councils as to their members' registers being similarly publicised</li> <li>- Discussions at the last</li> </ul>

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					<p>meeting with the secretary of ERNLLCA (regional body for town/parish councils) regarding ways of working together to promote standards</p> <ul style="list-style-type: none"> <li>- Meetings to be arranged between the Chair of Standards and the Chief Executive and Party Leaders to again emphasise commitment to the standards regime</li> </ul>
<p>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.</p>	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	31/03/10	This was highlighted through the updated Risk Management Strategy and will be supported by appropriate training and guidance.

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			to comment on the current risk registers. Appropriate guidance will be updated and training will be provided to service 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	Counter fraud reporting to the Audit Committee has been improved. Regular updates are provided on counter fraud work and progress on a separate counter fraud extract of the audit plan.
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	31/12/09	Systematic approach has been adopted and reported to the Audit Committee

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			implement key/ high risk recommendations		
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
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	Carbon Management Plan approved at cabinet 3/2/10. Budget provision of £0.5 Million made towards carbon and energy management and a further bid made to Salix for an additional £0.5 million.
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	The carbon management plan identifies a series of projects for implementation over the next 5 years The council has

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<p>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.</p>	3	<p>Tim Allen Environment Team Manager</p>	<p>Collection of environmental data is now a priority.</p>	31/3/10	<p>committed to the roll out of it Environmental management system across all service area. It is expected that by the end of 2010 40 % of the council will be covered.</p> <p>Data issues are being resolved with the introduction of smart meters throughout the councils property portfolio and the introduction of a new software package( TEAM)</p> <p>Energy audits taking place for all schools( Schools account for 45% of the councils carbon footprint)</p>

## Appendix C - Certification of Claims and Returns – Annual Report 2008/09 Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Update
6	<p>R1 The grant claims and returns checklists already in place should be updated to include a better focus and improved evidencing of the following areas:</p> <ul style="list-style-type: none"> <li>• compliance with the scheme's terms and conditions;</li> <li>• adequacy of internal financial control and internal audit, in relation to the claim or return;</li> <li>• adequacy of working papers to support the claim or return.</li> <li>• The existing checklists should be reviewed against those in the briefing Claims and Returns: Good practice for Authorities.</li> </ul>	3	Grant claim co-ordinator	Yes	<p>Yes A full review is to be undertaken of the relevance and suitability of the elements included in the grant claim preparation checklist to ensure there is more emphasis on checking areas previously identified as weaknesses, and improving the evidencing of checks made.</p>	SC by 31 March 2010	<p>The grants checklist has been fully revised to incorporate all three recommendations. This checklist has not yet been issued as it awaits a final review by a senior officer. It should be reviewed and issued before January 2011.</p>



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6	R2 Any communication with grant paying bodies which affects the terms and conditions of the grant should be confirmed in writing and held on file.	3	Project Officer/Finance Teams	Yes	No claim is to be submitted where there has been a verbal amendment to the grants terms and conditions without obtaining confirmation of such amendments in writing	31/3/2010	As above
7	R3 The quality assurance processes should ensure that robust reconciliations to the ledger have been evidenced and that the claim/return is compiled on the correct basis in accordance with the grant terms and conditions.	3	Project Officer/Finance Teams	Yes	All claims are to be supported by a reconciliation to the ledger, referenced to evidence in the working papers. This should ensure that the claim is being made on the correct basis (ie payments or accrual).	31/3/2010	As above