

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To consider three external audit reports:

- Audit Plan for 2010/2011
- External audit progress report and briefing; and
- 2010/11 opinion audit – changes you can expect to see.

1.2 The plan provides details of external audit's proposed work and fee for the 2009/2010 audit. The other reports are new and are designed to brief the Committee on matters of interest and changes to audit guidance and framework in relation to the audit of financial statements.

2. BACKGROUND INFORMATION

- 2.1 The Audit Plan details external audit's proposed work and fee for 2010/2011 and is based on the risk based approach to audit planning as set out in their Code of Practice and mandated work determined by the Commission. A copy of the report is attached at appendix A.
- 2.2 Fees will be reviewed and updated as necessary as audit work that impacts on the audit planning process for the 2010/2011 audit is completed.
- 2.3 External audit's progress report and briefing is designed to provide the Audit 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 is attached at appendix B and highlights 4 key issues for Members to consider:

Issue	Response
Representation at next year's final accounts workshops	The Corporate Accountant will attend

<p>The Audit Committee to review key questions posed by the Financial Reporting Council (FRC) in its November 2010 report on the challenges facing Audit Committees</p>	<p>This will be reported in April and inform the 2011/12 forward plan and assurance map</p>
<p>Council consideration of alternative assurance arrangements in respect of the performance of its adult social services</p>	<p>Performance data continues to be collected and monitored. Although the Care Quality Commission (CQC) will no longer conduct an annual performance assessment, new arrangements are being monitored and a draft outcome framework is currently out to consultation</p>

- 2.4 Key changes to audit guidance and frameworks in relation to the audit of financial statements are highlighted in external audit's report - 2010/11 opinion audit – changes you can expect to see (attached in appendix C). The council's accountants will work with external auditors to continue to ensure the final accounts process is concluded efficiently and effectively and financial statements are presented in accordance with professional standards.

3. **OPTIONS FOR CONSIDERATION**

- 3.1 The Audit Committee is invited to consider external audit's reports and should seek clarification from the Audit Commission as necessary.

4. **ANALYSIS OF OPTIONS**

- 4.1 The plan is the result of a risk assessment and complies with statutory requirements governing external audit and inspection work. This means that work will be targeted to have its greatest effect and helps the council to continue to improve. Material errors as a result of non-compliance with International Financial Reporting Standards is a significant risk for all councils in 2010/11 and has been recognised in external audit's planning.
- 4.2 The progress report and briefing provides the Committee with specific information on progress on external audit's work and future challenges facing the council. This will help Members consider whether current assurance coverage is sufficient.

4.3 An adequate response to changes to the audit of financial statements will ensure the final accounts process is concluded efficiently and effectively and financial statements are presented in accordance with professional standards.

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

5.1 Audit fees of £255,148 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 The work and proposed fee is based on the Audit Commission's risk-based approach to audit planning. Throughout the year work is targeted to have best effect based on risk assessment and performance. More details of risk assessments are contained within the plan. 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 Service Director Finance.

8. RECOMMENDATIONS

8.1 The Audit Committee agrees the Audit Plan and notes the audit fee for 2010/2011 and the additional risk posed by the need to comply with IFRS for the first time in the 2010/11 accounts.

8.2 The Audit Committee notes the external audit progress report and briefing and receives an update in April on progress made in respect of the key issues highlighted in paragraph 2.3.

8.3 The Audit Committee notes the new requirements to the audit of financial statements and the assurance provided in paragraph 2.4 that they will be complied with.

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE

North Lincolnshire
DN16 1AB
Author: C Andrews
Date: 01 January 2011

Background Papers used in the preparation of this report

Audit Commission reports:

Audit Plan – Audit 2010/2011

External audit progress report and briefing;

2010/11 opinion audit – changes you can expect to see.

Audit plan

North Lincolnshire Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Introduction	2
Responsibilities	3
Fee for the audit	4
Specific actions that the Council could take to reduce its audit fees	4
Auditors report on the financial statements	5
Materiality	5
Identifying opinion audit risks.....	5
Identification of specific risks	6
Value for money risks	6
Testing strategy	7
Value for money conclusion	8
Key milestones and deadlines	9
The audit team	10
Independence and objectivity	10
Meetings	10
Quality of service	11
Planned outputs.....	11
Appendix 1 Basis for fee	12
Assumptions	12
Appendix 2 Independence and objectivity	13
Appendix 3 Working together	15
Meetings	15
Sustainability.....	15
Appendix 4 Glossary	16

Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

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 every audited body.

2 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.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £255,148, as indicated in my letter of April 2010.

4 The proposed fee for 2010/11 is set at the Audit Commission scale point (£255,148).

5 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of your accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit.
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- internal Audit undertakes appropriate work on all material financial systems and their conclusions are available for our review by 1 June 2011.

6 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Service Director Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

7 Further information on the basis for the fee is set out in Appendix 1.

Specific actions that the Council could take to reduce its audit fees

8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

9 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

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

Identifying opinion audit risks

11 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial 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 specific risks

I have considered the additional risk that is appropriate to the current opinion and is set out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Non- compliance with International Financial reporting Standards could lead to material errors in your 2010/11 financial statements.	Review the implementation of management controls and processes relating to your compliance with International Financial Reporting Standards We will apply, where appropriate, Audit Commission guidance.

Value for money risks

12 I will undertake my risk assessment for the vfm conclusion later in the year and communicate with you further then.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

13 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

14 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Investments – ownership.
- Year-end feeder system reconciliations.
- Property plant and equipment.
- Reserves policy.
- Related party declarations.

Where I identify other possible early testing, I will discuss it with officers.

15 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

16 I also plan to rely on the work of Hymans Robertson- Actuary, for your Pension Fund Asset and liability disclosures and valuations in your 2010/11 financial statements.

Value for money conclusion

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

17 This is based on two criteria, specified by the Commission, related to your arrangements for:

- 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.

18 I will plan a programme of VFM audit work based on my risk assessment.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

19 The key stages in producing and auditing the financial statements are in Table 2.

20 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

21 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	December 2010 - March 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	1 July 2011
Start of detailed testing	1 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	By 30 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Mark Kirkham District Auditor	m-kirkham@audit-commission.gov.uk 0844 798 6632	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Rob Walker Audit Manager	rj-walker@audit-commission.gov.uk 0844 798 6622	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Matthew Moore Team Leader	m-moore@audit-commission.gov.uk 0844 798 6641	Supervises the on-site work. Key point of contact for finance staff.
Abigail Foster Principal Auditor	a-foster@audit-commission.gov.uk 0844 798 7129	Delivery as part of the team the work to support the opinion audit.

Independence and objectivity

22 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

23 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

24 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

25 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 of Professional Practice, 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.

26 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).

Planned outputs

27 My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Opinion Audit Plan	January 2010
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum (if required)	November 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council:
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by 1 July 2011;
 - good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS)
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

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

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into 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.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- 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.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of 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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Service Director Finance	Audit Manager	Every 2 months	General update plus at the appropriate time: Audit plan accounts progress Annual Governance Report Annual Audit Letter
Audit & Risk Manager	Audit Manager and Team Leader	Every 2 months	Update on audit matters. Ongoing review and reliance of Internal Audit
Corporate Accountant	Team Leader	Monthly and at least weekly July and August 2011	Update on audit and accounting issues relating to the financial statements
Audit Committee	District Auditor, Audit Manager and Team Leader as appropriate.	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with 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, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other 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, which contain basic principles and essential procedures with which auditors are required to 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.

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 that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial 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 financial 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 in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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 in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements. The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

The disclosures in the SIC are supported and evidenced by the body's assurance framework.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider being the most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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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 Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

External audit progress report and briefing

January 2011

North Lincolnshire Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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Contents

Introduction	2
Progress Report.....	3
Financial Statements	3
VFM Conclusion	3
Other Matters of Interest	4
Looking Ahead.....	4
2011 Final Accounts Workshops	4
Challenges Faced By Audit Committees	5
Audit Commission briefings - helping community safety partnerships deliver value for money.....	5
Service Reporting Code of Practice for Local Authorities 2011/12	6
National Audit Office (NAO) - report on minimising the cost of administrative errors in the benefit system	6
Care quality commission (CQC) - Assessment of adult social services	6
Key Considerations	8
Appendix 1 External audit plan progress	9
Audit progress.....	9

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.
- 2** This update also seeks to highlight key emerging national issues and developments which may be of interest to members.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or [audit manager] using the contact details at the end of this update.

Mark Kirkham
District Auditor
January 2011

Progress Report

Financial Statements

4 We have started our interim work confirming that systems and controls are as expected. There are no matters arising at this time.

VFM Conclusion

5 I am in the process of developing a risk assessment and planning our detailed work in this area.

Other Matters of Interest

Looking Ahead

6 The Audit Commission is likely to cease to exist by the end of 2012 and DCLG is working on the new local audit framework. The scope of audit work in this framework and the timing of changes are not yet finalised.

7 Ministers have said that the Commission's audit practice is to be transferred to the private sector and that they are open to the option of an employee owned practice. We understand that a decision in principle on the future of the audit practice will be taken in 2011.

8 The audit practice is therefore working up a bid to form a mutual business owned by all its employees. We believe that employee ownership will allow us to build on the strengths of the practice and help us respond to your needs more effectively as a private sector mutual. We want to offer you a distinctive alternative to the big accountancy firms in which we can couple our unrivalled expertise in public sector audit with competitive fees. We also plan to develop a range of advisory services focused on the challenges you face.

9 Part of the distinctiveness of a new mutual will be its ethos – what drives us is supporting you to achieve value for money, good governance and effective financial reporting.

10 We will provide you with more information as it becomes available. In the meantime our focus is on maintaining the high quality standards you expect from us. We would value your feedback on the offer you'd like to see from us in future and if you would like to respond directly then please contact Mark Kirkham, your District Auditor, using the details at the end of this update.

2011 Final Accounts Workshops

11 We have recently finalised the dates and venues for next year's final accounts workshops, 25th January 2010 at the professional development centre in Doncaster.

12 These will provide a unique opportunity to recap on the issues that, nationally, proved problematic in 2009/10 and to also focus on any changes for next year, well in advance of the accounts submission date. There will be a specific focus upon the introduction of International Financial Reporting Standards into local government.

13 Finance staff from other local authorities will also be in attendance in order to help networking opportunities and to enable practical solutions to the emerging issues to be developed.

14 The events will be once again free of charge to clients and joining instructions have been issued to the Council.

Challenges Faced By Audit Committees

15 On 18 November 2010 the Financial Reporting Council (FRC) published a report highlighting the latest challenges faced by Audit Committees. Although the report is mainly aimed at the private sector, there are also some important messages for local government.

16 Recent studies by the FRC have identified room for improvement in the approach to risk management. Commentators observe that some companies present a list of all possible risks rather than those that might be regarded as “principal risks”.

17 Work by the FRC has also identified that it is not always clear whether risks and uncertainties have been fully evaluated and taken into account in preparing budgets and forecasts.

18 The role of the Audit Committee in relation to accounting estimates is covered by the FRC's report. It states that Audit Committees are likely to want to be convinced that key judgments are supported by a more rigorous and robust analysis than in more benign circumstances.

19 The FRC's paper - which can be found on its website - ends with a series of questions that Audit Committees may find it helpful to review themselves against.

20 The challenges facing audit committees in local government are currently the subject of Audit Commission research. Mark Kirkham, the Commission's Regional Lead for Governance, Accountability and Counter Fraud activity, is working with a project team to identify good practice in review and challenge and would welcome observations you might have on how the efficiency and effectiveness of audit committees could be improved.

Audit Commission briefings - helping community safety partnerships deliver value for money

21 The Audit Commission has launched two briefings to help community safety partnerships cope with growing financial pressures.

22 ‘Responsible authorities’ in relation to the creation of Community Safety Partnerships (CSPs) include police authorities, police forces, councils, fire and rescue authorities, primary care trusts and probation trusts. They work with ‘cooperating bodies’ which include parish councils, NHS trusts, NHS foundation trusts, proprietors of independent schools and governing bodies of further education institutions.

23 The guidance for community safety partnerships and overview and scrutiny committees builds on the messages of the Commission, HM Inspectorate of Constabulary (HMIC) and the Wales Audit Office joint report Sustaining Value for Money in the Police Service published in July 2010.

24 Previous tools launched alongside the national report targeted police forces and authorities directly. The latest briefings are aimed at local partnerships and scrutiny committees. The two briefings cover:

- self-assessment questions – improving value for money in community safety partnerships - the questions aim to help community safety partnerships assess how well they are providing value for money and to identify areas for improvement; and
- community safety partnership overview and scrutiny value for money briefing - the questions aim to help overview and scrutiny committees assess how well community safety partnerships deliver value for money and meet local objectives.

Service Reporting Code of Practice for Local Authorities 2011/12

25 On 26 November 2010, CIPFA published the [Service Reporting Code of Practice for Local Authorities 2011/12 \(SeRCOP\)](#). The SeRCOP replaces the Best Value Accounting Code of Practice and will play a developing role in delivering the government's transparency agenda.

26 SeRCOP applies to all local authorities from 1 April 2011 for the preparation of 2011/12 budgets, performance indicators and statements of accounts. The 2011/12 SeRCOP continues to be prepared under International Financial Reporting Standards in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

National Audit Office (NAO) - report on minimising the cost of administrative errors in the benefit system

27 On 25 November 2010 a report by the NAO concluded that the DWP has not reduced the mistakes made by staff processing benefits. In 2009-10 it overpaid an estimated £1.1 billion and made underpayments of £500 million. However, the scale of the challenge facing the Department should not be underestimated.

28 Further details can be found at www.nao.gov.uk.

Care quality commission (CQC) - Assessment of adult social services

29 The CQC have published the results of the latest Annual Performance Assessment of councils responsible for adult social care services.

30 The findings show that councils continued to commission a high standard of adult social care throughout 2009/10.

- 95% (145) of all 152 councils were assessed as performing well or excellently.

- The seven remaining councils were assessed as performing adequately, and must improve.
 - For the seventh year running, no councils were rated poor.
 - Joint commissioning and monitoring of services were more common, and this was a key strength in half of all councils.
 - Areas such as dignity and respect, choice and control, and emotional health and well-being continued to improve.
- 31** Paul Burstow, Minister of State for Care Services, recently announced that the CQC will no longer conduct an annual performance assessment of councils under the existing framework.
- 32** The CQC are currently working with various organisations to design a new system.

Key Considerations

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

- Will the Council be represented at next year's final accounts workshops?
- Has the Audit Committee reviewed the key questions posed by the Financial Reporting Council (FRC) in its November 2010 report on the challenges facing Audit Committees?
- Has the Council considered alternative assurance arrangements in respect of the performance of its adult social services?

Mark Kirkham

District Auditor

0844 798 6632

m-kirkham@audit-commission.gov.uk

Rob Walker

Audit Manager

07815 876297

rj-walker@audit-commission.gov.uk

Appendix 1 External audit plan progress

Audit progress

Audit year	Title	Description	Timing	Output	Status
2010/11	Value for money conclusion	Provide a VFM opinion on the financial resilience and VFM arrangements at the council	September 2011	VFM conclusion	In progress
2010/11	Opinion audit	Provide audit opinion on the 2009/10 financial statements	September 2011	Audit opinion	In progress
2010/11	WGA	Review Whole of Government Accounts (WGA) consolidation pack	September 2011	Certified WGA return	Not yet started

2010/11 opinion **audit - changes** **you can expect** **to see**

North Lincolnshire Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Purpose of this document	2
Impact of the main changes	3
Journals	3
Related Party Transactions	3
Accounting Estimates	3
Deficiencies in internal control	4
Appendix 1 ISA Clarity Information Request	5

Purpose of this document

- 1 As your appointed auditor, the audit of the financial statements I deliver to you are governed by a framework established by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.
- 2 As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the Clarity Project.
- 3 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.
- 4 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way the audit team delivers your audit and the information they request from you. The purpose of this document is to highlight to you the main changes and how they will impact you.
- 5 In summary the main changes you will see relate to:
 - Journals;
 - Related Party Transactions;
 - Accounting Estimates; and
 - Reporting deficiencies in internal control.
- 6 I also attach my routine working paper request list for your attention and action.

Impact of the main changes

Journals

7 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. We will discuss a suitable approach to this work soon.

Related Party Transactions

8 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

9 To inform my 2010/11 testing strategy it would be helpful to know at this stage if you have any additional material disclosures since the audit of your 2009/10 financial statements

Accounting Estimates

10 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

11 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

12 If I identify a deficiency in any of your internal controls during the audit, I will undertake further audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as those charged with governance.

Appendix 1 ISA Clarity Information Request

ISA	Area of accounts	information required	potential timescale
330	Journals	A list of all material year end journals	June 2011
550	Related parties	<p>A working paper setting out:</p> <ul style="list-style-type: none"> ■ additional material disclosures since your audited 2009/10 financial statements; ■ your procedures for identifying related party transactions; and ■ the controls you have established to ensure this is complete and accurate. 	January 2011
540	Accounting estimates	<p>A working paper setting out all accounting estimates including:</p> <ul style="list-style-type: none"> ■ the process you use to make your accounting estimates; ■ controls you use to identify them; ■ whether you use an expert to assist you in making the accounting estimates; ■ whether any alternative estimates have been discussed and why they have been rejected; ■ how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact); ■ whether there has been a change in the method of calculation for the current year; and ■ the value of the accounting estimates included within the 2009/10 accounts and where possible the actual outturn value for the area of account, if different from the estimate. 	January 2011

ISA	Area of accounts	information required	potential timescale
402	Service organisations	A working paper setting out the financial information included within the accounts which, if any have been produced by a service organisation, and the controls you operate to ensure the accuracy and completeness of this information.	January 2011
500 & 620	Using the work of an expert	A working paper setting out the entries in the accounts which are based on the work of an expert. Your controls for ensuring the competence and objectivity of that expert. We will then use this information to assess the audit risks.	January 2011

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946