

Report of the: Director of Policy and  
Resources

Agenda  
Item No: 7  
Meeting: 23 January 2014

## **NORTH LINCOLNSHIRE COUNCIL**

### **AUDIT COMMITTEE**

## **EXTERNAL AUDIT REPORTS**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To consider external audit's reports:
- Annual Audit Letter 2012/13;and
  - External Audit Progress Report and Technical Update.

### **2. BACKGROUND INFORMATION**

2.1 Each year the council's auditors provide the council with an annual audit letter. This gives an overall summary of external audit's assessment of the council, drawing on final accounts and value for money work. The annual audit letter for 2012/13 is attached as appendix A.

Key messages are:

- An unqualified audit opinion was issued on the 2012/13 accounting statements on 30<sup>th</sup> September 2013. This means that the financial statements give a true and fair view of the financial position of the Council and of its expenditure and income for the year.
- An unqualified value for money conclusion was issued on 30<sup>th</sup> September 2013. This means External Audit is satisfied that the council made proper arrangements for securing financial resilience and challenge how to secure economy, efficiency and effectiveness of its use of resources.
- The audit of the Council's financial statements included one recommendation regarding directorates taking ownership of the information provided to Corporate Finance for incorporating into the draft financial statements. This will be incorporated in 2013/14 accounts closedown work.

2.2 The Progress and Technical Update report provides the Audit Committee with a summary on progress in delivering external audit's statutory responsibilities. It also highlights key emerging national issues

and developments which may be of interest to Members. A copy of the report is attached in appendix B.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1 The Audit Committee should consider the external auditor's reports and the assurance that has been given or can be implied from their conclusions. The Committee should seek clarification from the external auditors or council officers as necessary.

### **4. ANALYSIS OF OPTIONS**

- 4.1 The Annual Audit Letter complies with statutory requirements governing external audit and inspection work.

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

- 5.1 None.

### **6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

- 6.1 An Integrated Impact Assessment is not required.

### **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

- 7.1 The Annual Audit Letter and Progress and Technical Update report are discussed and agreed with the Director of Policy and Resources.

- 7.2 There are no conflicts of interests to declare.

### **8. RECOMMENDATIONS**

- 8.1 That the Audit Committee notes the Annual Audit Letter and Progress and Technical Update report

**DIRECTOR OF POLICY AND RESOURCES**

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DN16 1AB

Author: Carol Andrews  
Date: 06 January 2014

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

KPMG reports:

Annual Audit Letter 2012/13

Progress and Technical Update Report



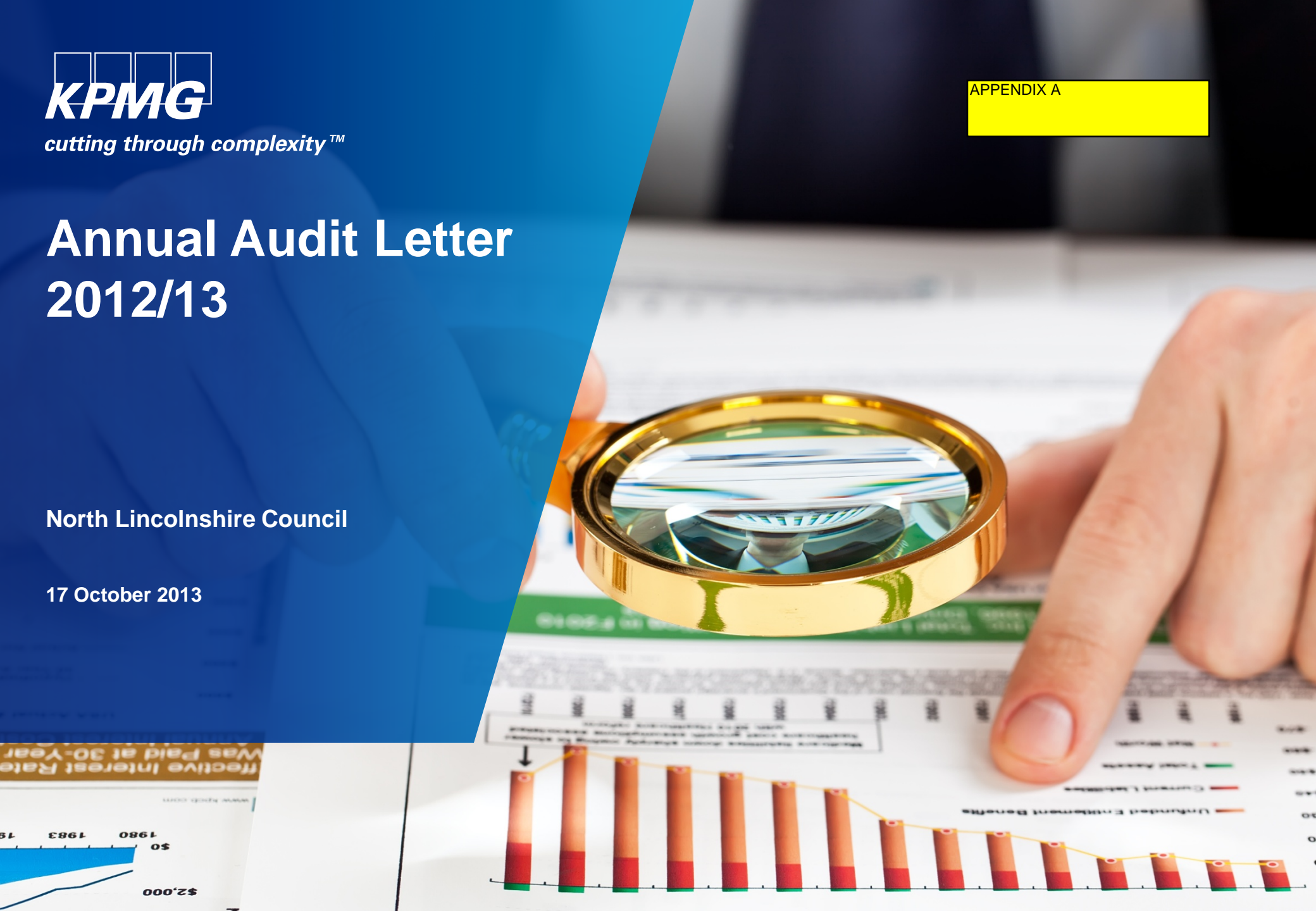
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# Annual Audit Letter 2012/13

North Lincolnshire Council

17 October 2013

APPENDIX A



The contacts at KPMG in connection with this report are:

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## Report sections

- Headlines

## Appendices

1. Summary of reports issued
2. Audit fees

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Damian Murray, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This report summarises the key findings from our 2012/13 audit of North Lincolnshire Council (the Council).

Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Council's 2012/13 financial statements and the 2012/13 VFM conclusion.

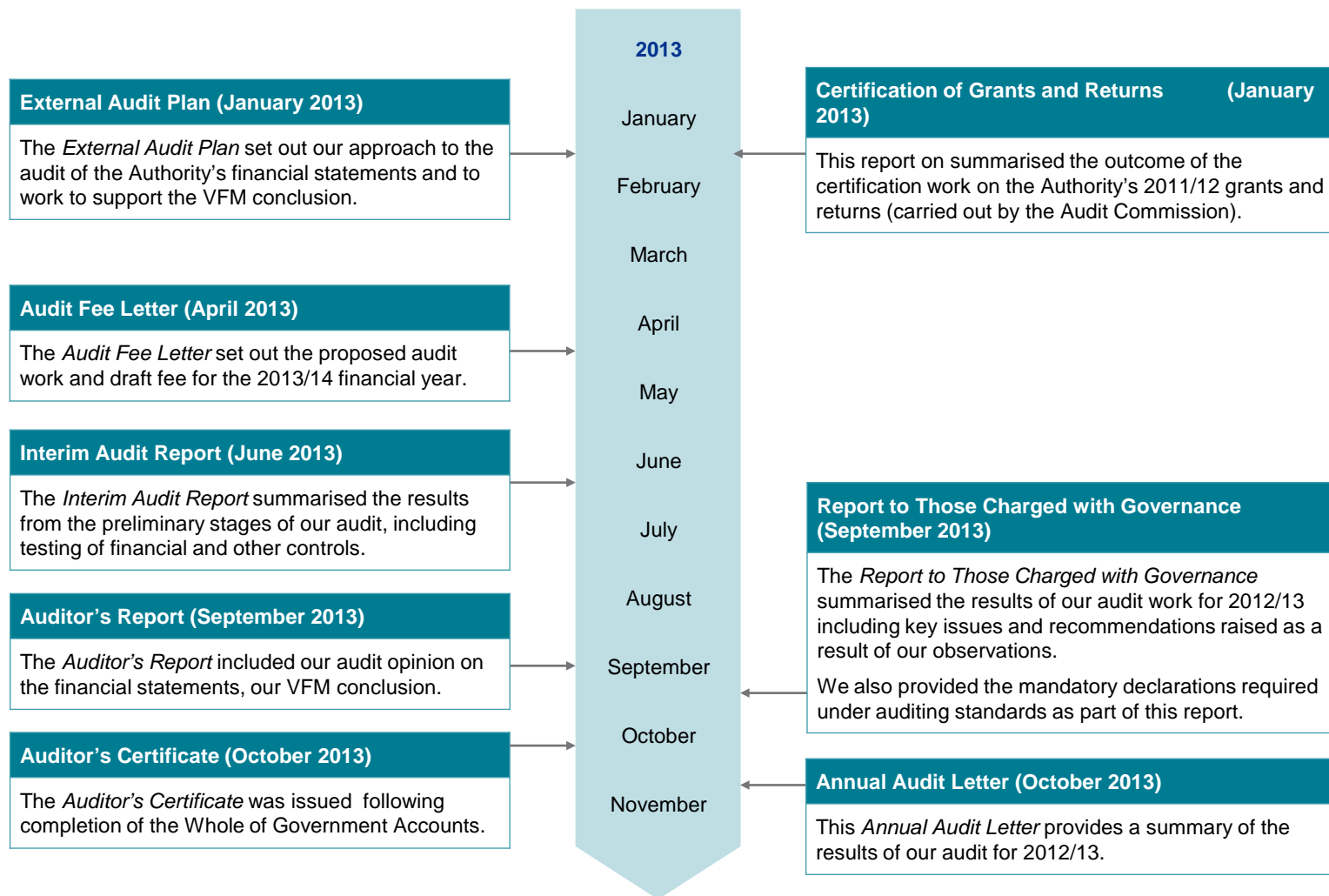
<b>VFM conclusion</b>	<p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 30 September 2013.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<b>VFM risk areas</b>	<p>We did not identify any significant risks to our VFM conclusion and as a result did not need to carry out any risk based work in this respect.</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on your financial statements on 30 September 2013. This means that we believe the financial statements give a true and fair view of the financial position of the Council and of its expenditure and income for the year.</p>
<b>Financial statements audit</b>	<p>The main findings from our audit of the Council's financial statements included the following:</p> <ul style="list-style-type: none"> <li>■ no significant adjusted or unadjusted audit differences were identified; and</li> <li>■ there were a number of presentational amendments required to the notes to the accounts and all were adjusted by management.</li> </ul> <p>The Council agreed to our recommendation regarding directorates taking ownership of the information provided to Corporate Finance for incorporating into the draft financial statements.</p>
<b>Annual Governance Statement</b>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

<b>High priority recommendations</b>	We raised two recommendations as a result of our 2012/13 audit work. These were included in our Interim Report and our ISA 260 Report. None of the recommendations were high priority so are not replicated in this Annual Audit Letter.
<b>Certificate</b>	We issued our certificate on 3 October 2013. The certificate confirms that we have concluded the audit for 2012/13 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
<b>Audit fee</b>	Our fee for 2012/13 was £142,670, excluding VAT. This included an additional £4,890 in respect of additional, early work we carried out on the Council's arrangements for accounting for property, plant and equipment . The fee is in line with the planned fee for the year and compares favourably to the fee charged in 2011/12 which was £229,633. Further detail is contained in Appendix 2.

## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued during the year.





This appendix provides information on the final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

### External audit

Our final fee for the 2012/13 audit North Lincolnshire was £142,670 (excluding VAT). This is an overall reduction of 37.9% percent on the comparative total fee for 2011/12 of £229,633. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

The final fee compares to a planned fee of £137,780. The reason for this variance is additional work we carried out, which was not allowed for in our initial plan, namely an early review of the Council's arrangements for accounting for property, plant and equipment (£4,890).

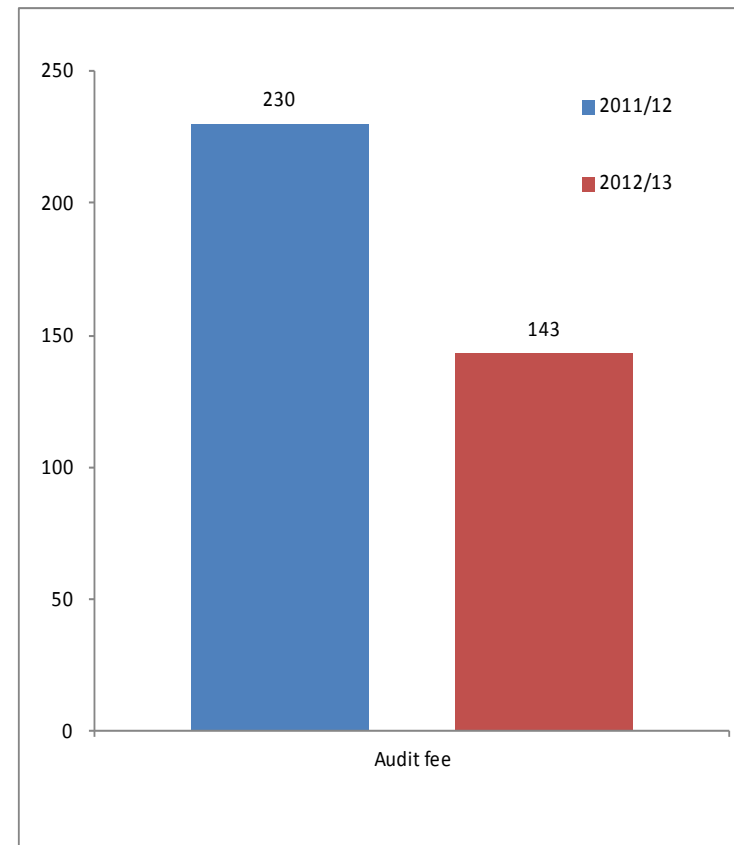
### Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we expect to issue in December 2013.

### Other services

There were no fees relating to other audit services during 2012/13.

External audit fees 2012/13 and 2011/12 (£'000)





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# External audit progress report and technical update

North Lincolnshire Council

January 2014

APPENDIX B



This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Council and given our perspective on the issue as follows:

- High impact
- Medium impact
- Low impact
- For info

Progress report		
Progress report	Page 3	

Technical update					
Health and Social Care integration funding	<span style="color: orange;">●</span>	Page 5	Protecting the Public Purse (Audit Commission report)	<span style="color: green;">●</span>	Page 6
Cost effectiveness of public health interventions (LGA report)	<span style="color: orange;">●</span>	Page 5	Audit Commission review of unpaid Business Rates	<span style="color: grey;">●</span>	Page 7
Charging brings in more income than council tax for one in five councils	<span style="color: green;">●</span>	Page 5	Proposals for the use of capital receipts from asset sales to invest in reforming services	<span style="color: grey;">●</span>	Page 7
Proposed work programme and scales of fees 2014/15	<span style="color: green;">●</span>	Page 6			

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# Progress report

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.




At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report

Area of responsibility	Commentary
<b>Audit planning</b>	2013/14 We are undertaking our risk based audit planning for the 2013/14 audit of your financial statements and VfM conclusion. We intend to issue a draft audit plan to management in January 2014 and will include it on the agenda of the next Audit Committee meeting.
<b>Financial statements</b>	2013/14 We are planning our audit approach. We will issue our opinion on your financial statements by 30 September 2014.
<b>Value for Money</b>	2013/14 We are planning our audit approach. We will issue our VfM conclusion by 30 September 2014.
<b>Certification of claims and returns</b>	2012/13 We have completed our audit of all 2012/13 grants claims which require our certification. All claims were certified to deadline. We have drafted an overall grants report and are discussing this with management. We will report the findings from this work to the next Audit Committee meeting.  2013/14 We are agreeing an audit programme for 2013/14 claims that will need certification.
<b>Other work</b>	We have no other work planned at this time.
<b>Technical update</b>	This paper introduces a technical update to our progress report for the Audit Committee. The technical update includes new issues that the Audit Committee needs to be aware of.



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# Technical update

Area	Level of Impact	Comments	KPMG perspective
<b>Health and social care integration funding</b>	 <b>Medium</b>	<p>On 17 October, NHS England and the Local Government Association (LGA) wrote to local authorities, clinical commissioning groups (CCGs) and health and wellbeing boards on the next steps to implementing the £3.8 billion Integrated Transformation Fund for health and social care.</p> <p>Each local area's share of a national £3.8 billion fund for health and care integration from 2015 will be based in part on how much progress councils and CCGs make in working together in 2014/15. Councils, CCGs and health and wellbeing boards will have to agree a detailed plan for joint working by February 2014 – but will face a “review of readiness” in November. £1 billion of the fund is tied to performance and will be awarded in two waves, the first of which will be at the beginning of the 2015/16 financial year. The award of this first sum will be based partly on performance in 2014/15 and partly on the submission of a plan for integration that meets national conditions by April 2014. The second payment will be awarded in the second half of 2015/16, and this could be done on the basis of performance in that year. However, the government, LGA and NHS England are still agreeing the detail of how this will work.</p> <p>The rest of the money will be handed to local areas using a distribution formula, which “will be subject to ministerial decisions in the coming weeks”. The letter also outlines plans for a model based on sector-led improvement for local areas that are not meeting their targets for integration – but warns that organisations could lose their commissioning responsibilities if outcomes are not achieved.</p>	
<b>Cost effectiveness of public health interventions (LGA report)</b>	 <b>Medium</b>	<p>In the 21st century, a huge burden of ill health is avoidable. About a third of all deaths are classed as premature – that is they could have been prevented by lifestyle changes undertaken at an earlier time of life. This equates to 44 years of lost life per 1,000 people, if this avoidable ill-health could be reduced the savings would be considerable. Now that local authorities are statutorily responsible for a range of public health functions including both mandated and non-mandated services, councils will need to consider how best they can spend the public health ring-fenced budget to maximise cost effectiveness and improve health outcomes for local children, young people and adults.</p> <p>This briefing for councillors and officers explains the importance of assessing value for money, it contains case studies, top tips and further resources to help local authorities fulfil their public health responsibilities.</p> <p>See more at: <a href="http://www.local.gov.uk/web/guest/search/-/journal_content/56/10180/5639949/ARTICLE#sthash.6dsNGy6w.dpuf">http://www.local.gov.uk/web/guest/search/-/journal_content/56/10180/5639949/ARTICLE#sthash.6dsNGy6w.dpuf</a></p>	
<b>Charging brings in more income than council tax for one in five councils (Audit Commission report)</b>	 <b>Low</b>	<p>The Audit Commission has published 'Income charging': Using data from the VFM Profiles, September 2013', a briefing drawn from its Value for Money (VFM) Profiles. The briefing presents the Commission's analysis of the £10.2billion that English councils raised through charging for services in 2011/12.</p> <p>Charging in 2011/12 funded nine per cent of single-tier and county councils' overall expenditure, and 20 per cent of district councils. Although nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs.</p>	



Area	Level of Impact	Comments	KPMG perspective
<b>Proposed work programme and scales of fees 2014/15</b>	<p style="text-align: center;">● Low</p>	<p>The Audit Commission is consulting on its 2014/15 proposed work programme and scales of fees. The Commission does not plan to make any changes to the work programme for 2014/15. They are therefore proposing that scale audit fees are set at the same level as the fees applicable for 2013/14, thus locking in the 40 per cent reduction made to fees from 2012. They will publish the final work programme and scales of fees for 2014/15 in March 2014.</p> <p>The Audit Commission are inviting comments on the proposed work programme and scale fees by email by Friday 10 January 2014 to <a href="mailto:workandfeesconsultation@audit-commission.gsi.gov.uk">workandfeesconsultation@audit-commission.gsi.gov.uk</a></p> <p>More information can be found at: <a href="http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415/">http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415/</a></p>	<p><i>We would encourage the Audit Committee to obtain assurance that the Council has contributed towards the consultation process</i></p>
<b>Protecting the Public Purse (Audit Commission report)</b>	<p style="text-align: center;">● Low</p>	<p>On 14 November 2013 the Commission will publish <i>Protecting the Public Purse 2013 (PPP 2013)</i>. PPP 2013 is for those responsible for governance in local government. PPP 2013 includes:</p> <ul style="list-style-type: none"> <li>▪ the scale and value of fraud detected by local government bodies in 2012/13;</li> <li>▪ trends in housing tenancy and council tax discount fraud;</li> <li>▪ trends and threats in other significant fraud types; and</li> <li>▪ national developments impacting on local government counter-fraud.</li> </ul> <p>In addition, PPP 2013:</p> <ul style="list-style-type: none"> <li>▪ gives details of detected frauds and losses by region;</li> <li>▪ updates our checklist for those responsible for governance; and</li> <li>▪ introduces a programme of individual fraud briefings for councils.</li> </ul> <p>In support of PPP 2013, and as discussed with the Local Government Auditors' Group (LGAG), the Commission is developing fraud briefings that will be individually tailored presentations for London boroughs, metropolitan and unitary authorities, county councils and district councils. Fraud briefings will contain comparative information on each council's fraud detection results and we will make these available to support auditors' communications with those responsible for governance in each council.</p>	<p><i>If you would like to receive the fraud briefings at the Council, please contact a member of your audit team.</i></p>
<b>£1.2 billion owed to councils in uncollected business rates (Audit Commission report)</b>	<p style="text-align: center;">● Low</p>	<p>The Audit Commission has published a briefing, drawn from its Value for Money (VFM) Profiles Tool, 'Business rates: using data from the VFM Profiles, October 2013'. The briefing presents the Commission's analysis of English councils' collection rates and costs of collecting business rates.</p> <p>The Commission found that in 2012/13, councils collected £21.9 billion in business rates of £22.4 billion due. The amount collected by each council ranged from £1.3 million to £1.6 billion. Councils collect most business rates in the year they fall due, but business rates arrears are substantial and currently stand at £1.2 billion. As this local tax remains to be collected, it cannot currently be used to support the delivery of services. In 2012/13, the uncollected in-year amount was £513 million.</p> <p>In April 2013, the government introduced a business rates retention scheme. Councils will now be able to keep up to half of the business rates income they collect, rather than – as previously – paying it all into a 'national pool'. So, from 2013/14, a council's income will be directly affected by the business rates it collects. These new arrangements mean that it has never been more important for councils to understand their local economy and associated business rates, the timeliness of their collection and outstanding arrears, and whether their approach to collection is cost effective.</p>	

Area	Level of Impact	Comments
<b>Audit Commission VFM Profile update</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For information</b></p>	<p>The Commission's value for money profiles tool will be updated on Thursday 7 November. The profiles bring together data about the costs, performance and activity of local councils and fire authorities. The data are displayed under sections that give an overview of the chosen organisation and the services it delivers.</p>
<b>Proposals for the use of capital receipts from asset sales to invest in reforming services</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For information</b></p>	<p>The Department of Communities and Local Government (DCLG) has commenced a consultation on proposals to allow local authorities some flexibility to use receipts from asset sales to pay for one-off revenue costs of service reforms. The consultation explores options for introducing flexibilities to help support organisational change for local authorities, and asks local authorities for views and suggestions.</p> <p>The consultation closed on 26 September.</p>



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# Appendix 1

## Appendix 1 – 2013/14 Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We discuss and agree each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	Apr 2013	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	Jan 2014 (Draft) Feb 2014 (Final)	TBC
<b>Interim</b>			
Interim report – if required	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	Apr 2014	TBC
<b>Substantive procedures</b>			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	Sept 2014	TBC
<b>Completion</b>			
Auditor's report	Provide an opinion on your accounts. Conclude on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	Sept 2014	TBC
WGA	Conclude on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	Sept 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	Nov 2014	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	Dec 2014	TBC



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