

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider external audit's reports:
- External Audit Plan 2013/14
 - Certification of Grants and Returns Report 2012/13
 - External Audit Interim Report
 - External Audit Progress Report and Technical Update
 - Protecting the Public Purse Fraud Briefing.

2. BACKGROUND INFORMATION

- 2.1 The Audit Plan 2013/14 (appendix A) provides details of external audit's work required to give an opinion on whether the accounts give a true and fair view and a statutory conclusion on the council's arrangements to secure economy, efficiency and effectiveness. The proposed fee for the audit is £137,780. This is unchanged from the position set out in the Audit Fee Letter 2013/14. However the fee only provides for basic audit work and does not include items such as challenge from ratepayers or following up detailed audit issues. Some extra costs above the basic fee could be incurred.

On 1st April the council received a rebate of £18,855 applied to the 2012/13 audit fee. This rebate represents the council's share of £8m retained earnings distributed across local audit bodies prior to the closure of the Audit Commission at the end of March 2015.

- 2.2 The Certification of Grant Claims and Returns 2012/13 report is attached at appendix B. The report's finding shows the council generally has good arrangements for preparing its grants and returns and produces high quality working papers in a timely manner. The report includes one recommendation to improve audit testing

arrangements for Housing and Council Tax Benefits. Additional testing required attracted a fee variation (increase) of £2,255.

- 2.3 External audit's Interim Report (appendix C) summarises key findings arising from:
- Interim work in relation to the 2013/14 financial statements; and
 - Vfm conclusion work.

No additional risks are identified at this time and the overall conclusion reached so far is that the council has an effective control environment that should prevent, detect and correct material misstatements caused by either fraud or error.

- 2.4 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 D.

- 2.5 At the last meeting Members received a report on the findings of the Audit Commission's annual national fraud survey Protecting the Public Purse. External audit's fraud briefing report (appendix E) provides further analysis of the survey's findings including comparisons with other authorities.

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 Audit Plan is the result of a risk assessment and complies with statutory requirements governing external audit and inspection work. External audit reports are designed to provide regular updates on statutory work undertaken and key developments to help the Audit Committee to fulfil its terms of reference.

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

- 5.1 Audit Plan fees of £137,780 are met within existing budgets.

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 All reports have been 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 following reports:

- External Audit Plan 2013/14
- Certification of Grants and Returns Report 2012/13
- External Audit Interim Report
- External Audit Progress Report and Technical Update
- Protecting the Public Purse Fraud Briefing.

DIRECTOR OF POLICY AND RESOURCES

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Date: 1 April 2014

Background Papers used in the preparation of this report:

KPMG reports:

- External Audit Plan 2013/14
- Certification of Grants and Returns Report 2012/13
- External Audit Interim Report
- External Audit Progress Report and Technical Update
- Protecting the Public Purse Fraud Briefing.



cutting through complexity™

External Audit Plan 2013/14

North Lincolnshire Council

April 2014



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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.audit-commission.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 John Prentice, 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, 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for North Lincolnshire Council.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for North Lincolnshire Council ('the Council'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Council.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

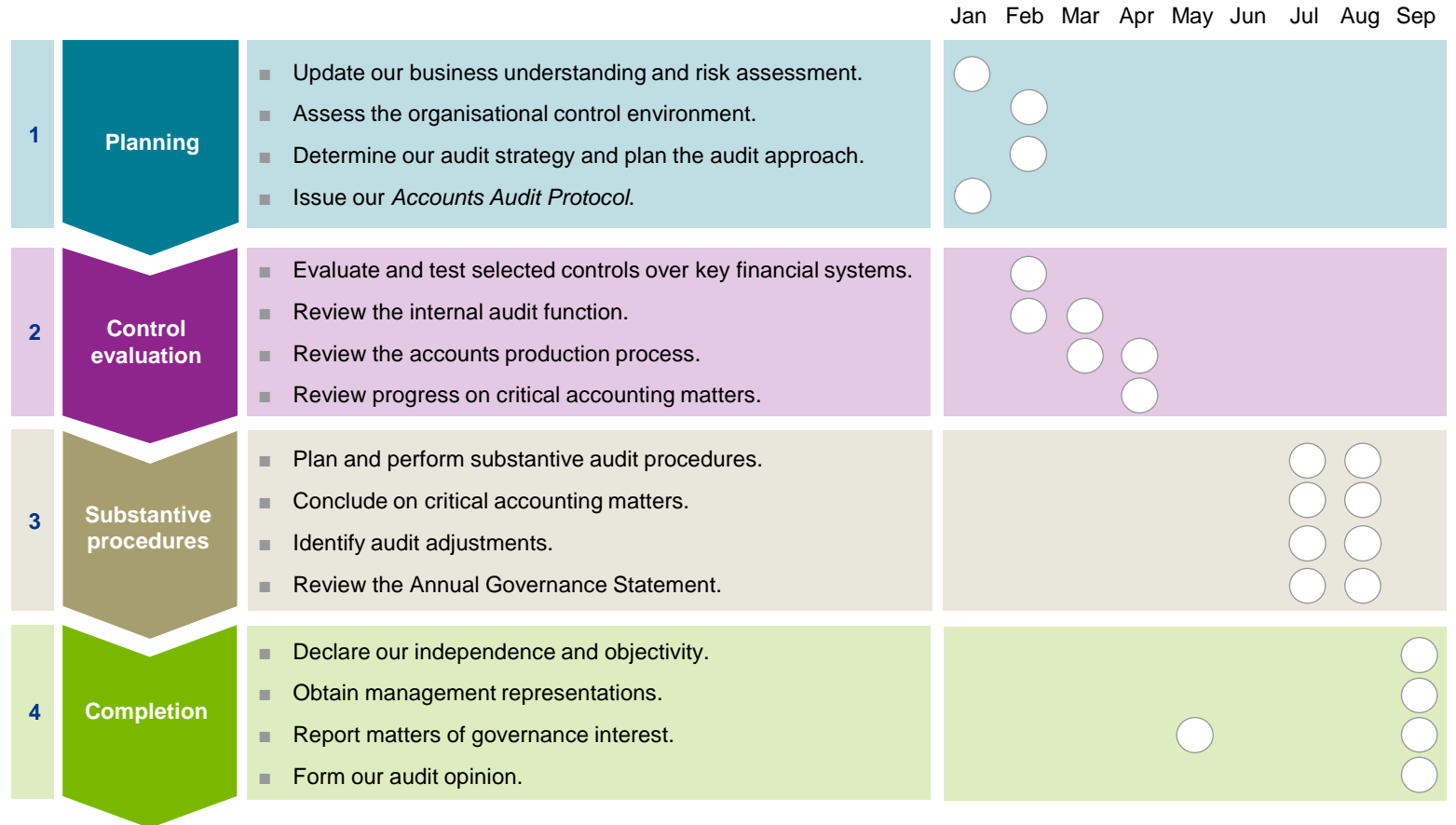
This table summarises the headline messages. The remainder of this report provides further details on each area.

| | |
|--|--|
| Audit approach | <p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Director of Policy and Resources.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p> |
| Key financial statements audit risks | <p>We have identified one significant risk in relation to our financial statements opinion. This relates to the triennial valuation of the local government pension scheme which impacts upon pension liabilities in the financial statements. We will undertake a specific pension source data audit programme to obtain assurance over the data provided to actuaries for the triennial valuation. See page 9 of this report for further details.</p> |
| VFM audit approach | <p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p> |
| Audit team, deliverables, timeline and fees | <p>We have made one change to our audit team this year, with a new Director, John Prentice.</p> <p>Our main year end audit is currently planned to commence on 7 July 2014. Upon completion of our work we will present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2013/14 audit is £137,780. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>.</p> |

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to February).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2014 we complete our planning work.

We assess the key risks affecting the Council's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of control that would impact on our audit.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Council's operations and identify any areas that will require particular attention during our audit of the Council's financial statements.

We identify the key risks affecting the Council's financial statements. These are based on our knowledge of the Council, our sector experience and our ongoing dialogue with Council staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Council's responsibility to adequately address these issues. We encourage the Council to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a quarterly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

An indicative level of materiality for 2013/14 is £10 million. This is based on the prior year Statement of Accounts and on our understanding of the projected outturn for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide during our interim and final accounts visits.

We met with the Corporate Finance Manager to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We revisit progress against areas identified for development as the audit progresses.

During February to April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our interim visit on site will be completed during weeks commencing 24 Feb and 3 March. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Council's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where we undertake controls work on financial systems we seek to minimise unnecessary duplication of work with work done by the Council's internal auditors. Our audit fee is set on the assumption that, where planned, we can rely on their work. We have met with the Head of Audit, Risk and Insurance and discussed our respective audit plans. Internal audit is an important part of your control environment and we liaise with internal audit to understand the impact on our responsibilities of any issues they identify.

Review of internal audit

If there are any areas where we intend to rely on internal audit's work auditing standards require us to review key aspects of their work. This includes re-performing a sample of their tests.

Accounts production process

Our audit of the Council's 2012/13 accounts confirmed that the Council has maintained a strong accounts production process. However we made one recommendation in our ISA260 report in 2012/13 relating to Directorates taking ownership of the completeness of working papers and accuracy of information to support the entries in the financial statements.

We will assess the Council's progress in addressing our recommendation and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2014.

Our audit approach – substantive procedures

During July to August 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period 7 July to 8 August 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Council's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Council's approach to address the key risk areas with the Director of Policy and Resources in August 2014, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Corporate Finance Manager on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

In addition to the financial statements, we also audit the Council's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work, where we interview an officer and review evidence to form our decision, to a more detailed piece of work where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 15.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of February 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Council's financial statements for 2013/14.


We have identified one significant risk to the Council relating to the triennial valuation of the local government pension scheme.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements risks

The table below sets out the significant risk we have identified through our planning work. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

| Key audit risk | Impact on audit |
|---|---|
|  | <p>Risk</p> <p>During the year, the local government pension scheme has undergone a triennial valuation with an effective date of 31 March 2013. The IAS 19 numbers to be included in the financial statements of all admitted bodies for 2013/14 will be based on the output of the triennial valuation for the first time. The valuation is rolled forward to 31 March 2014, 31 March 2015 and 31 March 2016 for accounting purposes. As data provided to the actuaries for the triennial valuation (mostly by the pension fund) is more extensive than for the roll forward, there is a risk around the accuracy of the estimate for pensions liabilities.</p> <p>Our audit work</p> <p>We will undertake a specific pensions source data audit programme to obtain assurance over the data provided to actuaries for the triennial valuation.</p> |

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

| Specified criteria for VFM conclusion | Focus of the criteria | Sub-sections |
|--|--|---|
| The organisation has proper arrangements in place for securing financial resilience . | The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. | <ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness . | The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. | <ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity |

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

| VFM audit stage | Audit approach |
|---------------------------|---|
| VFM audit risk assessment | <p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Council's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies. |

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

| VFM audit stage | Audit approach |
|---|---|
| Linkages with financial statements and other audit work | <p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p> |
| Assessment of residual audit risk | <p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Council may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p> |
| Identification of specific VFM audit work | <p>If we identify residual audit risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Council, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. |

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage.

We will conclude on the results of the VFM audit through our ISA 260 Report.

| VFM audit stage | Audit approach |
|-----------------------------------|---|
| Delivery of local risk based work | <p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p> |
| Concluding on VFM arrangements | <p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p> |
| Reporting | <p>We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.</p> |

Your audit team has been drawn from our specialist public sector assurance department. With the exception of John Prentice, the new Director, our team were all part of the North Lincolnshire Council audit last year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



John Prentice
Director

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and Executive Directors.”



Linda Wild
Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas.

I will work closely with John to ensure we add value. I will liaise with the Director of Policy and Resources, and the Head of Audit, Risk and Insurance.”



Matthew Moore
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the Corporate Finance Manager and Internal Audit. I will also supervise the work of our audit assistants.”

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 will discuss and agree as appropriate each report with the Council's officers prior to publication.

| Deliverable | Purpose | Audit Committee dates |
|---|---|-----------------------|
| Planning | | |
| External Audit Plan | <ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. | April 2014 |
| Control evaluation | | |
| Interim Report (if required) | <ul style="list-style-type: none"> ■ Details control and process issues. ■ Identifies improvements required prior to the issue of the draft financial statements and the year-end audit. | June 2014 |
| Control evaluation and substantive procedures | | |
| Report to Those Charged with Governance (ISA 260 Report) | <ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. | September 2014 |
| Completion | | |
| Auditor's Report | <ul style="list-style-type: none"> ■ Provides an opinion on your accounts . ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). | September 2014 |
| Whole of Government Accounts | <ul style="list-style-type: none"> ■ Provide our opinion on the Council's WGA pack submission. | September 2014 |
| Annual Audit Letter | <ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. | September 2014 |

We will be in continuous dialogue with you throughout the audit.

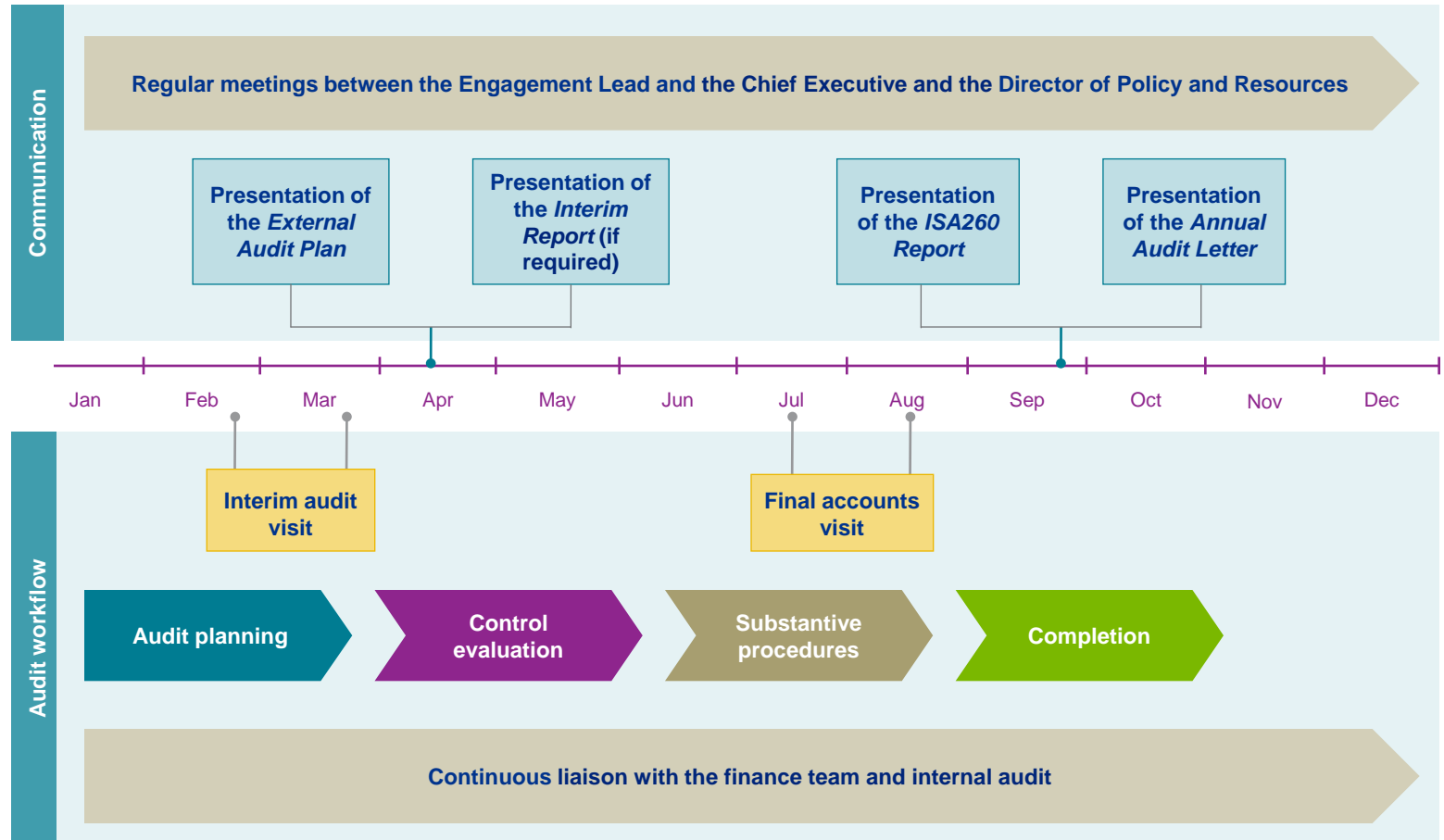
Key formal interactions with the Audit Committee are:

- April – External Audit Plan;
- June – Interim Report (if required);
- September – ISA 260 Report;
- September – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during February and March.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The fee for the 2013/14 audit of the Council is £137,780. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements.

The planned audit fee for 2013/14 is £137,780. This is a reduction of 3.4 per cent compared to the final 2012/13 audit fee of 142,760. We charged an extra £4,980 in 2012/13 for providing early assurance on the accounting treatment of Property, Plant and Equipment.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Council achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Policy and Resources.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Standing Guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. John Prentice, as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.



We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff who provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up-to-date and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensics, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



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Certification of grants and returns 2012/13

North Lincolnshire Council

January 2014



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in connection with this
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| ■ Headlines | 2 |
| ■ Summary of certification work outcomes | 3 |
| ■ Fees | 5 |

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.

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, who is the engagement leader to the Authority (telephone 0161 838 4063, e-mail damian.murray@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

| | | |
|------------------------------------|--|--------------------|
| Introduction and background | <p>This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2012/13 we certified: <ul style="list-style-type: none"> – Three grants and returns with a total value of £146m; | <p>-</p> |
| Certification results | <p>We issued unqualified certificates for two grants and returns but a qualification was necessary in one case.</p> <ul style="list-style-type: none"> ■ The Housing and Council Tax Benefits Subsidy claim was qualified following the identification of errors found during audit testing. | <p>Pages 3 – 4</p> |
| Audit adjustments | <p>Minor adjustments were necessary to the Housing and Council Tax Benefits Subsidy Claim which reduced the subsidy claimed by £1,834.</p> | <p>Pages 3 – 4</p> |
| The Council's arrangements | <p>The Council generally has good arrangements for preparing its grants and returns.</p> <ul style="list-style-type: none"> ■ The arrangements in place ensure high quality working papers are produced in a timely manner. The Council has good planning procedures for each grant to ensure officers are available to assist with audit queries. ■ We have made a specific recommendation in the testing arrangements for Housing and Council Tax Benefits to help eliminate the problems encountered in 2012/13. | <p>Pages 3 - 4</p> |
| Fees | <p>The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and agreed a scale fee for the Council of £24,000.</p> <p>We have received approval from the Audit Commission for a variation to the scale fee of £2,255 (a net increase). This brings the revised scale fee to £26,255 and reflects additional work required on some claims and a reduction in work required on others.</p> | <p>Page 5</p> |

Overall, we certified three grants and returns:

- Two were unqualified with no amendment; and
- One was qualified and required some amendment to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

| | Comments overleaf | Qualified certificate | Significant adjustment | Minor adjustment | Unqualified certificate |
|------------------------------------|-------------------|-----------------------|------------------------|------------------|-------------------------|
| Housing & Council Tax Benefit | 1 | | | | |
| National Non Domestic Rates return | | | | | |
| Teachers' Pensions return | | | | | |
| | | 1 | 0 | 1 | 2 |

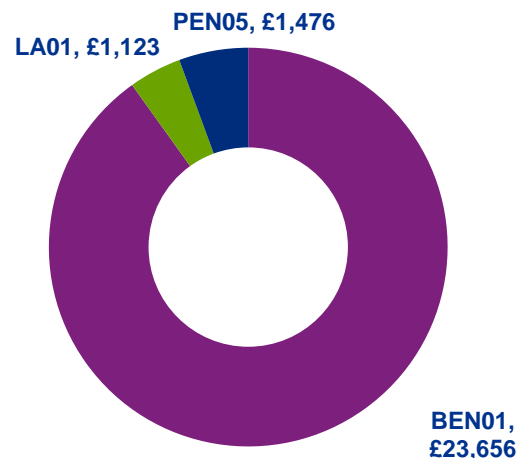
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

| Ref | Summary observations |
|-----|--|
| 1 | <p>Housing and Council Tax Benefit</p> <ul style="list-style-type: none"> ■ The claim had to be qualified for errors identified in the eligible rent for Non-HRA, and incorrect start dates for Rent of Determination for Rent Allowances, in all cases the error led to underpayment of benefit these will be amended in the system in 2013/14. ■ The claim had to be amended for errors identified in the Non HRA and Rent Allowances backdate cells, this has no impact on subsidy received. ■ Rent Rebates cells have been amended as a number of cases were removed from the claim due to errors. ■ The overall impact of all the amendments made since the original submission was that the Subsidy claim fell by £1,834. <p>Recommendation</p> <ul style="list-style-type: none"> ■ The Central Team should be used as the portal for Internal and External audit to discuss queries, agree errors and quality assess the findings from a Housing and Council Tax Benefit technical viewpoint. This recommendation has been agreed with relevant officers. |

The revised scale fee has been agreed at £26,255. This is a net increase on the planned scale fee of £2,255 to reflect additional work being required on some claims and less work required on others.

Overall, it is a reduction of £9,598 compared to 2011/12.

Breakdown of certification fees 2012/13



| Breakdown of fee by grant/return | | |
|---|---------------|---------------|
| | 2012/13 (£) | 2011/12 (£) |
| Planning and Reporting | 0 | 1,890 |
| BEN01 – Housing and Council Tax Benefit | 23,656 | 30,960 |
| LA01 – National Non Domestic Rates return | 1,123 | 1,813 |
| PEN05 – Teachers’ Pensions return | 1,476 | 595 |
| EDU06 – School centred initial teacher training | 0 | 595 |
| Total fee | 26,255 | 35,853 |

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set a scale fee for the Council of £24,000. We have had agreed variations to the scale fee as follows:

- BEN01 – increase the scale fee by £2,826 as additional testing was required in 2012/13 to that carried out in 2011/12;
- PEN05 – increase the scale fee by £1,206 as Part A & B testing was required in 2012/13 compared to only Part A included in the scale fee;
- LA01 – reduce the scale fee by £1,137 for LA01 as we only audited Part A, the scale fee included Part A and B; and
- EDU06 – reduce the scale fee to zero as we did not have to certify this claim in 2012/13.

It is noted that the additional testing that was required on BEN01 (Housing and Council Tax Benefit), and the subsequent increase in scale fee of £2,826 to reflect the increased testing, is based on a claim value of over £58m.



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Interim Audit Report 2013/14

North Lincolnshire Council

March 2014

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Report sections

- Key findings

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This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2013/14 financial statements and our 2013/14 VFM conclusion.

| | |
|---|--|
| Organisational and IT control environment | <p>Based on the work carried out so far, we have found the Council's control environment to be effective.</p> <p>We have worked with Internal Audit to help update our understanding of the Council's IT control environment.</p> |
| Results of our work over key financial systems | <p>During our visit, we reviewed the following key financial systems and processes:</p> <ul style="list-style-type: none"> ▪ Cash and Bank - understanding the system and processes in place, and testing the key control is working effectively; ▪ Property, plant and equipment - understanding the system and processes in place; ▪ Pensions - understanding the system and processes in place; ▪ Budgetary control - understanding the system and processes in place, and testing key controls are working effectively; and ▪ Journal entry controls - understanding the system and processes in place. <p>The overall conclusion we have reached is that you have an effective control environment for a Council that should prevent, detect and correct material misstatements caused by either fraud or error.</p> |
| Review of internal audit | <p>We will work with your Internal Auditors to update our understanding of the Council and to help identify any risks of material misstatement in the financial systems. Internal Audit are currently carrying out their year end work and once complete we will update our risk assessment prior to our final accounts visit in July.</p> |
| Accounts production and closedown arrangements, annual governance statement, annual report and specific risk areas | <p>We have not identified any issues during our interim audit to indicate that the Council's overall process for the preparation of the financial statements is not adequate. We will work with the finance team to discuss any issues that may arise.</p> <p>We will supply a schedule of expected working papers (Prepared by Clients schedule) to the Finance staff.</p> |

| | |
|-------------------------------|---|
| <p>Key audit risks</p> | <p>In our External Audit Plan 2013/14, presented to you in April 2014, we identified the key risk affecting the Council's 2013/14 financial statements to be the Pension Fund's Triennial Review.</p> <p>We have discussed risks with the Director of Policy and Resources as part of our regular meetings. In addition, we have reviewed relevant workings and evidence and where appropriate agreed the accounting treatment as part of our interim work.</p> <p>Pension Fund Triennial Review</p> <p>We have discussed the process that the Council, alongside East Riding of Yorkshire Pension Fund, went through and understand that Hymans Robertson Actuaries will provide you with a professional estimate of the pension liabilities as at 31 March 2014. We will carry out further substantive procedures at the year end and gain assurances over both the Expert and the information supplied by East Riding of Yorkshire Pension Fund, by way of third party assurance letters.</p> |
| <p>VFM risks</p> | <p>For 2013/14, the Audit Commission requires us to specifically consider two specified criteria for the VFM conclusion: prime sources of evidence :</p> <ul style="list-style-type: none"> ▪ Financial resilience; and ▪ Arrangements to secure economy, effectiveness and efficiency. <p>We have carried out a risk identification assessment and at this stage we have not identified any additional local work that is required.</p> <p>We will continue to look for any new risks and will specifically review the following, before issuing our opinion:</p> <ul style="list-style-type: none"> ▪ the Annual Governance Statement; ▪ work of regulators and inspectors; and ▪ any other work we identify as relevant . |



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External audit progress report and technical update

North Lincolnshire Council

April 2014



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:

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

| Progress report | | | | | |
|--|---|----|--|---|----|
| Progress report | | 3 | | | |
| Technical Update | | | | | |
| Final local government finance settlement 2014/15 | ● | 5 | Value for money data briefing on benefits administration | ● | 9 |
| Draft order published reflecting changes to council tax calculations | ● | 5 | Judicial review over lost waste credits | ● | 9 |
| CIPFA/LASAAC consultation – schools accounting | ● | 6 | Administration of benefits, including overpayments, cost councils £829m (Audit Commission article) | ● | 10 |
| Housing Revenue Accounts transfers – DCLG letter | ● | 7 | High central costs in some councils need greater scrutiny (Audit Commission article) | ● | 10 |
| Annual fraud and corruption survey 2013/14 | ● | 7 | Councils show financial resilience, but must continue adapting (Audit Commission report) | ● | 13 |
| Local authority fraud briefings | ● | 7 | Children's social care: the case for early intervention (CIPFA article) | ● | 11 |
| Future of local audit – consultation on secondary legislation | ● | 8 | Court of Appeal ruling on service cut | ● | 11 |
| Local Audit and Accountability Act 2014 | ● | 8 | Audit Commission report – Auditing the Accounts 2012/13: Local government bodies | ● | 11 |
| Are other local authorities making more money? (CIPFA article) | ● | 8 | Not all Council Tax support schemes will achieve the objectives outlined by the DCLG (NAO report) | ● | 12 |
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| Appendix 1 – 2013/14 Audit deliverables | | 14 | | | |



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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 deliverable is provided in Appendix 1 of this report.


| Area of responsibility | Commentary |
|--|--|
| Audit planning | We have completed our risk based audit planning for the 2013/14 audit of your financial statements and VfM conclusion. We agreed the Audit Plan with management and present it to the Audit Committee as part of today's agenda. |
| Financial statements | Our interim audit took place during March 2014 and we will report findings from the interim visit to the April Audit Committee meeting. Our audit of your draft financial statements will take place during July/August. We will issue our opinion on your financial statements by 30 September 2014. |
| Value for Money | Our work on the VFM conclusion commenced as part of our interim audit visit and will conclude during our final accounts visit in July/August. We will issue our VVFM conclusion by 30 September 2014. |
| Certification of claims and returns | 2012/13 Our grants certification report is being presented to the Audit Committee as part of today's agenda. 2013/14 We are agreeing an audit programme for 2013/14 claims that will need certification. |
| Other work | We have no other work planned at this time. |






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Technical update

| Area | Level of Impact | Comments | KPMG perspective |
|---|---|---|---|
| Final local government finance settlement 2014/15 | <p style="text-align: center;">● High</p> | <p>On 5 February 2014 the Government published the final local government finance settlement for 2014/15. In addition, the Government has proposed that any council tax increases made by billing or precepting authorities of two per cent or more will be subject to a referendum.</p> <p>For more information, visit https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2014-to-2015</p> | <p><i>The committee may wish to consider the progress the Council has made on addressing the funding cuts and the impact this has on services</i></p> |
| Draft order published reflecting changes to council tax calculations | <p style="text-align: center;">● High</p> | <p>The draft Localism Act 2011 (Consequential Amendments) Order 2014 was published on 9 January 2014. It proposes changes to sections 73 to 79 of the Localism Act 2011 that require billing authorities, major precepting authorities and local precepting authorities in England to calculate a council tax requirement for a financial year. Previously, such authorities were obliged to calculate a budget requirement for a financial year.</p> <p>The draft Order makes amendments to:</p> <ul style="list-style-type: none"> • section 31A(5) of the Local Government Finance Act 1992 (LGFA 1992) to exclude sums that have been or are transferred from an authority's general fund to its collection fund. <p>The draft Order will have effect in relation to financial years beginning 1 April 2014.</p> | <p><i>The committee may wish to consider whether the Council considered the impacts of the proposed changes when assessing their council tax requirement for 2014/15.</i></p> |

| Area | Level of Impact | Comments | KPMG perspective |
|---|--|---|--|
| CIPFA/LASAAC consultation – schools accounting |  Medium | <p>On 21 February 2014, CIPFA/LASAAC released the single issue consultation – Accounting for Schools in Local Authorities in England and Wales relating to the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>For more information, visit http://www.cipfa.org/SingleIssueITCAccountingforSchoolsinLocalAuthorities.</p> <p>The consultation paper seeks views on the report of the Joint HM Treasury and CIPFA/LASAAC <i>Public Sector Accounting for Schools Working Group – The Accounting Treatment of Local Authority Maintained Schools in England and Wales</i>. It also provides an exposure draft addendum to the 2014/15 Code and an invitation to comment for public consultation. The 2014/15 Code will apply to accounting periods starting on, or after, 1 April 2014.</p> <p>This consultation will close on 4 April 2014.</p> | <p><i>The committee may wish to consider whether the Council has responded to the consultation</i></p> |

| Area | Level of Impact | Comments | KPMG perspective |
|---|---|--|---|
| Housing Revenue Accounts transfers – DCLG letter |  Low | <p>On 26 November, the Department of Communities and Local Government (DCLG) wrote to all local authority chief finance officers enquiring about potential transfers of funds from the Housing Revenue Account to the General Fund.</p> <p>DCLG is requesting the information as it 'is considering whether it would be appropriate, where funds have been transferred, to determine or direct that such funds should be returned to the Housing Revenue Account'.</p> <p>The letter can be found at https://www.gov.uk/government/publications/transfer-of-funds-from-the-housing-revenue-account-to-the-general-fund</p> | <p><i>Please discuss this with your audit team if this is likely to impact on the Council in 2013/14</i></p> |
| Annual fraud and corruption survey 2013/14 |  Low | <p>On 7 April 2014 the Audit Commission plans to issue its annual fraud and corruption survey to local authorities.</p> <p>The survey will ask officers for information about all detected fraud and corruption for the financial year 2013/14, and, as in previous years, the intention is to carry this out under section 48 of the Audit Commission Act 1998. The survey will be open for officers to complete and submit between 7 April 2014 and 16 May 2014.</p> <p>As in previous years, auditors will be asked to review the data for consistency with their existing knowledge of the Council.</p> | <p><i>The Council should put arrangements in place to capture the information required for the survey and complete it before the deadline</i></p> |
| Local authority fraud briefings |  Low | <p>The Audit Commission has developed fraud briefings that are 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>The Fraud Briefings have been developed by the Commission's counter-fraud team and provide contextual and comparative benchmark data.</p> | <p><i>We are presenting a paper to the Audit Committee today regarding your Fraud Briefing.</i></p> |

| Area | Level of Impact | Comments |
|---|--|--|
| Future of local audit – consultation on secondary legislation | <p style="text-align: center;">●</p> <p style="text-align: center;">For information</p> | <p>The Department of Communities and Local Government (DCLG) carried out a 4 week consultation from 25 November 2013 on the secondary legislation that may be needed to give effect to the new local audit arrangements set out in the Local Audit and Accountability Bill, currently before Parliament.</p> <p>For more information on the future of local audit, visit the DCLG website: http://localaudit.readandcomment.com/</p> |
| Local Audit and Accountability Act 2014 | <p style="text-align: center;">●</p> <p style="text-align: center;">For information</p> | <p>The Local Audit and Accountability Act 2014 received Royal Assent on 30 January. The Act makes it possible for the Audit Commission to close, in line with the Government’s expectations, on 31 March 2015. In its place there will be a new framework for local public audit, due to start after the Commission’s current contracts with audit suppliers end in 2016/17, or in 2019/20 if they are extended. A transitional body will oversee the contracts in the intervening period.</p> <p>In the statement the Commission’s Chairman explains the main aims of the organisation in its final 14 months. Jeremy Newman also confirms plans are already in place for many of the residual responsibilities that will transfer to new organisations and highlights those for which a new owner has not yet been agreed.</p> <p>The Audit Commission’s press release is available to view on its website: http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/</p> |
| Are other local authorities making more money? (CIPFA article) | <p style="text-align: center;">●</p> <p style="text-align: center;">For information</p> | <p>“In this period of prolonged austerity, it is essential for local authorities to take advantage of the various income generation streams available to them if they wish to raise additional revenue as a means of providing funding for services. “</p> <p>Read the full article at: http://www.cipfa.org/policy-and-guidance/articles/are-other-local-authorities-making-more-money</p> |

| Area | Level of Impact | Comments |
|--|-------------------------------------|---|
| <p>Value for money data briefing on benefits administration</p> | <p>● For information</p> | <p>The Commission has published Councils' expenditure on benefits administration, the latest in its series of value for money (VFM) data briefings analysing data in the VFM profiles tool. The briefing compares the cost of benefits administration to councils with the Department of Work and Pensions (DWP) funding received. The briefing reports that costs exceeded funding by £361 million in 2012/13, but identifies significant variations in the amount each council spends when compared with other councils of similar size and caseload.</p> <p>To read the report, visit: http://www.audit-commission.gov.uk/2014/01/administration-and-overpayment-of-benefits-cost-councils-829-million/</p> <p>Visit the VFM profiles tool website at: http://www.audit-commission.gov.uk/information-and-analysis/</p> <p>The briefing also reports that in 2012/13 councils paid £468 million more in benefits than they received in subsidy from DWP. Councils are encouraged to use the national and local data to get a better understanding of their performance and costs and consider the scope to reduce their costs by improving their efficiency and reducing errors, overpayments and fraud.</p> <p>Previous briefings on council tax collection, social care for older people, income from charging and business rates are also available on the at http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p> |
| <p>Judicial review over lost waste credits</p> | <p>● For information</p> | <p>Two local authorities have withdrawn their application for a judicial review against Defra's decision to remove £65 million in waste infrastructure credits. North Yorkshire County Council and City of York Council said continuing with the judicial review, which was due to be heard at the end of the month, "would not be in the public interest".</p> <p>Their grounds of challenge included that the Secretary of State did not make the decision to withdraw the credits after the councils had approved the plans for the £1.4 billion Allerton Waste Recovery Park in a proper manner and Defra failed to follow its own published criteria. In a statement, North Yorkshire and City of York said: "If the councils proceeded with the judicial review, and were successful, Defra would be required to repeat the decision making process but it is now clear that the likely outcome would be that Defra would reach the same conclusions and the funding support for the project would not be reinstated."</p> <p>North Yorkshire County Council and York City Council have spent more than £7million over eight years on expert advice over plans for the site near Harrogate. If the scheme does not go ahead the councils could be liable for a termination payment to contractors AmeyCespa of up to £5m.</p> <p>Bradford and Calderdale councils, who also had a judicial review claim against Defra over the withdrawal of waste infrastructure credits, have settled their claim.</p> |

| Area | Level of Impact | Comments |
|---|---|--|
| Administration of benefits, including overpayments, cost councils £829m (Audit Commission article) | <p style="text-align: center;">● For information</p> | <p>Councils administer housing benefit on behalf of central government. They also administered council tax benefit until it was replaced in April 2013 by local council tax support schemes. Councils' local arrangements, such as how quickly, accurately and efficiently they process claims, affect the amount they spend administering benefits and the amount of subsidy they receive from the Department for Work and Pensions (DWP). By improving their performance, councils can reduce their costs, which are in excess of £800 million per year.</p> <p>Read the full article http://www.audit-commission.gov.uk/2014/01/administration-and-overpayment-of-benefits-cost-councils-829-million/</p> |
| High central costs in some councils need greater scrutiny (Audit Commission article) | <p style="text-align: center;">● For information</p> | <p>The Audit Commission has published new analysis of data on English councils' central management costs in its briefing, Councils' Centrally Managed Spending: Using Data From the Value for Money Profiles. Overall spending on corporate and democratic management reduced by 13 per cent from 2003/04 to 2012/13, while spending on central management support to services increased by 10 per cent. However, gaps and inconsistencies in councils' recorded spending in these areas will, the Commission says, hinder councils' attempts to identify savings and undermines accountability to taxpayers. As a result, the Commission is calling for greater local scrutiny and more consistent reporting by councils of their central management spending.</p> <p>Read the full article http://www.audit-commission.gov.uk/2014/02/high-central-costs-in-some-councils-need-greater-scrutiny-2/</p> <p>For information, in 2012/13 North Lincolnshire Council's Corporate and Democratic Core cost per capita was £25.47. This was below the Unitary Authority average of £31.42.</p> |
| Councils show financial resilience, but must continue adapting (Audit Commission report) | <p style="text-align: center;">● For information</p> | <p>The Audit Commission's latest research, Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14, shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. But, the Commission says, with uncertainty ahead, councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.</p> <p>The report can be viewed at: http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf</p> |

| Area | Level of Impact | Comments |
|---|--|--|
| Children’s social care: the case for early intervention (CIPFA article) | <p style="text-align: center;">●</p> <p style="text-align: center;">For information</p> | <p>“Children’s social care is a politically sensitive and emotive area. Yet under the austerity measures, it has seen increased demand, to be met by a smaller pool of funding. Department for Education (DfE) Statistics show over the past three years, referrals to children’s social care have risen steadily, a growth of 12.43 per cent from 2008/09 to 2010/11. The reasons why demand is increasing need to be examined – and, if possible, the causes addressed – in order to stem the rising tide.”</p> <p>Read the full article http://www.cipfa.org/policy-and-guidance/articles/childrens-social-care-the-case-for-early-intervention</p> |
| Court of Appeal ruling on service cut | <p style="text-align: center;">●</p> <p style="text-align: center;">For information</p> | <p>The Court of Appeal has ruled that North Somerset Council acted unlawfully when, in 2012, it cut youth services by more than 70 per cent over a three-year period.</p> <p>Lord Justice Rimer said:</p> <ul style="list-style-type: none"> • there was no sufficient evidence entitling the High Court judge to conclude that the Council had taken the steps required by section 507B(9) of the Education Act 1996 to ascertain the required views of qualifying young people about the proposal to cut funding; and • there was no evidence that the Council had complied with its requirements under section 149 of the Equality Act 2010 regarding equality impact assessments, and as such the public sector equality duty had not been discharged. <p>However, the judges declined to grant a quashing order over the decision, deciding that it was “now too late to unwind what has been done”.</p> |
| Auditing the Accounts 2012/13: Local government bodies (Audit Commission report) | <p style="text-align: center;">●</p> <p style="text-align: center;">For information</p> | <p>On Thursday 12 December 2013, the Audit Commission published its Auditing the Accounts 2012/13: Local government bodies report. The report summarises the quality and timeliness of financial reporting by principal and small bodies. Principal bodies include councils, police authorities, fire and rescue authorities, and other local government bodies. Small bodies include parish councils and internal drainage boards.</p> <p>The report covers the timeliness and quality of financial reporting and summarises:</p> <ul style="list-style-type: none"> • auditors’ work on the 2012/13 financial statements; • auditors’ work on the Whole of Government Accounts returns; • auditors local value for money work; • the public interest reports and statutory recommendations issued by auditors since our last report, issued in December 2012; and • the key financial reporting and financial management challenges facing bodies for 2013/14. <p>The report can be found at: http://www.audit-commission.gov.uk/ata1213e</p> |

| Area | Level of Impact | Comments |
|---|---|--|
| <p>Not all Council Tax support schemes will achieve the objectives outlined by the DCLG (NAO report)</p> | <p style="text-align: center;">● For information</p> | <p>The National Audit Office has found that the Department for Communities and Local Government worked together effectively with local authorities to ensure Council Tax support was introduced on schedule. Not all local authorities' support schemes, however, will achieve the expected objectives outlined by the Department before the policy was implemented.</p> <p>The Department reduced the funding for Council Tax support by 10 per cent, equating to a saving for central government of £414 million in 2013-14. Its 'localization' of Council Tax support required local authorities to design their own local support schemes. Most local authorities have reduced support for claimants to meet some of their funding reduction.</p> <p>Seventy-one per cent of local authorities have introduced schemes that require working age claimants to pay at least some council tax regardless of income. Most local authorities also used new powers to charge more Council Tax on some properties, such as second and short-term empty homes, to help offset the funding reduction for Council Tax support. The National Audit Office found that all of a sample of 207 local authorities had taken advantage of these additional powers, raising an estimated additional income of £178 million.</p> <p>The Department expects local authorities to implement schemes which protect vulnerable people and improve work incentives. The task for local authorities to meet these different objectives whilst managing their funding reduction is complex, and may require trade-offs. Today's report found, for example, that 41 per cent of local authorities have introduced minimum payments of Council Tax with no protections for vulnerable groups, other than those mandated for pensioners and war pensioners. The Department takes the view that scheme designs are local decisions and it does not plan to intervene in local authorities' scheme choices.</p> <p>The financial impact of the localization of Council Tax support will vary between local authorities and depends on a range of factors. For many local authorities, the reduction in funding for Council Tax support combines with other funding and welfare changes to put extra pressure on their budgets. According to the NAO, the Department must do more to satisfy itself that local authorities can manage the cumulative impact of funding and welfare changes.</p> |



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Appendix

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 |
|--|--|----------------|----------|
| Planning | | | |
| Fee letter | Communicate indicative fee for the audit year | April 2013 | Complete |
| External audit plan | Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures | April 2014 | Complete |
| Interim | | | |
| Interim report | 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. | April 2014 | Complete |
| Substantive procedures | | | |
| 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. | September 2014 | TBC |
| Completion | | | |
| Auditor's report | Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). | September 2014 | TBC |
| WGA | Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office. | September 2014 | TBC |
| Annual audit letter | Summarise the outcomes and the key issues arising from our audit work for the year. | September 2014 | TBC |
| Certification of claims and returns | | | |
| Certification of claims and returns report | Summarise the outcomes of certification work on your claims and returns for Government departments. | December 2014 | TBC |



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Protecting the Public Purse Fraud Briefing 2013

North Lincolnshire Council

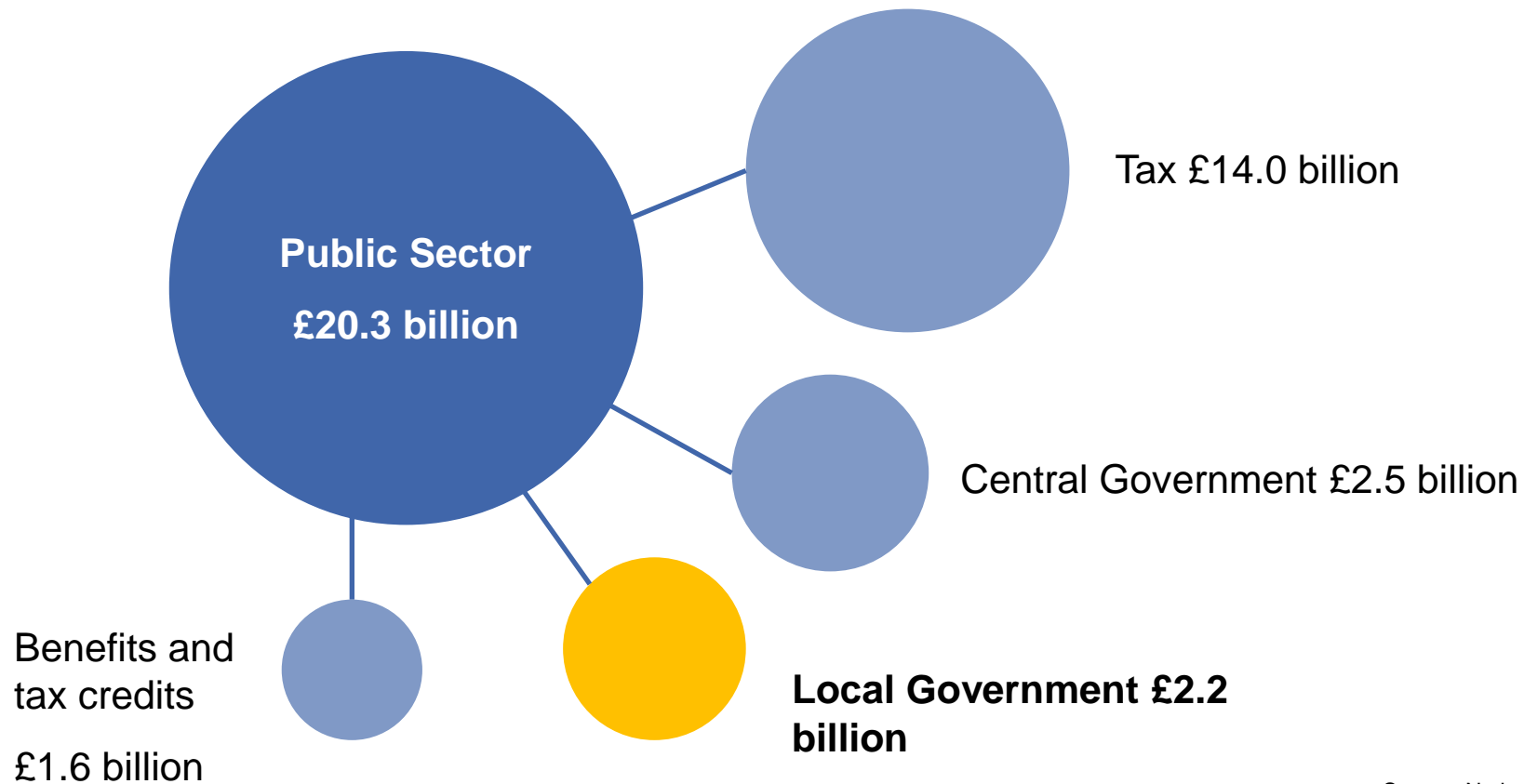
Agenda

- Introduction and purpose of your fraud briefing
- Protecting the Public Purse (PPP) 2013 report – national picture
- Interpreting fraud detection results
- The local picture
- Fraud drivers
- Questions
- KPMG resources

Introduction

Fraud in the public sector

Public Sector fraud costs the UK economy billions each year.



Source: National Fraud Authority:
Annual Fraud Indicator, March 2012

Introduction

Purpose of your fraud briefing

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities
- Reviews current counter fraud strategy and priorities
- Discuss local and national fraud risks
- Reflect local priorities in a proportionate response to those risks

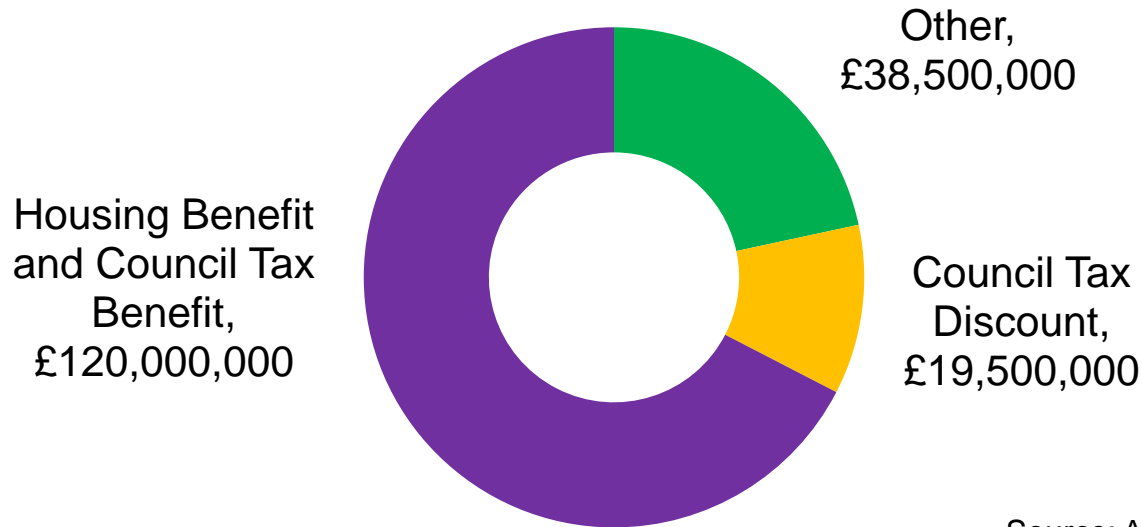
Your council is compared with the metropolitan districts and unitary authorities of the north west, north east and Yorkshire and the Humber regions

National Picture 2012/13

107,000 total cases detected with value of £178m (excluding social housing fraud)

Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

Detected Fraud



Source: Audit Commission

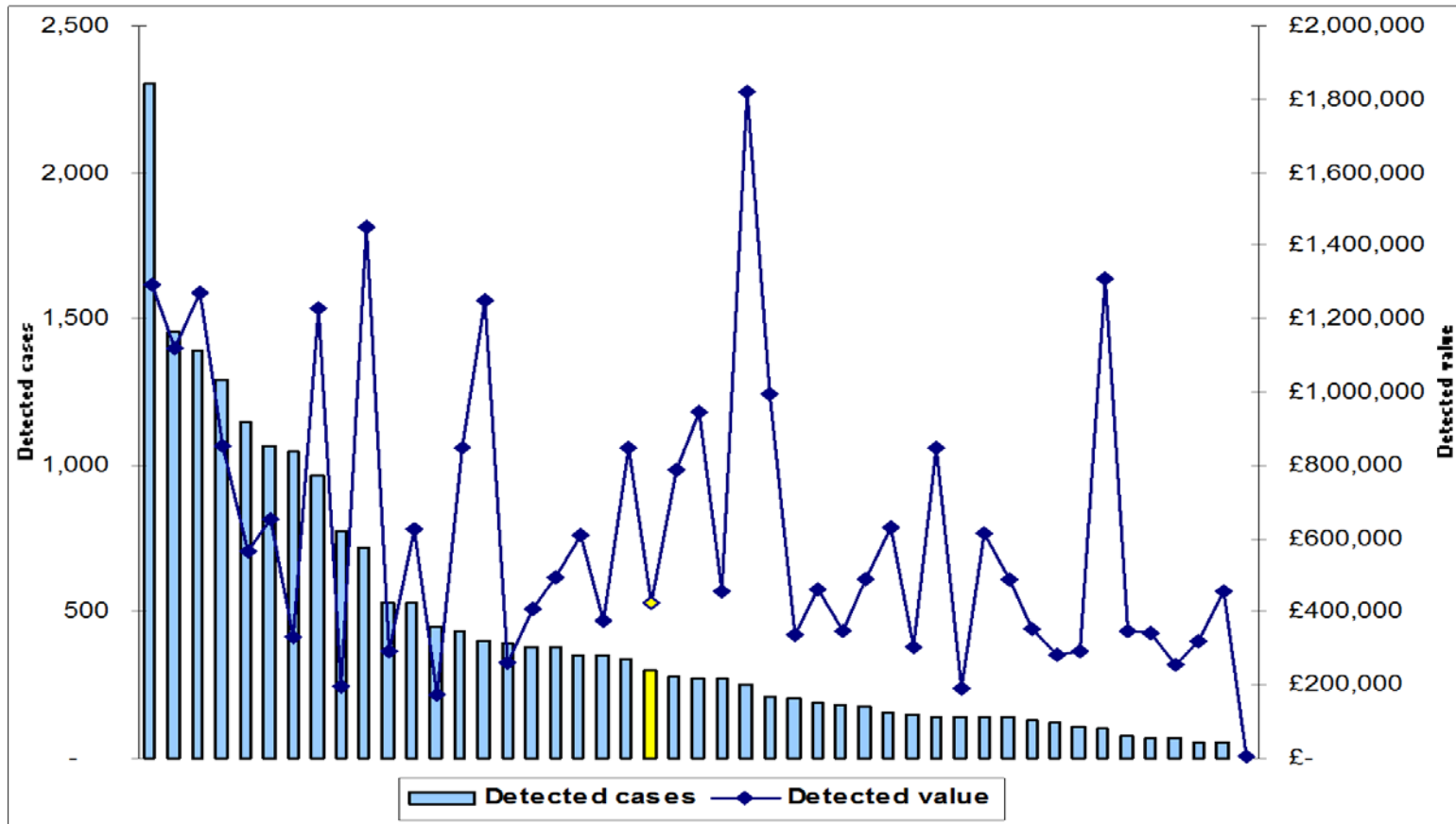
Interpreting fraud detection results

- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (fraud will always be attempted and even with the best prevention measures some will succeed)
- Council who look for fraud, and look in the right way, will find fraud (there is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

The local picture

How your council compares to other Northern metropolitan districts and unitary authorities
 Total detected cases and value 2012/13 (excluding social housing fraud)



North Lincolnshire detected: 301 cases, valued at £423,211

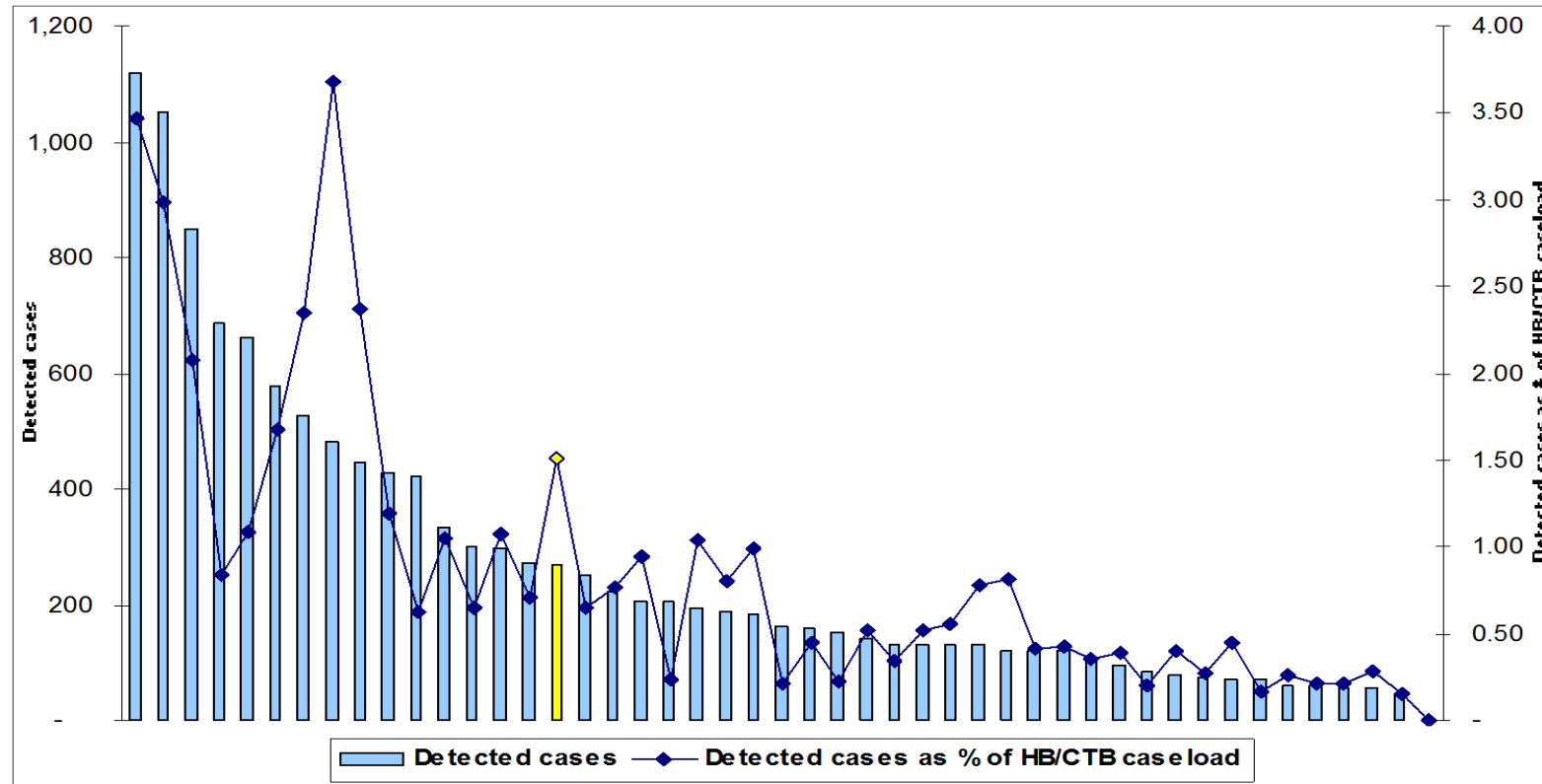
Source: Audit Commission

The local picture

Northern metropolitan districts and unitary authorities 2012/13

Housing benefit (HB) and Council tax benefit (CTB) fraud

Detected cases and detected cases as a percentage of HB/CTB caseload.



North Lincolnshire detected: 268 cases, valued at £404,988

Northern average: 266 cases, valued at £532,110

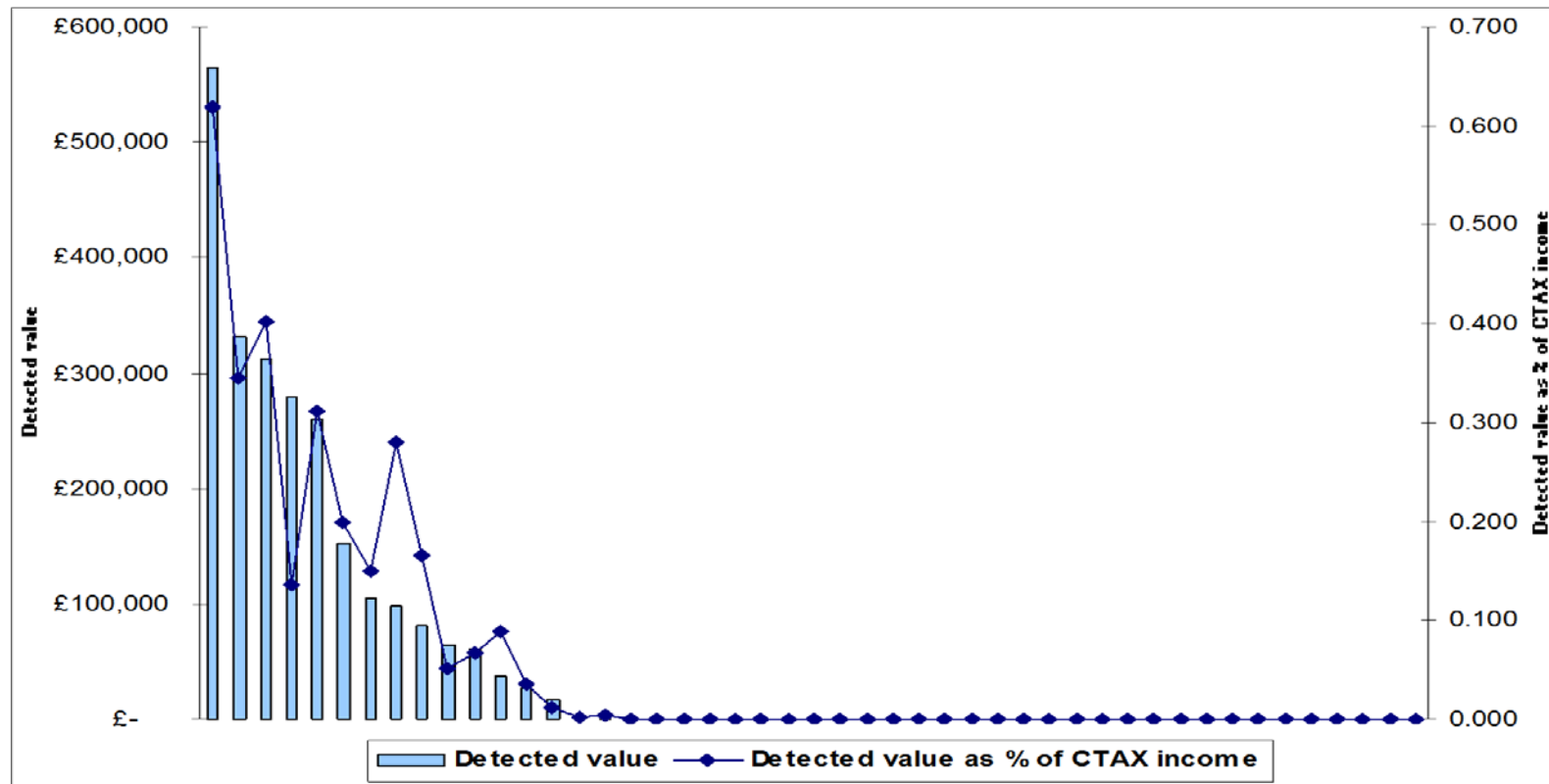
Source: Audit Commission

The local picture

Northern metropolitan districts and unitary authorities 2012/13

Council tax (CTAX) discount fraud

Detected value and detected value as a percentage of council tax income



North Lincolnshire detected: 17 cases, no value recorded

Northern average: 154 cases, valued at £50,941

Source: Audit Commission

The local picture

Northern councils without housing stock 2012/13 Social housing fraud

It is estimated that:

- 2 per cent of social housing stock outside London is subject to tenancy fraud;
- tenancy fraud represents the second largest financial loss to fraud in local government, costing £845 million in 2013; and
- when combined with the loss to tenancy fraud suffered by housing associations, the total value in England is £1.8 billion – making tenancy fraud five times greater than the annual loss due to housing benefit fraud.

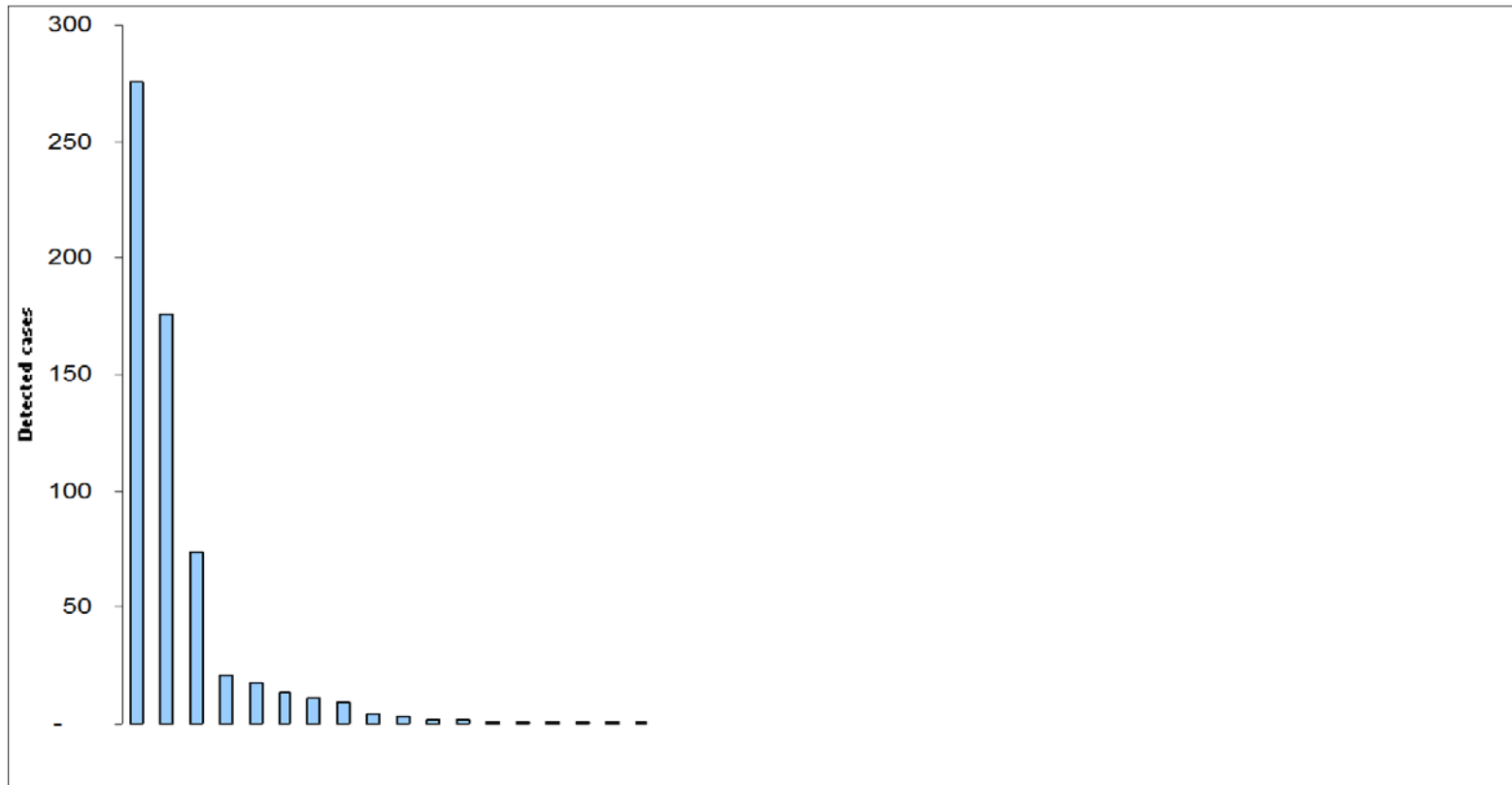
The Prevention of Social Housing Fraud Act 2013 criminalises tenancy fraud

The legislation gives councils investigation powers and the ability to prosecute tenancy fraudsters on behalf of housing associations

Should you be using this legislation to work in partnership with local housing associations?

The local picture

Northern metropolitan districts and unitary authorities 2012/13 Disabled parking (Blue Badge) fraud Detected cases



North Lincolnshire detected: no cases

Northern average: 13 cases

Source: Audit Commission

The local picture

North Lincolnshire Council Other frauds

- Procurement: no cases

(Ave per Northern Met & UA: 1 case, valued at £3,660)

- Insurance: no cases

(Total Northern Met & UA: 1 case reported, with no value given)

- Social care: 2 cases, valued at £18,000

(Total Northern Met & UA: 19 cases reported, valued at £120,396)

- Economic & Third sector: no cases

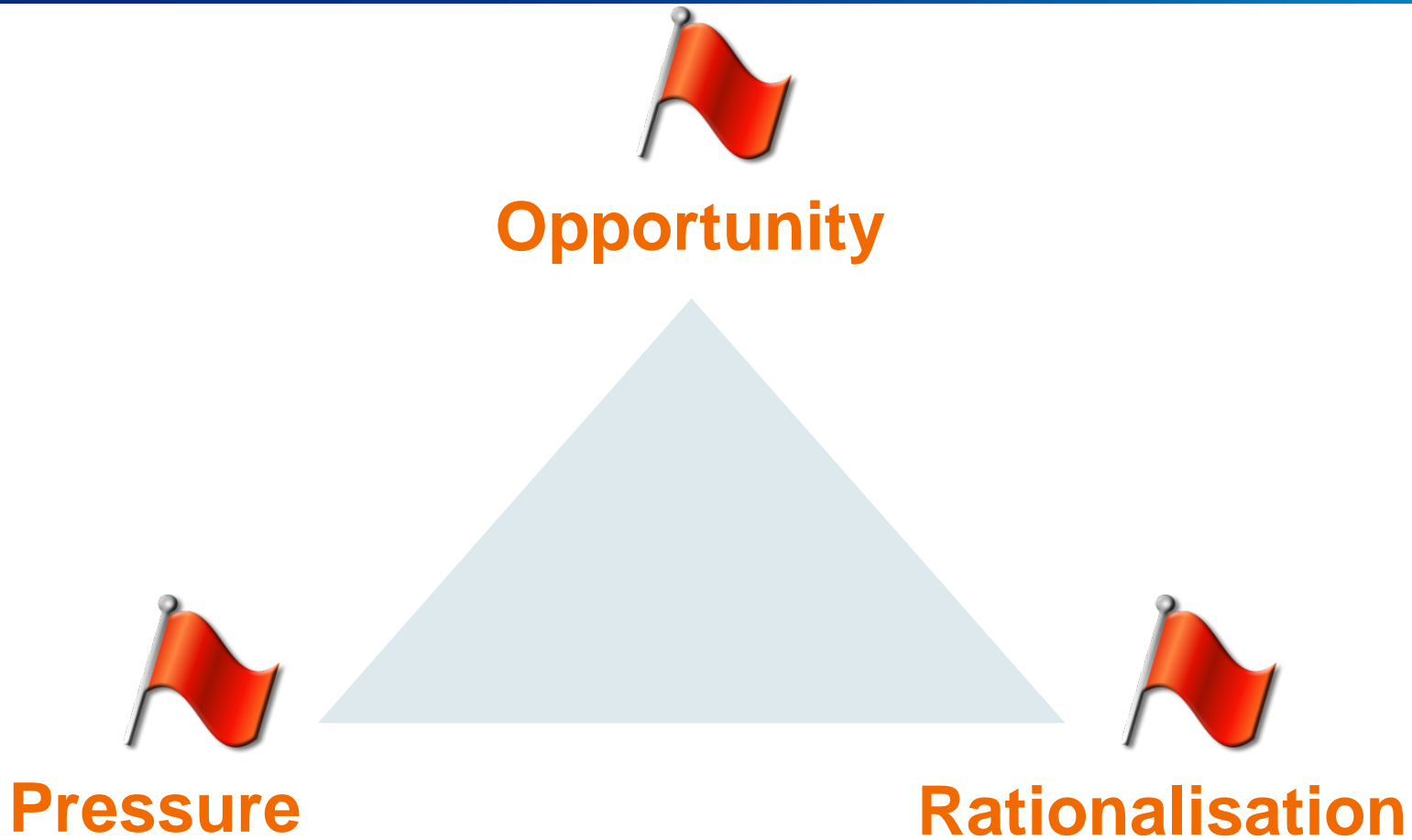
(Total Northern Met & UA: 5 cases, valued at £127,200)

- Internal fraud: 14 cases, valued at £223

(Ave per Northern Met & UA: 7 cases, valued at £16,635)

*Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case*

Fraud drivers



Questions?



Public Sector
counter fraud
team

Forensic

Counter fraud governance
reviews
Whistle-blowing
Bribery Act
Internal fraud awareness
presentations
Data driven intelligence
Responsive advisory services
to assist in prevention/detection

If you would like further information on counter fraud please feel free to contact your engagement team:

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