Report of the Director of Policy and Resources

Agenda Item No. 7
Meeting: 28 June 2016

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. To consider external audit's Annual Audit Fee Letter and Local Authority Risk Register Analysis.

2. BACKGROUND INFORMATION

2.1 The Annual Audit Fee letter (appendix A) issued on 1 April 2016 sets out the indicative fees for the annual audit of the accounts and certification of the Housing Benefit Subsidy Claim in 2016/17; these are £104,138 and £15,615 respectively.

2.2 The fees are based on the Public Sector Audit Appointments Ltd's fee scales. There is no change in the fee for the annual audit of the accounts and a 16.4% increase in the grant claim fee.

2.3 The Local Authority Risk Register Analysis (appendix B) summarises benchmarking of strategic risks between North Lincolnshire Council and a range of local authorities. It highlights:

- Most frequently featured risks across local authority risk registers and changes from 2014 when a similar exercise was carried out.
- Arrangements in place to maintain and review risk registers.
- The degree to which risk registers are used as an integrated management and assurance tool.

3. OPTIONS FOR CONSIDERATION

3.1 The Audit Committee should consider the external auditor's Annual Audit Fee Letter and Local Authority Risk Register Analysis. The Committee is invited to seek clarification from the external auditors or council officers as necessary.

4. ANALYSIS OF OPTIONS

4.1. 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. The audit fee of £119,753 is 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. RECOMMENDATION

8.1. That the Audit Committee notes the Annual Audit Fee Letter and Local Authority Risk Register Analysis.

DIRECTOR OF POLICY AND RESOURCES

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Date: 09 June 2016

Background Papers used in the preparation of this report: None

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Our ref Il/563/SE

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01 April 2016

Dear Simon

Annual audit fee 2016/17

I am writing to confirm the audit work and fee that we propose for the 2016/17 financial year at North Lincolnshire Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2016/17 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2016/17	Planned fee 2015/16
Code of Audit Practice audit fee	£104,138	£104,138
Certification of housing benefit grant claim	£15,615	£13,410
Total fees for the year	£119,753	£117,548

PSAA has set the 2016/17 scale fees for the Code of Audit Practice audit at the same level as for 2015/16, thereby preserving the 25 per cent reductions that were applied that year which in turn was in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. Certification fees for 2016/17 are set by PSAA on the basis of the final fees in 2014/15. The planned fee is in line with the scale fee for both the audit and the certification elements of our work.

As we have not yet completed our audit for 2015/16 the audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Redistribution of Audit Commission surplus

Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2016/17

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for highways network assets. This change will require additional work in 2016/17 but PSAA has indicated that it is not appropriate to increase the scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances. The fees for this additional work will therefore be discussed and agreed with you in due course and will be subject to PSAA's normal fee variation process. PSAA expects that the additional fees for a highways authority will be in the range £5,000 to £10,000, where authorities are able to provide the information required and the auditor is able to rely on central assurance of the valuation models in use. This amounts are indicative and therefore costs outside of this range may be necessary.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2016/17 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

Certification work

As well as our work under the Code, we will certify the 2016/17 claim for housing benefit subsidy to the Department for Work & Pensions.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. In 2014/15 we provided assurance reports on two such schemes and we expect that these will also be required in 2015/16 and 2016/17.

Assumptions

The indicative fees are 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. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued early next year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Policy and Resources and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

The proposed fee excludes any additional work we may agree to undertake at the request of North Lincolnshire Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Our team

The key members of our audit team for the 2016/17 audit are:

Name	Role	Contact details
John Prentice	Director	john.prentice@kpmg.co.uk 0113 231 3935
Linda Wild	Manager	linda.wild@kpmg.co.uk 0113 231 3512
Matthew Moore	Assistant Manager	matthew.moore@kpmg.co.uk 0113 231 3663
Louise Stables	Assistant Manager	louise.stables@kpmg.co.uk 0113 231 4747

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3HZ

Yours sincerely

John Prentice

John Prentice
Director, KPMG LLP

cc: Mike Wedgewood (Director of Policy and Resources)

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2015/16;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on Local Authority Accounting within your 2016/17 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- 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.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
External audit plan	January 2017
Interim audit report (if required)	April 2017
Report to those charged with governance (ISA260 report)	September 2017
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2017
Opinion on Whole of Government Accounts return	September 2017
Annual audit letter	November 2017
Certification of grant claims and returns	January 2018

Appendix 3 – Independence & objectivity requirements

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.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment 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 PSAA audit work 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.

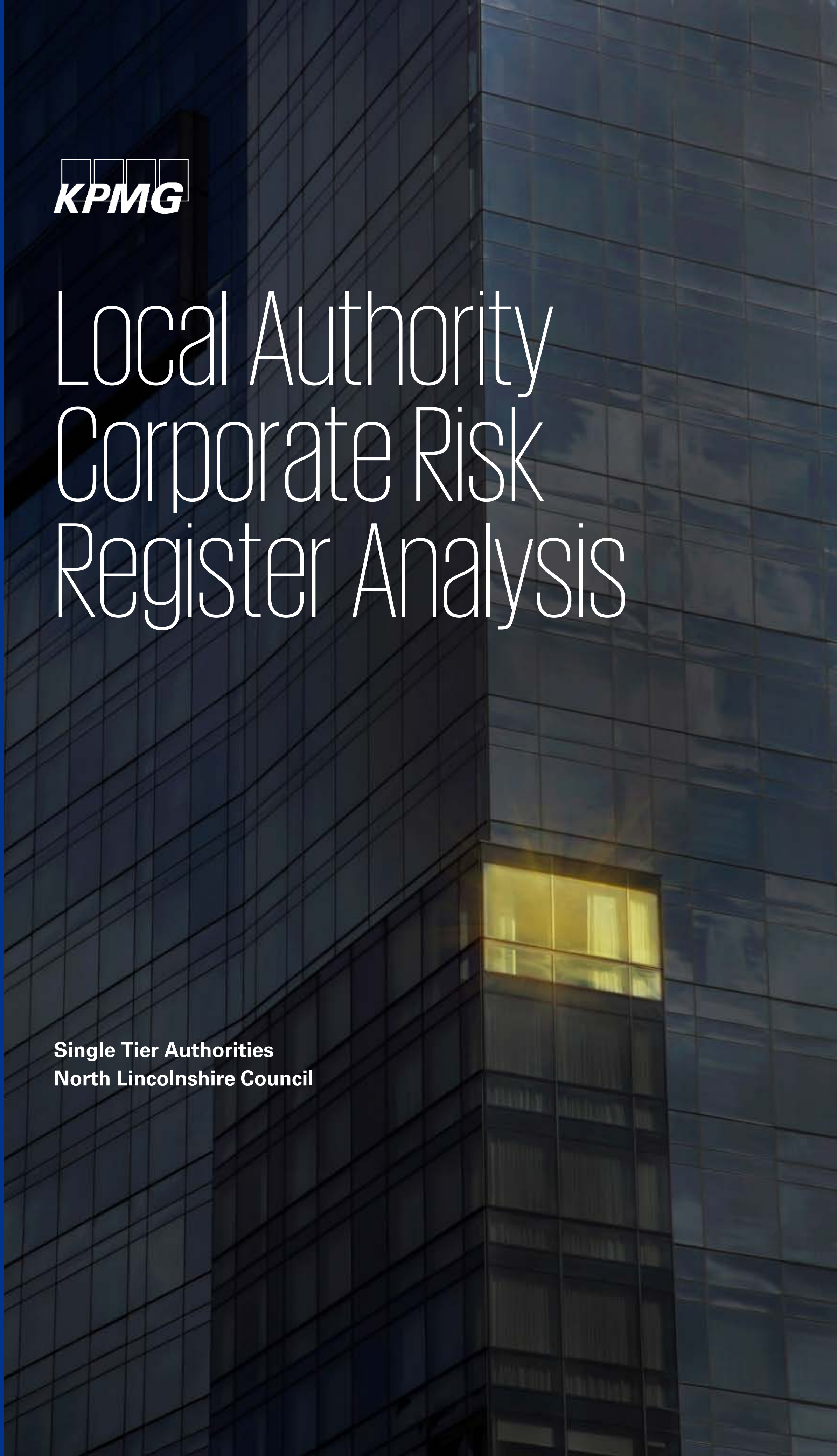
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of March 2016 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.

KPMG

Local Authority Corporate Risk Register Analysis



Single Tier Authorities
North Lincolnshire Council

Local authority corporate risk register analysis

Background

Risk management is a critical management tool to manage, assess and prioritise risks therefore enabling resources to be applied to minimise, monitor and control the probability and/or the impact of negative events.

An important component of the risk management process is the corporate risk register, which identifies those risks which are critical for management to minimise, monitor and control.

KPMG has used its extensive audit client base to undertake Corporate/Strategic risk register analysis. The exercise compared the corporate risk registers from a range of local authorities covering:

— Single Tier Councils;

— County Councils;

— District Councils;

— Fire and Rescue Services; and

— Police bodies.

The outcome highlights the most frequently featured risks across local authority risk registers and changes from 2014 when a similar exercise was carried out.

We also considered the arrangements in place to maintain and review risk registers at the local authorities and fire and police bodies.

Finally, we considered the degree to which risk registers are used as an integrated management and assurance tool, which is especially important given other parts of the Public Sector are increasingly using tools such as Board Assurance Frameworks and Assurance Mapping.

Purpose

Organisations should use the comparative information to help consider:

— Whether there are potential risks that may have been omitted from their own risk register;

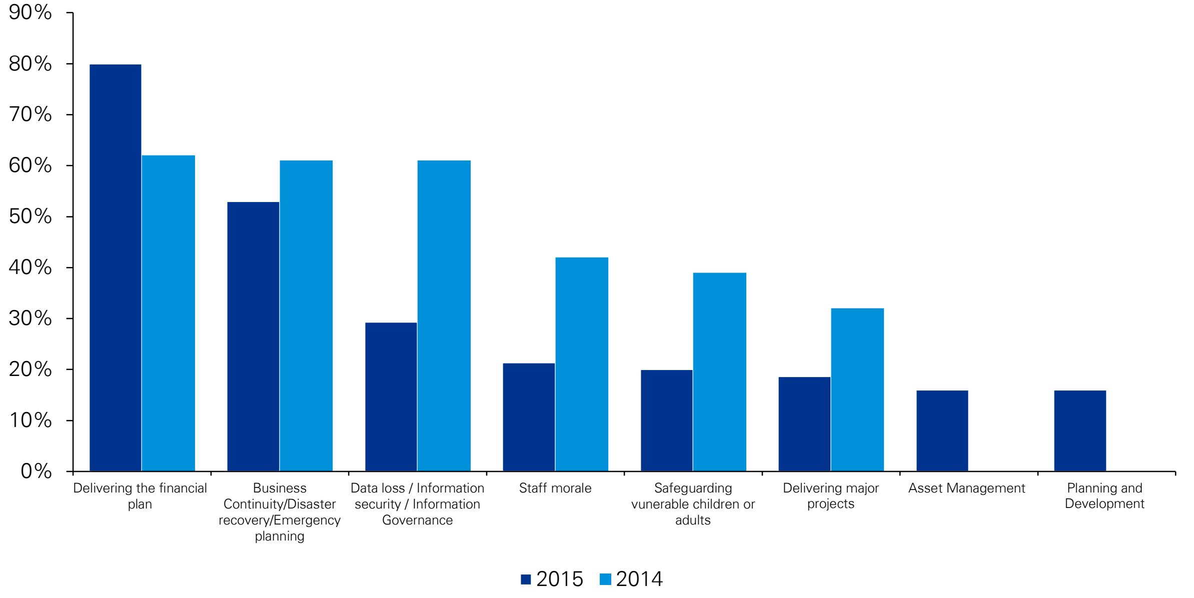
— Whether potential risks are given sufficient priority;

— The mechanics of the risk management process at their organisations; and

— How managing risks and providing assurance can be developed further.

Local authority corporate risk register analysis (cont.)

Most frequently featured risks across all authority types



The top three residual risks occurring most frequently are:

— Delivering the medium term financial plan/saving targets/delivering funding cuts;

— Business continuity/disaster recovery incidents/emergency planning; and

— Data loss/information security/information governance risks.

A much higher number of bodies (80% compared to 62% in 2014) identified ***Delivering the medium term financial plan/saving targets/delivering funding cuts*** as a risk, although this is still not as high as might be expected given the significant reduction in grants seen in recent years and on-going financial pressures.

Risks in relation to ***Business continuity and disaster recovery*** were identified in 53% of risk registers (compared to 61% in 2014) and Data loss/information security and information governance were identified in 29% of risk registers (compared to 61% in 2014). So whilst these risks remain high in terms of frequently occurring risks – It is noticeable that both risks occur less often than in prior years. This fall is a surprise but may be as a result of investments in arrangements reducing the residual risks across the sector.

The risk that no longer features in the above analysis is ***Partnership arrangements/governance***, which is surprising given the emergence and growth of initiatives such as the Better Care Fund.

Compared to the same analysis last year the following risks are new for 2015:

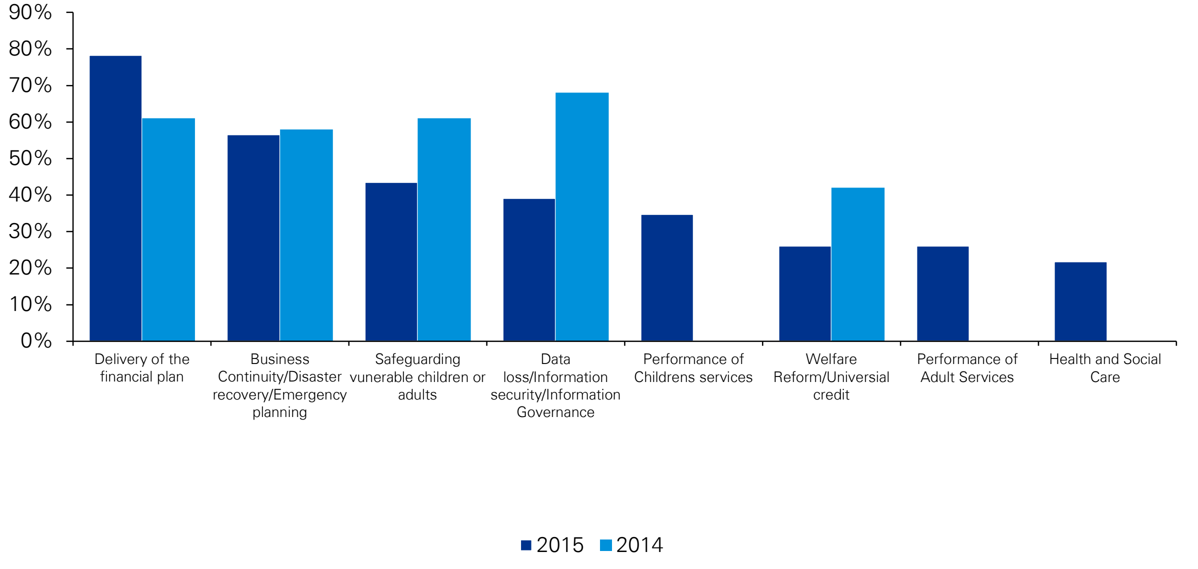
— Asset management; and

— Planning and development issues.

Local authority corporate risk register analysis (cont.)

Most frequently featured risks across single tier authorities

The chart below shows the eight most frequently identified risks at the single tier authorities included in the exercise.



If you exclude the ***safeguarding risk***, which is clearly not a relevant risk for all authorities (e.g. District Councils), the three most common risks for single tier authorities are the same as the all authority type analysis, with ***delivery of the Medium Term Financial Plan*** again the highest risk.

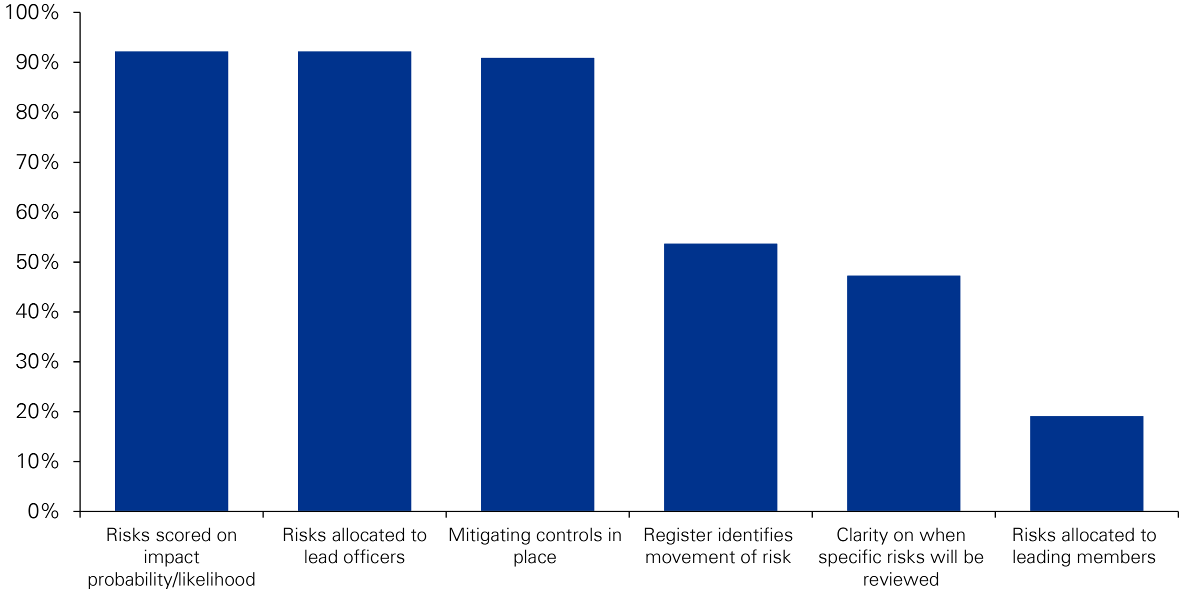
We note we see more risks in relation to ***Health and Social Care***, (21% of single tier authorities), which is understandable given the arrival and growth of the Better Care Fund. This also possibly explains the reduction in ***Partnership Governance risks***, which are now better defined as Health and Social care. We also note that concerns over operational performance in Children and Adults services are now being seen in more risk registers.

Against a background of the significant reputational and business impact of safeguarding cases, it is also noticeable that safeguarding vulnerable children or adults was only identified in 43% of single tier authorities, which is down from 61% in 2014.

North Lincolnshire Council (the Council) currently has one significant / 'red' risk on its strategic risk register, relating to ***Economic condition resulting from national or local problems including closure of a major employer***. The remaining items on the Council's risk register are broadly in line with those listed above which confirms that the Council is in line with the common risks being recorded within single tier authorities.

Local authority corporate risk register analysis (cont.)

Survey Responses on Risk Register Reporting and Responsibilities



The chart above analyses the risk registers reviewed across all authorities. As expected, a high level of registers score risks on impact and probability, the controls in place and are allocated to lead officers.

However, less risk registers clarify when a risk is to be reviewed, which could result in the risk not being dealt with appropriately and provides less assurance. Further to this, risks do not appear to be regularly/widely allocated to lead members, which could reduce the scrutiny of these risks.

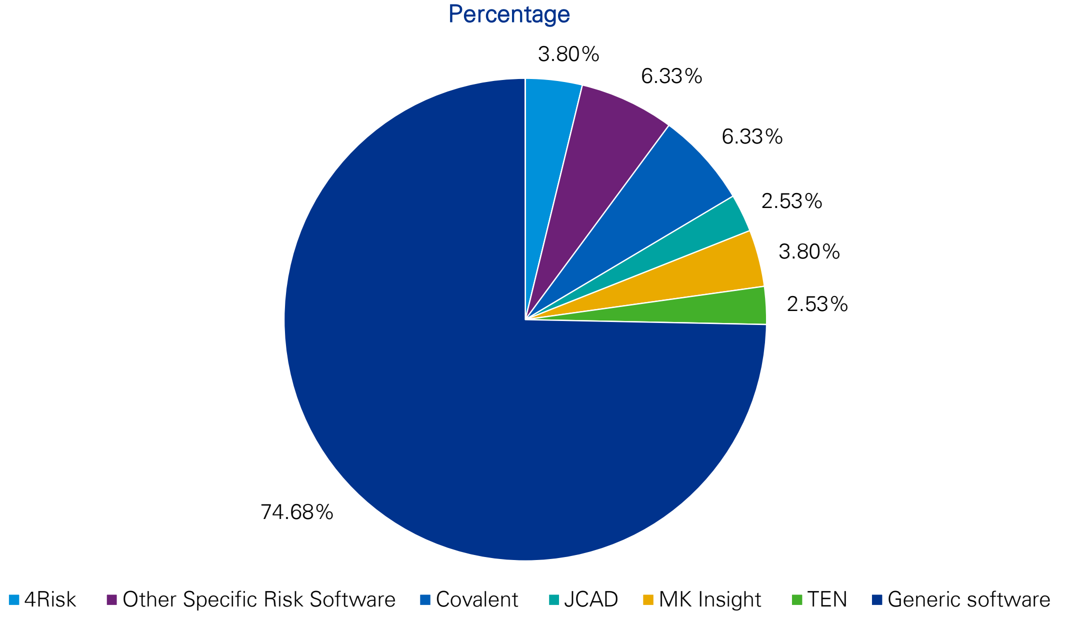
The Council's risk register covers the main elements you would expect to see in a risk register. However, it does not allocate risks to leading members, which is seen in 19 per cent of risk registers we reviewed.

Local authority corporate risk register analysis (cont.)

Software used to support risk management

The chart below shows that 75% of authorities do not use specific risk management software, often preferring to use spreadsheet systems to record the risks. These systems are potentially less robust compared to specific software. Of the authorities that do use specific software, the most commonly used packages are Covalent, 4Risk and MK Insight.

The Council uses 4Risk as its risk management software.



Moving forward

It is noted that in the wider Public Sector, many bodies are now using Board Assurance Frameworks/Assurance Mapping. Assurance mapping is the process where risk reports set out the controls and assurances in place to confirm that risks are being addressed. Setting out the assurances can give lead Officers and Members confirmation that assurance is in place and that the quality of the assurance is sufficient against the risk.

Our work has identified limited use of such tools in the local authority sector.

Our comparison exercise identified that:

— Risks were linked to strategic objectives in 57% of reports;

— Assurances were reported in 53% of the reports; and

— Effectiveness of controls were reported in 49% of the reports.

These are important elements of assurance mapping processes and our work suggests there is significant scope for local authorities to develop in this area.

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