

Annual Audit Letter

North East Lincolnshire Council

Audit 2008-2009

December 2009



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Status of out reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- 1 I issued an unqualified opinion on your financial statements on 30 September 2009.
 - 2 The quality of your financial statements and supporting working papers were improved in 2008/09 compared to 2007/08 and your draft accounts were free from material error. I identified some non material errors and made a number of recommendations in relation to the qualitative aspects of financial reporting which were reported in my annual governance report.
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Use of resources

- 3 My assessment of how you manage resources has been adversely affected primarily by shortcomings in treasury management and the delivery of the capital programme.
 - Failings in treasury management highlighted by investments in Icelandic banks led to a Public Interest Report that highlighted serious deficiencies in your internal control arrangements. My use of resources work identified concerns about the way your finances have been managed.
 - There was a lack of realism in your approved capital programme which again had to be subject of significant re-profiling early in the year and yet was still underspent.
 - 4 Other aspects of your use of resources are more positive. In particular, the way in which you manage your assets continues to be a strength. Data quality is a relatively strong area as are your arrangements for improving the use of natural resources.
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Value for Money

- 5 I issued a qualified conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in your use of resources, except for arrangements for:
 - planning your finances effectively to deliver strategic priorities and secure sound financial health; and
 - managing risk and maintaining a sound system of internal control.
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Comprehensive Area Assessment and Organisational Assessment

- 6 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report we will issue our organisational assessment which combines our judgements on your use of resources and managing performance. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

Audit fees

- 7 Table 1 below shows the analysis of total fee and the increase of £15,000 compared to the initial estimated fee. The additional fee charged relates to additional work required to issue my public interest report on the subject of investments in Icelandic banks.

Table 1 Audit fees

Audit area	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	221,993	221,993	0
Value for money	77,672	77,672	0
Total audit fees	299,665	299,665	0
Non-audit work (public interest report)	15,000	0	15,000
Total	314,665	299,665	15,000

Actions

- 8 Recommendations are shown within the body of this report and have been agreed with officers.

Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 10 I issued an unqualified opinion on your financial statements on 30 September 2009.
- 11 The quality of your financial statements and supporting working papers were improved in 2008/09 compared to 2007/08 and your draft accounts were free from material error. I identified some non material errors in the financial statements and these were reported in my annual governance report.

Material weaknesses in internal control

- 12 On 24 June 2009, I issued a report in the public interest under section 8 of the Audit Commission Act 1998 on the subject of investments in Icelandic banks, which included a number of recommendations for action.
- 13 The report stated that effective financial control systems were not in operation and senior officers did not adhere to your Annual Investment Strategy. If controls had been in place, and professional advice received had been acted on, then the Icelandic investments would not have been made by the Council during 2008. I also expressed the concerns I had about the leadership and capacity of your financial management function. I intend to follow up these findings during my 2009/10 audit.

Recommendation

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| <p>R1 Obtain assurance that the recommendations outlined in the Public Interest Report on the subject of investments in Icelandic banks are being addressed and improvements have been made to the control environment.</p> |
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Accounting Practice and financial reporting

- 14 I considered the qualitative aspects of your financial reporting and made 3 key recommendations:
 - members should seek assurance from officers that the reduced level of the self-insurance reserve is sufficient for your needs going forward;
 - ensure that any debts written off from the collection fund are properly authorised in accordance with your constitution; and

- improve the timeliness of the schools bank account reconciliation process to ensure that intra group transfers are dealt with on a timely basis and you are not open to unnecessary risk.

International Financial Reporting Standards (IFRS)

- 15** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 16** As part of my audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of IFRS. The Council has made some progress having completed an impact assessment and a timetable with key dates has been drawn up. However there is still significant work to complete to ensure deadlines are met. The introduction of IFRS requires the support of all sectors of the organisation and should not be seen solely as a finance issue.

Recommendation
R2 Ensure that there is sufficient capacity within the finance department and wider organisation to support the implementation of International Financial Reporting standards and key deadlines are not missed.

Use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

17 In forming my scored use of resources judgements, I used the methodology set out in the Audit Commission's [use of resources framework](#). Judgements were made for each key line of enquiry (KLOE) using current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.

18 Your use of resources scores are shown in Table 2 below.

Table 2 Use of resources

KLOE	Use of resources theme	Scored judgement
1.1	Financial planning	1
1.2	Understanding costs	2
1.3	Financial reporting	2
2.1	Commissioning and procurement	2
2.2	Data quality and Use of information	2
2.3	Good governance	2
2.4	Risk management and Internal control	1
3.1	Natural resources	2
3.2	Asset management	3
3.3	Workforce management	Not assessed in 2008/09

2008/09 assessment

19 Our assessment of how you are managing performance has been adversely affected primarily by shortcomings in treasury management and the delivery of the capital programme.

- Failings in treasury management highlighted by investments in Icelandic banks led to a Public Interest Report that highlighted weaknesses in your internal control arrangements. My use of resources work identified concerns about the way your finances have been managed.

- There was a lack of realism in your approved capital programme which again had to be subject of significant re-profiling early in the year and yet was still underspent.
- 20** Other aspects of your use of resources are more positive. In particular, the way in which you manage your assets continues to be a strength. Data quality is a relatively strong area (although improvements are required in the way in which information is used), as are arrangements for improving your use of natural resources.
- 21** There are several aspects, such as financial reporting, in which you have improved your use of resources ratings in 2008/09 compared to the previous year. There are also instances of improvements being made which are too recent to have led to positive outcomes yet, for example, service redesign, developing unit costing and transaction costing and the development of a sustainable procurement policy.
- 22** The key improvement areas for you are to:
- complete the implementation of the treasury management improvement plan;
 - ensure your capital programme is realistic and manage your finances in line with it;
 - provide decision makers with full information on the finances involved and the anticipated impact of options for change for all key decisions; and
 - improve internal control and the assurance framework.

Recommendation

R3 Review capital programme management arrangements, in particular the role of the Capital Investment Strategy Group, to ensure that spending profiles are realistic and priorities and objectives are not put at risk.

- 23** As you strive to improve your use of resources scores for 2009/10 it will be important to focus on all aspects of 'level 3' performance and on evidencing outcomes for the community as well as responding to the findings in my report.

Recommendation

R4 Implement a more robust approach to evidence gathering which encompasses outcomes from key policy decisions and engages a wider range of officers in the use of resources process.

VFM Conclusion

24 I issued a qualified conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in your use of resources, except for arrangements for:

- planning your finances effectively to deliver strategic priorities and secure sound financial health; and
- managing risk and maintaining a sound system of internal control.

Closing remarks

- 25** I have discussed this letter with the Chief Executive and the Chief Finance Officer. I will present this letter at the Audit Committee on November 2009 and will provide copies to all members.
- 26** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued during the year.

Table 3

Report	Date issued
Audit plan	March 2008
Icelandic bank investments - Public Interest report	June 2009
Supplementary fee letter	July 2009
Report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Partnerships review	November 2009
Changing organisational cultures	November 2009
Annual audit letter	November 2009

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- 27** Despite the difficulties surrounding the issue of the Public Interest Report on Icelandic banks officers generally adopted an open, positive and constructive approach to my audit. I wish to thank the officers and Members for the support and co-operation that was provided during the audit.

Mark Kirkham
 District Auditor
 November 2009

The Audit Commission

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

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

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

Copies of this report

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