AUDIT AND GOVERNANCE COMMITTEE

AGENDA

THURSDAY 20TH OCTOBER, 2016
9.30 a.m.
GRIMSBY TOWN HALL
To: All Persons on the Distribution List of the Audit and Governance Committee

11th October, 2016

Dear Councillor,

Audit and Governance Committee

A meeting of the Audit and Governance Committee will take place on Thursday 20th October, 2016 at 9.30 a.m. in the Grimsby Town Hall.

The Agenda is set out overleaf.

Yours sincerely,

Paul Windley
Democratic and Scrutiny Team Manager
for Rob Walsh, Chief Executive.
AUDIT AND GOVERNANCE COMMITTEE

10 Members (including independent Chairman)

CHAIRMAN – MR. TIM RENDER
DEPUTY CHAIRMAN - Shreeve

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<thead>
<tr>
<th>LABOUR</th>
<th>SUBSTITUTES</th>
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<tr>
<td>Burton</td>
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<td>Goodwin</td>
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<td>Sutton</td>
<td>Mickleburgh</td>
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<td>K. Wheatley</td>
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<th>CONSERVATIVE</th>
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<td>Shreeve</td>
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<tr>
<th>INDEPENDENT</th>
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<td>Stinson</td>
<td>Harness</td>
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“The Council supports the principle of transparency and encourages filming, recording and taking photographs at its meetings that are open to the public. It also welcomes the use of social networking websites (such as Twitter and Facebook) and micro-blogging to communicate with people about what is happening, as it happens.

There is no requirement to notify the Council in advance, but it should be noted that the Chairman of the meeting will have absolute discretion to terminate or suspend any of these activities if, in their opinion, continuing to do so would prejudice proceedings at the meeting.

The circumstances in which termination or suspension might occur could include:

• public disturbance or suspension of the meeting

• the meeting agreeing to formally exclude the press and public from the meeting due to the confidential nature of the business being discussed

• where it is considered that continued recording / photography / filming / webcasting might infringe the rights of any individual

• when the Chairman considers that a defamatory statement has been made

In allowing this, the Council asks those recording proceedings not to edit the film/recording/photographs in a way that could lead to misinterpretation of the proceedings, or infringe the core values of the Council. This includes refraining from editing an image or views expressed in a way that may ridicule, or show a lack of respect towards those being photographed/filmed/recorder.

Those intending to bring large equipment, or wishing to discuss any special requirements are advised to contact the Council's Communications Team in advance of the meeting to seek advice and guidance. Please note that such requests will be subject to practical considerations and the constraints of specific meeting rooms.

The use of flash photography or additional lighting will not be allowed unless this has been discussed in advance of the meeting and agreement reached on how it can be done without disrupting proceedings.

At the beginning of each meeting, the Chairman will make an announcement that the meeting may be filmed, recorded or photographed. Meeting agendas will also carry this message.”
AUDIT AND GOVERNANCE COMMITTEE
AGENDA
20th October, 2016 at 9.30 a.m.

1. **Apologies for Absence**

2. **Declarations Of Interest**

   To record any declarations of interest by any Member in respect of items on this Agenda.

   Members declaring interests must identify the Agenda item and the type and detail of the interest declared.

   (A) Disclosable Pecuniary Interest; or
   (B) Personal Interest; or
   (C) Prejudicial Interest

3. **Minutes of the Audit and Governance Committee**

   To receive the Minutes of the meeting of Audit and Governance Committee held on 25th August, 2016 (copy attached)

4. **Tracking of Recommendations**

   To receive a report from the Director of Governance, Democracy and Community Engagement on the tracking of recommendations of the Audit and Governance Committee (copy attached)

5. **Transformation Programme**

   To receive an update on progress with the Council’s Transformation Programme.

6. **Implications of the Outcome of the EU Referendum**

   To receive a presentation outlining the local implications of the outcome of the EU Referendum.

7. **External Audit Appointment Process**

   To receive a report setting out options for the appointment of the Council’s external auditor (copy attached).
8. **Annual Audit Letter 2015/16**

To receive the Annual Audit Letter from the Council’s External Auditor (copy attached).

9. **Technical Update**

To receive a report from the Council’s External Auditor providing an overview on progress in delivering its responsibilities as our external auditor (copy attached).

10. **Urgent Business**

To consider any business which, in the opinion of the Chairman, is urgent by reason of special circumstances which must be stated and minuted.

11. **Exclusion of Press and Public**

To consider requesting the press and public to leave on the grounds that discussion of the following business is likely to disclose exempt information within the relevant paragraphs of Schedule 12A of the Local Government Act, 1972 (as amended).

12. **Half Yearly Fraud Update: 2016/17**

To receive a report from the Head of Audit and Assurance highlighting the work being undertaken for the prevention and detection of fraud, corruption and financial misconduct within North East Lincolnshire Council, including an update on the setting of a fraud team within Audit and Assurance (copy attached).

13. **Strategic Risk Register**

To receive a report from the Director of Governance, Democracy and Community Engagement providing a summary of the strategic risk register as at 30 September 2016 and also reporting on developments in relation to the Council’s approach to risk management (copy attached).

14. **Issues for Discussion with the Internal and External Auditors**

To provide an opportunity, at the close of this meeting, to discuss any confidential matters of concern with the External Auditor and the Head of Internal Audit.

**ROB WALSH**

**CHIEF EXECUTIVE**
To be submitted to the Council at its meeting on 22nd September, 2016

AUDIT AND GOVERNANCE COMMITTEE

25th August, 2016

PRESENT:
Mr. T. Render (in the Chair)
Councillors Brown (substitute for Councillor Burton), De Freitas, Goodwin, Fenty, Shreeve, Stinson, Stockton, Sutton, K. Wheatley.

Officers in attendance:
Helen Isaacs Director Democracy, Governance and Community Engagement
Guy Lonsdale Deputy Section 151 Officer
Peter Hanmer Head of Audit and Assurance
Mark Kitching Accountancy Shared Services Manager
Sarah Milburn Financial Systems and Accounting Strategic Lead
Beverly Stanton Scrutiny and Committee Advisor

Also in attendance:
John Prentice KPMG
Jackie Rae KPMG
Councillor Patrick Portfolio Holder for Finance, Resources and Inclusion

AC.13 APOLOGIES FOR ABSENCE
There were apologies for absence from Councillor Burton for this meeting.

AC.14 DECLARATIONS OF INTEREST
Councillor Stockton declared a personal interest in any items appertaining to his role as Vice-Chair of Centre 4.

Mr. Tim Render declared a personal interest in any items appertaining to his role as the Chair of the Clinical Commissioning Group Audit Committee.

AC.15  MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE

The minutes of the meeting of the Audit and Governance Committee held on 14th July, 2016 were agreed as a correct record.

AC.16  TRACKING OF RECOMMENDATIONS

The Committee considered a report on the tracking of recommendations of the Audit and Governance Committee.

In response to AC.8, the Chair requested that the Committee were informed of the precise nature of the Authorities partnership governance with Lincs Inspire. Elected Members and Officer representation on the board was noted.

RESOLVED – That the report be noted and that item AC.8 be removed from future tracking reports.

AC.17  MATTERS ARISING FROM THE AUDIT WORKING GROUP

The Committee received the minutes from the meeting of the Audit Working Group held on 14th July, 2016.

RESOLVED – That the minutes be agreed as a correct record.

AC.18  FINAL ACCOUNTS 2015/16 AND ANNUAL GOVERNANCE REPORT

The Committee considered a report from the Director of Finance introducing the external auditor’s Annual Governance Report and seeking approval of the Council’s financial statements.

Mr. Lonsdale explained that it had been a challenging year and there was still uncertainty within both the public sector and wider economy. Mr. Lonsdale stated that whilst the Council had reported a balanced year end position, overspends had been reported in relation to child safeguarding and associated legal costs. He clarified that demand pressures were something the local authority had to deal with. He concluded by saying that the Council’s financial position was stable, but there was still uncertainty over future costs and the effects Brexit was going to have on the Council. However, the future outlook was supported by a clear financial strategy.

The Chair asked about the ongoing concerns around the outturn position for last year. He stated that there were overspends in a number of areas. He enquired whether these were covered by the central budgets.
Mr. Lonsdale explained that the Council had taken action and responded to overspends through a range of different budget management processes. Mr. Lonsdale clarified that the Council was still focusing on prevention and early intervention and they were using pro-active measures to manage resources in the best possible way. Mr. Lonsdale stated to the Committee the Council recognized these issues and were aware of what needed to be achieved.

In relation to the going concern assessment, Mr. Prentice stated that it covered the period 12-18 months after the accounts were produced. This was an ongoing exercise and there were no concerns at present.

Councillor Stinson asked if there were appropriate measures in place to cope with the introduction of 100% business rates.

Mr. Lonsdale clarified that this would not happen until 2020 as it was a national scheme, but there were potential opportunities for North East Lincolnshire Council to sign up earlier as part of devolution proposals in Greater Lincolnshire.

The Chair stated that it may help to understand the national plan for this scheme. It would help see where the Government intend for this to go.

RESOLVED –

(1) That the Committee considers the Council as a ‘going concern’.

(2) That the Annual Governance Report at Appendix 2 to the report now submitted be received.

(3) That the financial statements at Appendix 3 to the report now submitted be approved and signed by the Chairman of the Audit Committee, subject to the minor amendments being received and approved by the Director of Finance, Resources and Operations.

(4) That the Chairman of the Audit Committee sign the letter of representation on behalf of the Council.

(5) That the proposed action plan outlined in the External Audit Report 2015/16 be agreed.

(6) That the Annual Governance Statement for 2015/16 at Appendix 4 to the report now submitted be agreed, as previously approved by the Audit and Governance Committee.

AC.19 EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE.

The Committee received the External Audit Progress Report which was provided for information only.
Mr. Prentice gave the Committee a detailed summary of the External Audit Report 15/16. He explained that the audit differences noted of £6.6 million was an isolated error and did not have an impact on the authority's financial performance. He explained that it was a misclassification on an NNDR collection fund balance which was deducted from the debtors, but should have been an increase in creditor balance. Mr. Prentice stated that although the number of audit issues had increased, he expressed that this was only due to the fact that the authority was going through changes in relation to Shared Services. Risks in relation to shared services would be considered as part of the 2016/17 audit.

Councillor Sutton enquired whether we needed to think about an outcome based framework built around the value for money terms.

Mr. Prentice explained that there were three key areas the authority needed to focus on and they were: to make informed decisions on what arrangements were already in place; have sustainable resource deployment and work closely with partners and third parties. He stated that if there were significant areas which needed to be addressed he would have included them in the recommendations.

Councillor Stinson asked what the criteria were that indicated a significant risk and what level of detail they would go into to make sure it would not turn into a significant risk. He wondered that if the Audit Team and KPMG did not look at something was there a process for government officers to look at in more detail and flag issues.

Mr. Prentice explained that they focus on key priorities when undertaking work in relation to the VFM conclusion. They kept in mind the local authorities strategies and link them to what the authority wanted to achieve. He went on to explain that if there was a significant risk it would be hard to miss as it would affect the authority as a whole. Mr. Prentice stated that, for example, budgets around social care were respondent to demand and this would continuously be looked at during the year.

Councillor Stinson stated that the audit and governance committee looked at strategies and how they were implemented. He did not see anywhere in the report where these were highlighted as a concern.

Mr. Prentice explained that key partnerships were on the strategic risk register. Action was taken to address specific risks as contracts were renegotiated.

Councillor Fenty stated that there were many partners and resources involved. He asked how we measured and believed we had good value for money and was there a starting point for the assessment.
Mr. Prentice said that it was difficult to state a starting point. He explained that they examine what’s changed and what’s developed over time.

The Chair asked that all the authorities partnerships needed be added to the work programme so that the Committee can see where we were with partners and what we would like to do in the future with them. He also made a point that the External Audit Report for 2015/16 was made available very late to members. He stated that the accounts should be shared with Committee members when the draft report was created.

The Chair stated that the technical update would be discussed at the next scheduled Audit and Governance Committee.

RESOLVED – That the report be noted.

AC.20  EXCLUSION OF PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the remainder of the meeting on the grounds that discussion of the following business was likely to disclose exempt information within paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

AC.21  ISSUES FOR DISCUSSION WITH THE INTERNAL AND EXTERNAL AUDITORS

The Committee was provided an opportunity, at the close of this meeting, to discuss any confidential matters of concern with the External Auditor.

No such matters were raised.

There being no further business, the Chair declared the meeting closed at 11.55 a.m.
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<tr>
<th>DATE OF MEETING</th>
<th>RECOMMENDATION / ACTION</th>
<th>RESPONSIBLE</th>
<th>PROGRESS/COMMENTS</th>
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<tbody>
<tr>
<td>14th April, 2016</td>
<td>AC.58 TRANSFORMATION PROGRAMME</td>
<td>Director of Finance, Resources and Operations</td>
<td>Included on the agenda for this meeting.</td>
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<tr>
<td>14th April, 2016</td>
<td>AC.60 AUDIT PLAN 2016/2017</td>
<td>Director of Finance, Resources and Operations</td>
<td>The Chief Executive will attend the Committee, however this is likely to be later on in the year once governance arrangements have been agreed. Update - the proposals are due to be further considered at the special meeting of Council on 19th October, 2016.</td>
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<tr>
<td>14th July, 2016</td>
<td>AC.7 CHIEF AUDIT EXECUTIVE ANNUAL REPORT</td>
<td>Head of Audit and Assurance</td>
<td>Included on the agenda for this meeting.</td>
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<td>14th July, 2016</td>
<td>AC.9 TREASURY MANAGEMENT ANNUAL REPORT 2015/16</td>
<td>Director of Finance, Resources and Operations</td>
<td>Included on the agenda for this meeting.</td>
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AUDIT & GOVERNANCE COMMITTEE

DATE 20th October 2016

REPORT OF Councillor Matthew Patrick
Portfolio Holder for Finance, Resources and Inclusion

RESPONSIBLE OFFICER Sharon Wroot
Director of Finance, Resources and Operations

SUBJECT External audit appointment process

STATUS Open

EXECUTIVE SUMMARY

When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of its external auditor. There are various options open to the Council but it is proposed that the Council opt to join the Local Government Association (LGA) sector led body approach.

RECOMMENDATIONS

1) That the Audit and Governance Committee agree to support the proposal for the Authority to join the Local Governance Association’s sector led body approach for the appointment of its external auditor.

2) That a report is presented to the Council in December 2016 recommending this approach is followed.

REASONS FOR DECISION

The Local Audit and Accountability Act 2014 makes provision about the accounts of local and certain other public authorities and the auditing of those accounts. These Regulations make provision for the appointment of a local auditor by a person specified by the Secretary of State (“an appointing person”) to audit the accounts of those authorities that choose to opt in to such arrangements. Regulation 19 provides that certain functions are to be exercised by the full council or authority.

1. BACKGROUND AND ISSUES

1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
1.2 On 5 October 2015 the Secretary of State for the Department of Communities and Local Government (DCLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

1.3 The Council’s current external auditor is KPMG. This appointment was made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is managed by Public Sector Audit Appointments Limited (PSAA). PSAA is the transitional body set up by the Local Government Association (LGA) with delegated authority from the DCLG.

1.4 During recent years the Council has benefited from a reduction in fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally by the Audit Commission and changes to the scope of the audit. The Council’s external audit fee for 2015-16 was £119,306.

1.5 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of its external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

1.6 The scope of the audit will still be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council’s audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and therefore the number of firms is not known, but it is reasonable to expect that the list of eligible firms will be less than ten. KPMG, the Council’s current auditor is likely to be included. Small, more local independent firms are unlikely to meet the eligibility criteria.

1.7 In response to the consultation on the new arrangements the LGA successfully lobbied for councils to be able to ‘opt-in’ to a sector led body appointed by the Secretary of State under the Act. The sector led body will negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

1.8 The costs of setting up the appointment arrangements and negotiating fees will be shared across all opt-in authorities and economies of scales will therefore be possible. Any conflicts of interest at individual authorities will be managed by the sector led body who would have a number of contracted firms to call upon.

1.9 The appointment process will not be down to locally appointed independent members. Instead a separate body set up to act in the collective interests of the ‘opt-in’ authorities will decide. In order for the sector led body to be viable and to be placed in the strongest possible negotiating position, the sector led body will need Councils to indicate their intention to opt-in.

1.10 The Council have until December 2017 to make an appointment. In practical
terms this means a decision by spring 2017 in order that the contract negotiation process can be carried out during 2017. However the LGA would like to know the Council’s commissioning intention by the end of December 2016.

2. **RISKS AND OPPORTUNITIES**

2.1 There are no significant risks to the Council. However early consideration is preferable to enable detailed planning to take place. This will allow successful transition to the new arrangement in a timely and efficient manner. Informing the LGA of the Authority’s intention to opt into the new arrangements will enable the LGA to invest in developing appropriate arrangements.

3. **OTHER OPTIONS CONSIDERED**

3.1 There are two other options considered by the Council under the Local Audit and Accountability Act 2014 (the Act):

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<tr>
<th>Option</th>
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<tr>
<td>Stand-alone appointment</td>
<td>In order to make a stand-alone appointment the Council would need to establish an Auditor Panel. The members of the panel would need to be mainly independent members as defined by the Act. This means that elected members would not have a majority input to assessing bids and choosing which organisation to award a contract for the Council’s external audit. Recruitment and servicing of the Auditor Panel, running the tendering exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.</td>
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<tr>
<td>Set up a Joint Auditor Panel/local joint procurement arrangements</td>
<td>The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this would require to be constituted of wholly or a majority of independent appointees. The costs of setting up the panel, running the tendering exercise and negotiating the contract would be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out consultancy or advisory work for the Council.</td>
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4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

4.1 There are no direct implications arising from this report.

5. FINANCIAL CONSIDERATIONS

5.1 External fees could increase when the current contracts end in 2017/18. Indeed, the Council has benefitted from economies of scale achieved as part of the national procurement process that led to the appointment of our current external auditor KPMG.

5.2 The cost of establishing a local or joint Auditor Panel outlined ‘other options’ above would lead to additional costs of around £15,000 (recurrent). This will include the cost of recruiting independent appointees, servicing the Panel, running a tendering exercise, including an evaluation process, letting a contract and paying members fees and allowances.

5.3 Opting-in to a national sector led body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and will remove the costs of establishing an auditor panel.

6. CONSULTATION WITH SCRUTINY

6.1 None

7. FINANCIAL IMPLICATIONS

7.1 There are no significant financial implications arising from the report. However the approach outlined will help to deliver value for money.

8. LEGAL IMPLICATIONS

8.1 Section 7 of the Local Audit and Accountability Act 2014 require the Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

8.2 Section 8 governs the procedure for appointment including that the Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

8.3 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

8.4 Section 17 gives the Secretary of State the power to make regulations in relation to an ‘appointing person’ specified by the Secretary of State. This gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.
9. HUMAN RESOURCES IMPLICATIONS

9.1 There are no direct HR implications arising from this report.

10. WARD IMPLICATIONS

10.1 All wards affected.

11. BACKGROUND PAPERS

11.1 None

12. CONTACT OFFICER

12.1 Sharon Wroot, Director of Finance, Resources and Operations
Tel: (01472) 32 4423.

Councillor Matthew Patrick
Portfolio Holder for Finance, Resources and Inclusion
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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment’s website (www.psaa.co.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.

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 John Prentice the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew 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.
**Section one**

**Headlines**

This Annual Audit Letter summarises the outcome from our audit work at North East Lincolnshire Council in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

<table>
<thead>
<tr>
<th><strong>VFM conclusion</strong></th>
<th>We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2015/16 on 19 September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties. To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</th>
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<tr>
<td><strong>VFM risk areas</strong></td>
<td>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work did not identify any significant risks which required additional work. During the year the Authority has maintained close control of its financial position ensuring that spending was in line with budget. The efficiency programme continues to challenge members and officers to identify and deliver savings needed due to expected reductions in grant funding whilst meeting the increasing needs of the local population. The Authority has a plan to make best use of reserves and balances to support future plans and investing in the local area. The Authority has taken the decision to become a commissioning organisation and has a range of partners with whom services are delivered. The governance of these partnerships remains critical to the Council’s success and has been reviewed closely by the Audit and Governance Committee for some time. Improvements continue to be made and negotiations have been successfully concluded which recognise the overall financial pressures facing the Authority. Greater Lincolnshire devolution will add to the challenge of partnership working. Approval was only given late in 2015/16 so the impact will be much greater from 2016/17.</td>
</tr>
<tr>
<td><strong>Audit opinion</strong></td>
<td>We issued an unqualified opinion on the Authority’s financial statements on 19 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</td>
</tr>
<tr>
<td><strong>Financial statements audit</strong></td>
<td>The significant findings arising from the financial statements audit, were: — a significant adjusted audit difference was identified as part of the audit; this difference of £6.6m was a misclassification of the National Non Domestic Rate collection fund balance was deducted from the debtors balance when should have be an increase in the creditor balance; — areas for improvement were identified in the accounts preparation process including working papers and the structure of the accounts to ensure that the Authority can achieve the benefits from the shared services arrangements with North Lincolnshire Council. The Audit Highlights Report gives full details.</td>
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<tr>
<td><strong>Annual Governance Statement</strong></td>
<td>We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.</td>
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**Section one**

**Headlines (cont)**

This Annual Audit Letter summarises the outcome from our audit work at North East Lincolnshire Council in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<table>
<thead>
<tr>
<th>Whole of Government Accounts</th>
<th>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.</th>
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<tbody>
<tr>
<td>High priority recommendations</td>
<td>We raised no high priority recommendations as a result of our 2015/16 audit work.</td>
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<tr>
<td>Certificate</td>
<td>We issued our certificate on 19 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit &amp; Accountability Act 2014 and the Code of Audit Practice.</td>
</tr>
<tr>
<td>Audit fee</td>
<td>Our fee for 2015/16 was £119,306, excluding VAT. Further detail is contained in Appendix 2.</td>
</tr>
</tbody>
</table>
Appendices

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

External Audit Plan (January 2016)
The External Audit Plan set out our approach to the audit of the Authority’s financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2016)
The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

Certification of Grants and Returns (January 2016)
This letter summarised the outcome of our certification work on the Authority’s 2014/15 grants and returns.

Auditor’s Report (September 2016)
The Auditor’s Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Report to Those Charged with Governance (August 2016)
The Report to Those Charged with Governance summarised the results of our audit work for 2015/16 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2016)
This Annual Audit Letter provides a summary of the results of our audit for 2015/16.
Appendices

Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £119,306, which is in line with the planned fee as determined by Public Sector Audit Appointments Ltd.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority’s housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We charged £3,500 for additional audit-related services for the certification of two grant claims – Teachers Pension Return and a grant claim for a scheme under the European Regional Development Fund 2007 - 2013 Programme which are outside of Public Sector Audit Appointment’s certification regime.

We also charged £2,000 to support the Authority and North Lincolnshire Council in setting up the shared services arrangement ‘Northern Lincolnshire Business Connects’. This work was not related to our responsibilities under the Code of Audit Practice.

External audit fees 2015/16 (£’000)

- Planned
- Actual
Technical update

Incorporating the External Audit Progress Report

North East Lincolnshire Council

October 2016
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 Authority and given our perspective on the issue:

- **High impact**
- **Medium impact**
- **Low impact**
- **For information**
External audit progress report
This document provides the Audit and Governance Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

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

<table>
<thead>
<tr>
<th>Area of responsibility</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| Financial statements   | We issued our 2015/16 external audit plan in January 2016. The plan outlines how we will deliver our financial statements audit work for the Council. 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 finance team.  
There are no issues which we needed to bring to your attention following our interim visit in the Spring.  
We continued to have regular discussions with key members of the finance team through the year and we started our examination of your accounts at the beginning of July giving a clear audit opinion following the Audit and Governance Committee meeting in August.  
In our ISA 260 report we made some specific recommendations on the preparation of accounts in the future and the working arrangements with the shared service (Northern Lincolnshire Business Connect) and we will be meeting with them in November to reflect on the 2015/16 audit process and make initial plans for 2016/17. |
| Value for Money         | Our Audit Plan gave details of the approach to the Value for Money (VFM) work for 2015/16. We assess the Authority using the criteria outlined by the National Audit Office. The overall criteria is ‘In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’  
We have completed our initial assessment and have not identified any specific areas of audit work. We reported our findings in the ISA 260 report at the last meeting of the Audit and Governance Committee |
| Certification of claims and returns | We have started our review of the housing benefits claim which is the only claim/return which we carry out as part of the Public Sector Audit Appointments Ltd engagement.  
We have also planned the work needed to certify the Teachers Pensions Return and an European Regional Development Fund return. |
| Other work             | In March 2016, we held an additional workshop on the shared services project, a joint piece of work commissioned by the Council and North Lincolnshire Council. A further workshop is likely in the next couple of months. Each workshop costs £2,000. |
Technical developments
## Technical developments

### Appointment of external auditor

<table>
<thead>
<tr>
<th>Level of impact: ⬜ (Medium)</th>
<th>KPMG perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Following the Audit Commission’s closure local authority external audits are currently governed by transitional arrangements under the <em>Local Audit and Accountability Act 2014</em>, with audit contracts overseen by Public Sector Audit Appointments Ltd (PSAA). These transitional arrangements end with the audit of 2017/18 financial years, so auditors must be appointed under the new arrangements from 2018/19. In practice this decision must be made by 31 December 2017. There are three main options for local authorities to consider:</td>
<td></td>
</tr>
<tr>
<td>1. Undertake an individual auditor procurement and appointment exercise;</td>
<td>Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.</td>
</tr>
<tr>
<td>2. Undertake a joint audit procurement and appointing exercise with other bodies, for example those in the same locality; or</td>
<td></td>
</tr>
<tr>
<td>3. Join a ‘sector led body’ arrangement where an approved third party procures audit on behalf of multiple bodies.</td>
<td></td>
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<tr>
<td>As the relevant supervisory body, the Institute of Chartered Accountants in England and Wales (ICAEW) maintains a register of audit firms and ‘key audit partners’ who have been recognised as meeting the eligibility criteria for local audit. Whatever the approach taken, local authorities can only appoint audit firms from the ICAEW register. KPMG has been registered by ICAEW for local audit work and has 21 Partners and Directors recognised as meeting the eligibility criteria, providing comprehensive national coverage through an experienced senior team.</td>
<td></td>
</tr>
<tr>
<td>For options 1 and 2, the Act requires an Auditor Panel to be established. Guidance on auditor panels at local authorities has been issued by CIPFA – see <a href="http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf">www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf</a></td>
<td></td>
</tr>
<tr>
<td>One option, subject to complying with EU procurement rules, might be to continue with your current auditor for an initial period. Although this would delay testing the market, fees could be benchmarked for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and avoid the ‘rush to market’ as other local authorities undertake procurement exercises within a short time period, allowing tendering later in a more settled market.</td>
<td></td>
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</tbody>
</table>
Level of impact: ⬤ (Medium)

The Audit Commission produced a report and slide pack summarising the lessons learnt from its 2012 and 2014 procurements of audit services, providing the reader with a list of factors that contributed to the delivery of successful outcomes for both procurements. A copy of this document can be found on the PSAA website at www.psaa.co.uk/wp-content/uploads/2016/01/Learning-the-lessons-from-the-2012-and-2014-Audit-Commission-procurements-of-audit-services.pdf

The lessons learnt may be helpful in generally informing procurements of audit services undertaken by individual local public bodies or collective procurement bodies under the new arrangements. However, it should be noted that the procurements undertaken by the Audit Commission were unique to the Commission’s regime and the approaches taken may not be relevant in their entirety to other procurements.

For option 3, in July 2016 the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments from 2018/19 to relevant principal authorities that choose to opt into its national collective scheme. For further information, see PSAA’s website - www.psaa.co.uk/supporting-the-transition/appointing-person/
Technical developments

Business Rates Retention

Level of impact: ⬤ (Medium)

The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.

Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved.

The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

Committee members may wish to be aware that, as a result of these proposals, DCLG has launched two consultations on its proposals for 100% retention of business rates by the local government sector.

The first consultation seeks to identify issues that should be kept in mind when designing the reforms; the second is a call for evidence to inform the government’s fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. Both consultations closed on 26 September 2016.

The consultation documents are available for both at www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention

KPMG perspective

The Committee may wish to enquire of officers whether the Authority responded to the consultation and the views expressed.
Devolution

Level of impact: ⭐️ (Medium)

In spring 2016, the NAO published its report *English devolution deals*. This report finds that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended.

Technical developments

NAO Report on Capital Expenditure and Resourcing

<table>
<thead>
<tr>
<th>Level of impact: ☀ (Low)</th>
<th>KPMG perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committee members may wish to be aware that the National Audit Office has published its report <em>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</em>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases. The report can be accessed via the NAO website at <a href="http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/">www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</a>.</td>
<td>The Committee may wish to seek assurances that the impact for the Authority is understood. It is important to understand that there is a risk if debt costs increase when the income base overall is decreasing.</td>
</tr>
</tbody>
</table>
Technical developments

PSAA’s Value For Money Tool

Level of impact: (Low)
The PSAA’s Value for Money Profiles tool (VFM Profiles) was updated on 1 July 2016.
The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years. The children and young people section has also been updated with 2014/15 data.
The VFM profiles have also been updated with the latest available data from the following sources:

— Referrals, assessments and packages of care for adults (RAP) (2014/15)
— Pupil numbers (2015)
— Children in Care and Adoption Performance Tables (2014/15)
— Key Stage 2 Attainment (2014/15)
— GCSE and Equivalent Attainment by Pupil Characteristics in England (2014/15)
— Section 251 outturn data - Table A1 Children and young people services (2014/15)
— Section 251 outturn data - Table A Education budget (2014/15)
— Special Educational Needs in England (2014/15)
— Attainment by Age 19 (2014/15)
— Pupil Absence in Schools (2014/15)
— National road maintenance condition survey (2014/15)

KPMG perspective

The Committee may wish to seek further understanding for areas where thei Authority appears to be an outlier.
Technical developments

PSAA's Value For Money Tool (cont.)

<table>
<thead>
<tr>
<th>Level of impact: ☐ (Low)</th>
<th>KPMG perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Proportion of bus services running on time (2014/15)</td>
<td></td>
</tr>
<tr>
<td>— Finance and General Statistics (2014/15)</td>
<td></td>
</tr>
<tr>
<td>— Revenue Collection (2014/15)</td>
<td></td>
</tr>
<tr>
<td>— Claimant count (2016)</td>
<td></td>
</tr>
<tr>
<td>— Affordable housing supply (2014-15)</td>
<td></td>
</tr>
<tr>
<td>— Active people survey (2014/15)</td>
<td></td>
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<tr>
<td>— Public Health Outcomes Framework (2014/15)</td>
<td></td>
</tr>
<tr>
<td>— First time entrants into the Youth Justice system (2014/15)</td>
<td></td>
</tr>
</tbody>
</table>

The Value For Money Profiles can be accessed via the PSAA website at
Technical developments

2015/16 Code of Practice Update

<table>
<thead>
<tr>
<th>Level of impact: ☢️ (Low)</th>
<th>KPMG perspective</th>
</tr>
</thead>
</table>

CIPFA/LASAAC has issued an update to the *2015/16 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.

Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.

The Code update also includes amendments as a result of legislative changes and particularly the *Accounts and Audit Regulations 2015* for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.

The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code.
Technical developments

Discharging Older Patients From Hospitals

Level of impact: ☕ (For Information)


The report finds that the health and social care system’s management of discharging older patients from hospital does not represent value for money. It also finds that keeping older people in hospital longer than necessary is an additional and avoidable pressure on the financial sustainability of the NHS and local government.
Technical developments

2016/17 Work Programme and Scale of Fees

Level of impact: 🌑 (For Information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees
**Technical developments**

**Government contracting**

**Level of impact: 🏽 (For Information)**

The NAO has recently published an overview of its work on the government’s management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government’s commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice.

Appendix
### Appendix 1

#### 2015/16 audit deliverables

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Purpose</th>
<th>Timing</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning</strong></td>
<td></td>
<td></td>
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<tr>
<td>Fee letter</td>
<td>Communicate indicative fee for the audit year</td>
<td>April 2015</td>
<td>Complete</td>
</tr>
<tr>
<td>External audit plan</td>
<td>Outline our audit strategy and planned approach</td>
<td>January 2016</td>
<td>Complete</td>
</tr>
<tr>
<td></td>
<td>Identify areas of audit focus and planned procedures</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interim</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interim report</td>
<td>Details and resolution of control and process issues.</td>
<td>March 2016</td>
<td>Complete</td>
</tr>
<tr>
<td></td>
<td>Identify improvements required prior to the issue of the draft financial statements and the year-end audit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Initial VFM assessment on the Council’s arrangements for securing value for money in the use of its resources.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Substantive procedures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report to those charged with governance (ISA 260 report)</td>
<td>Details the resolution of key audit issues.</td>
<td>September 2016</td>
<td>Complete</td>
</tr>
<tr>
<td></td>
<td>Communication of adjusted and unadjusted audit differences.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Performance improvement recommendations identified during our audit.</td>
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</tr>
<tr>
<td></td>
<td>Commentary on the Council’s value for money arrangements.</td>
<td></td>
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</tbody>
</table>
# Appendix 1

## 2015/16 audit deliverables (cont.)

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Purpose</th>
<th>Timing</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Completion</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor’s report</td>
<td>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).</td>
<td>September 2016</td>
<td>Complete</td>
</tr>
<tr>
<td>WGA</td>
<td>Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office – no detailed work required</td>
<td>September 2016</td>
<td>Complete</td>
</tr>
<tr>
<td>Annual audit letter</td>
<td>Summarise the outcomes and the key issues arising from our audit work for the year.</td>
<td>October 2016</td>
<td>Complete</td>
</tr>
<tr>
<td><strong>Certification of claims and returns</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certification of claims and returns report</td>
<td>Summarise the outcomes of certification work on your claims and returns for Government departments.</td>
<td>December 2016</td>
<td>TBC</td>
</tr>
</tbody>
</table>