

Progress Report

2010/11 audit

Lincolnshire County Council

21 March 2011

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Status of our 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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Summary

- 1** We have updated our 2010/11 audit planning and our interim audit work is well underway, focussing on confirming our understanding and documentation of your key financial systems and testing the key controls in those systems.
- 2** A key risk this year is the implementation of International Financial Reporting Standards (IFRS) and our work on the re-statement of the audited 2009/10 accounts started recently. We expect to complete most of this work this month.
- 3** Changes in auditing standards (ISA's) impact upon the audit process this year. Our 2010/11 opinion audit plans covering the County Council and the Pension Fund are presented separately on the agenda.
- 4** The Audit Commission has recently completed its consultation with all stakeholders on its audit fee proposals for 2011/12 and we expect to issue our 2011/12 audit fee letters shortly.
- 5** We have reported separately on the outcome of our 2009/10 grant claims audit.

2010/11 Audit

Interim audit

- 6 We have updated our 2010/11 audit planning and our interim audit work is well underway, focussing on confirming our understanding and documentation of your key financial systems and testing the key controls in those systems.
- 7 Work on the Pension Fund interim audit covering the same areas has just started (March 2011).
- 8 We will report the findings of our interim work to officers and agree an action plan with them to address any issues that we identify. Any significant control weaknesses will be reported to the Audit Committee at the earliest opportunity.
- 9 We will continue to work closely with internal audit over the testing of financial systems. We have recently agreed key areas where we aim to increase our reliance on internal audit systems work in future. A draft protocol has been discussed and agreed in principle. We will be happy to present the protocol to a future meeting of the Audit Committee should members wish to see it.

ISA clarity project

- 10 The audit of financial statements is governed by a framework established by International Standards on Auditing (ISAs). In 2009 the auditing profession completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the clarity project.
- 11 The new framework applies to the audit of the 2010/11 financial statements and there will be some changes in the way external audit is carried out. This will impact on the information we request. The main changes relate to:
 - accounting journals;
 - related party transactions;
 - accounting estimates;
 - group accounts; and
 - reporting deficiencies in internal control.
- 12 We have discussed these requirements with officers and provided an updated and comprehensive list of working papers required which should enable full compliance to be achieved.

International financial reporting standards (IFRS)

- 13 The introduction of IFRS is a key risk this year and generally, good progress has been made to date. We will continue to discuss IFRS related matters with officers and we

have already provided a detailed checklist of the new accounts requirements and a summary of the working papers we will need to see.

- 14 The process requires the re-statement of the audited 2009/10 accounts into IFRS format. As part of our interim work we have recently started the audit of the re-stated 2009/10 accounts and this work is expected to be largely complete this month.
- 15 The pension fund accounts will only require very minimal re-statement.

Final accounts workshops

- 16 The Audit Commission once again held a series of final accounts workshops in the East Midlands during January and February 2011. The workshops were attended by your key accounts closedown staff and covered the latest technical updates as well as practical advice on improving the closedown process.

Value for money conclusion

- 17 Although the Comprehensive Area Assessment and Use of Resources ceased in 2010, auditors still have a statutory responsibility to conclude on the adequacy of the Council's arrangements for securing efficiency, economy and effectiveness.
- 18 The Commission has introduced a new, more targeted approach to local value for money work. We will report based on a reduced number of criteria, specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- 19 As part of the recent audit planning update we have considered the risks which may impact upon our 2010/11 value for money conclusion and these are referred to in the opinion audit plan (see below).

Opinion audit plans

- 20 We have now issued our opinion audit plans (County Council and Pension Fund) which have been discussed with officers and are presented separately on the agenda. These plans set out the key risks which we have identified in relation to our opinion on the 2010/11 accounts and to the value for money conclusion. They also set out any mitigating factors and our response to any risks including specific audit procedures.

2011/12 Audit Planning

Audit fee letter 2011/12

- 21** The Audit Commission has recently completed its consultation with all stakeholders on its audit fee proposals for 2011/12 and we expect to issue our 2011/12 audit fee letters shortly covering the County Council and the Pension Fund. These letters will be presented to the next meeting of the Audit Committee.
- 22** The fee for the County Council will reflect the proposed decreases in audit fees, as follows:
- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
 - a cut in scale fees resulting from our new approach to local VFM audit work; and
 - a cut in scale audit fees of 3 per cent reflecting lower continuing audit costs after implementing IFRS.

Grant Claims

2009/10 Grant claims

- 23** We met the deadlines for our audit of the annual General Surestart claim and the annual Teachers' Superannuation return. Neither needed a qualification letter.
- 24** We also completed the audit of two outstanding highways grant claims due to be audited before the end of December 2010. We have provided a more detailed report covering our 2009/10 work on grant claims and this is included on the agenda as a separate item.

Other Matters of Interest

Challenges faced by audit committees

- 25 On 18 November 2010 the Financial Reporting Council (FRC) published a report highlighting the latest challenges faced by Audit Committees. Although the report is mainly aimed at the private sector, there are also some important messages for public sector bodies.
- 26 The FRC reports that there continues to be regular reports of funding difficulties towards the middle and smaller end of the market and the FRC stresses the importance of forecasting cash flows accurately.
- 27 Recent studies by the FRC have identified room for improvement in the approach to risk management. Commentators observe that some companies present a list of all possible risks rather than those that might be regarded as “principal risks”. Work by the FRC has also identified that it is not always clear whether risks and uncertainties have been fully evaluated and taken into account in preparing budgets and forecasts.
- 28 The FRC has also commented on the role of the Audit Committee in relation to accounting estimates. The report states that Audit Committees are likely to want to be convinced that key judgments are supported by a more rigorous and robust analysis than in more benign circumstances.
- 29 The FRC's paper ends with a series of questions that Audit Committees may find it helpful to review themselves against. The paper can be found at <http://www.frc.org.uk/press/pub2442.html>

Strategic financial management in councils - delivering services with a reduced income

- 30 This Audit Commission report, published on 8 September 2010, offers practical self-help to councillors, chief executives, finance directors and service leaders as they face severe social and financial challenges
- 31 The report reveals how organisations that manage their finances strategically are more adaptable and resilient when money is tight, and how other organisations can learn from them. The report points out potential financial pitfalls, highlights successes, and features a value for money self-assessment questionnaire that can be used locally.
- 32 The findings in the report are supported by a good-practice checklist that describes the key issues for improving financial management. Members and managers can use the checklist to evaluate their current approach to financial management.

- 33 The report can be found at <http://www.audit-commission.gov.uk/nationalstudies/localgov/pages/strategic-financial-management.aspx>
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Against the odds: re-engaging young people in education, employment or training

- 34 Since 1990, a yearly government survey has indicated that between 9 and 10 per cent of 16 to 18 year olds is without a wage, schooling or training. This Audit Commission study looks at the financial, personal and social cost of teenagers who are not in education, employment or training (NEET).
- 35 The report summary document gives an overview of the main findings from the research, complete with a series of questions to help commissioners and members of 14-19 partnerships, children's trusts and local strategic partnerships explore what local issues may be for young people not in education, employment or training and how to work more effectively to help them.
- 36 The Audit Commission has also prepared:
- Briefing documents for schools and colleges, highlighting their key roles in preventing young people becoming NEET
 - A guide for councils' overview and scrutiny function, the guide provides a framework for a scrutiny review of action taken to reduce the number of teenagers not in education, employment or training
 - A downloadable tool to benchmark your council's performance for young people most at risk of being not in education, employment or training. The tool shows that performance varies across the areas visited, with areas performing differently depending on the at-risk group.
- 37 The report and tools are available at <http://www.audit-commission.gov.uk/nationalstudies/localgov/againsttheodds/Pages/default.aspx>
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Financial management of personal budgets - challenges and opportunities for councils

- 38 This report examines personal budgets in adult social care and considers the financial management and governance implications for councils.
- 39 The report reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.
- 40 The report is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement. The report can be found at <http://www.audit-commission.gov.uk/nationalstudies/localgov/personalbudgets/Pages/default.aspx>
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Business continuity in the fire and rescue service

- 41 This Audit Commission report was published on 15 September 2010 and can be found at <http://www.audit-commission.gov.uk/nationalstudies/firerescue/firebcm/Pages/default.aspx>.
- 42 The study found that many fire and rescue services have good business continuity management plans, and those that have faced disruption before have used the experience to refine their plans further. The study also found that most fire and rescue services have satisfactory flexible plans in place to cover short-term disruptions, such as those caused by transport problems or adverse weather. There are already some good preparations in place to deal with potential longer-term disruptions, such as a flu pandemic.
- 43 The report concluded that services cannot cope with every situation indefinitely. If disruptions are sudden, involve high numbers of staff, last a long-time and are widespread, there is a higher chance the risk to public safety will increase.
- 44 The report contains case studies, questions that councillors on fire authorities could ask, and an individual report on business continuity for each of the 46 fire services in England.

Implementation of IFRS in local government study - update

- 45 On 5 October 2010 the Commission published its latest briefing paper on IFRS in local government. The paper is based on the findings from an auditor survey on implementation of IFRS in local government, undertaken in July 2010.
- 46 In the paper the Commission:
- makes comparisons with a baseline assessment taken in November 2009;
 - sets out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
 - outlines key actions authorities should be taking at this stage.
- 47 Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. Failure, on the other hand, could result in late or qualified accounts and will reflect badly on the reputation of individual authorities and potentially the sector as a whole.
- 48 Auditors report that good progress has been made by local government bodies between November 2009 and July 2010.
- 49 However, more action to ensure local authorities' arrangements for managing the transition will enable them to prepare IFRS-compliant accounts for 2010/11.
- 50 The briefing paper can be found at the following link <http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/financialmanagement/ifrs/Pages/20101005ifrsprogresstransition.aspx>.

Implementation of IFRS - reporting on operating segments

- 51** On October 2010 the Commission published its latest technical briefing paper in its series on implementing International Financial Reporting Standards (IFRS) in local government.
- 52** The briefing paper covers principles and practical issues that authorities should consider when reporting on operating segments, and addresses the following questions:
- what are operating segments?
 - which operating segments should be reported separately?
 - when can segments be aggregated?
 - what are the required disclosures?
 - what lessons can local authorities learn from the NHS experience? and
 - what issues do local authorities need to consider?
- 53** This briefing paper is intended to help support authorities that are restating their accounts for 2009/10 or preparing skeleton accounts for 2010/11.

Protecting the public purse

- 54** On 27 October 2010 the Commission published Protecting the Public Purse - Fighting Fraud against Local Government and Local Taxpayers.
- 55** Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.
- 56** In this report the Commission describes what has happened in the field of fraud detection and prevention since 2009 and sets out the findings from its recent fraud survey. The report identifies more fraud risks and urges local councils and related bodies to focus on them.
- 57** The report also describes the action taken by some councils to tackle fraud and provides links to tools to help councils improve their counter-fraud defences. The updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.
- 58** The materials relating to this report can also be accessed at www.audit-commission.gov.uk/ppp2010, including a tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.

Other Matters of Interest

National Audit Office report on consultants and interim Staff

- 59** The National Audit Office (NAO) has recently issued a report on Central Government's use of consultants and interim staff. The report highlights that the Government is not getting value for money because it often lacks the information, skills and strategies to manage such resources effectively. Although this report is based on Central Government practice, but it includes lessons for all public sector bodies.
- 60** The report states that more needs to be done to integrate decisions to use consultants within wider workforce planning decisions. It also stresses the need for organisations to:
- define the services required;
 - know how the consultants' work is contributing to overall objectives; and
 - evaluate performance during projects and assess what benefits, if any, have been delivered.

Future of the Audit Commission

- 61** On Friday 13 August, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission and the transfer of the audit practice to the private sector. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.
- 62** Ministers have said that the Commission's audit practice is to be transferred to the private sector, and that they are open to the option of an employee owned practice (an example of the mutualisation of formerly public services). We understand that a decision in principle on the future of the audit practice will be taken in May 2011. We are working on a proposal to develop an independent audit practice to continue beyond the abolition of the Audit Commission. The working title for the new business is DA Partnership.

Other developments

Interim report on public sector pensions published

- 63** On 7 October 2010 the Independent Public Service Pensions Commission published its interim report on public sector pensions. In the report, Lord Hutton makes the case for the reform of benefit design. However, a key principle to be followed by the review is the protection of existing accrued pension rights. Further details can be found at: http://www.tisonline.net/issues.asp?content_ref=11182

Publication of local government expenditure

- 64** The Department for Communities and Local Government (CLG) expects all councils and fire and rescue authorities to publish details of all expenditure over £500 in full online by January 2011. By 1 October 2010 over sixty councils had already published

these details. Further details can be found at:

<http://www.communities.gov.uk/news/localgovernment/1730471>

Abolition of local area agreements

- 65 On 13 October 2010 Local Government Secretary, Eric Pickles, announced the abolition of the 152 local area agreements (LAAs). LAAs were introduced in 2004 and involved councils defining their priorities with local partners. Further information is available at the following link http://www.tisonline.net/issues.asp?content_ref=11208.

Government proposals for council governance arrangements

- 66 On 20 September 2010 Andrew Stunell, Communities Minister, announced the government's intention to ensure serious misconduct by councillors for personal gain is dealt with as a criminal act. Further information is available at the following link <http://www.communities.gov.uk/news/localgovernment/1719857>

New rules for council publications

- 67 On 29 September 2010 the Department for Communities and Local Government (CLG), announced proposals to tighten up the publicity rules for councils so they guard against campaigning with public funds. Further information is available at the following link <http://www.communities.gov.uk/newsstories/newsroom/1727275>.

New local authority borrowing powers through tax increment financing

- 68 On 20 September 2010 Nick Clegg, Deputy Prime Minister announced that local authorities in England will be granted new borrowing powers through tax increment financing (TIF), aimed at driving local investment and economic growth.
- 69 Local authorities will be able to borrow against predicted growth in their locally raised business rates, and use that borrowing to fund key infrastructure and other capital projects, which will support locally driven economic development and growth.
- 70 Local authorities will need to manage the costs and risk of this borrowing alongside wider borrowing under the prudential code. This measure is linked to expected reforms that will allow local authorities to keep some business rate income from new developments, although details have yet to be announced.
- 71 Further details are provided on the CIPFA website at: http://www.tisonline.net/issues.asp?content_ref=11033.

Spending review

- 72 On 20 October 2010 the government published the Spending Review 2010, setting out government department budgets for the period 2011/12 to 2014/15. This included plans to reduce funding over the period as follows:
- overall public sector spending by £81 billion by 2014/15;
 - central government revenue grants to local government (excluding schools) by 28 per cent (more than 7 per cent a year in real terms, with the majority impacting in the first two years);
 - capital funding from central to local government by 45 per cent;

Other Matters of Interest

- police revenue funding by 20 per cent in real terms; and
- central government revenue funding to fire and rescue authorities by 25 per cent, although this reduction is back loaded to 2013/14 and 2014/15.

73 The impact on individual local authorities will be known when the provisional local government finance settlement is published in November or December 2010.

74 Other government announcements included:

- £4 billion of separate grants to be rolled into formula grant to reduce the number of core revenue grants to less than 10;
- an intention to end ring-fencing of all other revenue grants to local government from 2011/12, except for simplified school grants and a new public health grant from 2013;
- school funding to be increased by £3.6 billion in cash terms, equivalent to a 0.1 per cent real terms increase each year;
- Department for Education capital spending to fall by 60 per cent over the period;
- NHS funding to increase by 0.4 per cent in real terms over the period (includes an increase of 1.3 per cent in revenue budgets and a 17 per cent decrease in capital spending). The NHS is expected to make savings of up to £20 billion a year by the end of the period to be reinvested in the delivery of NHS services;
- the Ministry of Justice revenue budget to reduce by 23 per cent and its capital spending by 50 per cent over the period, but the impact on probation trusts is not yet known; and
- funding will be available to fund a council tax freeze in 2011/12.

Contact Details

75 If you would like further information on any items in this briefing, please feel free to contact either Tony Crawley or Mike Wood.

76 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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