

# Annual governance report

**Lincolnshire County Council**

**Audit 2010/11**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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## 2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11. At the time of writing the audit is still in progress and I will provide a further update on matters arising at the Audit Committee meeting on 31 October. At this stage I am still planning to issue my audit opinion on that date, but this is dependent on the successful resolution of the outstanding matters that my report refers to.

I have discussed and agreed a draft of my report with the Director of Resources. I produced a separate report covering the audit of the pension fund accounts which was presented to the Audit Committee on 26 September 2011.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 10);
- note the adjustments to the financial statements set out in this report (appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (appendix 3); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4).

Yours faithfully

Tony Crawley  
District Auditor

25 October 2011

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my 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.**

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes but see comments below	6
Important weaknesses in internal control	No	7

Table 2: **Key messages - value for money**

Value for money		
Proper arrangements to secure value for money	Yes	11

## Audit opinion

**1** My work on the opinion is substantially complete. Subject to the satisfactory clearance of the outstanding matters summarised in paragraphs 6 to 8 below, I propose to issue an unqualified audit opinion on the Council's accounts.

## Financial statements

**2** This has been a challenging year for the finance team having to cope with the implementation of International Financial Reporting Standards (IFRS) including the re-statement of previous year's figures.

**3** Although the draft financial statements were originally produced by the required statutory date, my team were unable to complete the audit in line with the planned timetable because of delays in producing working papers

relating to capital accounting and some IFRS changes. Officers had also recognised the need to correct some errors in the draft accounts.

4 I agreed with officers that my audit work would be suspended to allow them to resolve the issues.

5 As a consequence the audited statements were not approved by the Audit Committee and published by the statutory deadline of 30 September 2011. We agreed a revised timetable for the delivery of amended accounts and the related working papers, and the audit re-started on 19 September 2011.

6 Our work has identified significant errors in relation to:

- in year asset revaluations;
- treatment of 2009/10 grant income; and
- year-end expenditure charged to the wrong financial year (cut off).

7 We have been able to quantify the errors resulting from the first two areas. Management has agreed to amend for the majority of the in-year asset valuations. However, at the time of writing this report we are discussing the impact of the error on grant income with management.

8 We raised the cut-off issues in the first week of October but confirmation of the errors was not provided until 21 October. We are currently carrying out re-performance testing on the additional work carried out by Mouchel. The aim of this testing is to obtain sufficient assurance that any unadjusted errors are not material.

9 I will update members verbally on the outcome of our work on grants and cut-off at the Audit Committee meeting on 31 October 2011.

10 Other than the errors referred to above, we have found relatively few errors in the revised accounts apart from disclosure and consistency issues,.

11 I am grateful for the support and assistance provided by officers in meeting the revised timetable and the prompt responses in carrying out additional testing and facilitating our re-performance testing of that work.

## Value for money

12 I have concluded that the Council has put in place satisfactory arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Audit fees

13 In my audit fees letter dated April 2010 and the audit opinion plan dated December 2010, I reported that the planned audit fee for 2010/11 was £265,000.

14 An additional audit fee will be charged this year to cover the cost of the additional work arising from the delays and revisions to the accounts referred to above. I originally estimated this to be £5,000 but this was

dependent on a straightforward audit revisit. Because of the issues highlighted above it is likely to increase.

**15** In my view, the original estimate of the cost of additional work that I have needed to carry out has been much lower than it may have been otherwise. This is due to the prompt acceptance by officers that working papers needed to be strengthened. The withdrawal of my team allowed officers time to address the issues, and also meant that time was not spent trying to audit incomplete management trails.

**16** I also wish to bring to the attention of the Committee that after the original audit fee was determined, the Audit Commission has provided rebates on the fee averaging 15% (for County Councils) to reflect the new approach to the value for money conclusion and the decision to rebate the cost of the work on the IFRS transition.

## **Independence**

**17** I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

**18** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 10);
- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4).

# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

**19** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Key areas of judgement and audit risk

**20** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

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Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
Re-statement of the 2009/10 audited accounts into IFRS format	We were able to successfully review the reconciliations between the accounts prepared under UK GAAP and those prepared under the IFRS-based Code to ensure that the accounting treatment was in line with the IFRS-based Code and applicable accounting standards.
Preparation of the 2010/11 accounts in IFRS format	We have agreed the format and content of the primary statements, including accounting policies and material notes, using the latest available technical guidance. Our

Issue or risk	Finding
	controls and substantive testing informed our audit opinion.
School non current assets required different treatment under the new CIPFA Code. For example the plant, property and equipment of foundation schools and most voluntary aided schools is now most likely to be off balance sheet.	We reviewed the treatment of schools non current accounting and confirmed that it is in accordance with the Code and relevant standards.
Potential employee liabilities arising from the impact of the Comprehensive Spending Review requiring separate disclosure in the in 2010/11 accounts.	Provision was made for redundancy costs (£11.927M) and pension strain (£2.813M) at 31 March 2011. There were no other employee liabilities which required separate disclosure in the accounts.

### Errors in the financial statements

**21** I did not identify any material errors in the financial statements, subject to the satisfactory completion of our current re-performance testing on expenditure cut off.

**22** As a result of the errors we found relating to in year asset revaluations, management agreed to amend the accounts in relation to the largest errors (3 schools). More detail is included at Appendix 2. There remain residual uncorrected errors on revaluations that will be corrected by officers in 2011/12.

**23** We also identified two other unrelated errors in the accounts which management have decided not to amend as these are not material to the financial statements, either individually or in aggregate. More detail is included at Appendix 3.

**24** At the time of writing I am not able to report fully the value and impact of the errors relating to cut-off referred to earlier in this letter. Two errors have been confirmed with total expenditure of £2.381m wrongly charged to 2011/12 in April 2011. These remain as uncorrected errors.

**25** Additional testing is being undertaken in order to quantify the likely total value of any other uncorrected cut-off errors (through extrapolation).

**26** I am also discussing the impact of the incorrect treatment of £10m of 2009/10 grant income. Our initial view based on the information provided is that the 2009/10 restated income and expenditure account is understated by

£10m, and the 2010/11 comprehensive income and expenditure overstated by a similar amount.

27 At this stage I am working on the basis that the overall impact of unadjusted errors will not be material but I will update the Audit Committee on 31 October.

**Important weaknesses in internal control**

28 Although we did not identify any important weaknesses in internal control, the Council has included in the Annual Governance Statement, within the Financial Statements, a list of areas where further work is required to improve systems or monitor how key risks are being managed.

29 This includes a description of the technical and resource problems which led to the delays producing the financial statements and the failure to meet the statutory audit deadline of 30 September. The Council intends to carry out a full review this autumn, with the service provider (Mouchel) to understand the underlying issues behind the delays and to develop an action plan that will ensure there is no repeat of the situation in future.

30 This approach is entirely appropriate and consequently we do not make any specific recommendations in relation to this matter.

**Quality of your financial statements**

31 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

32 Table 4 contains the issues I want to raise with you.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
<p>The change from the Retail Price Index (RPI) to the Consumer Price Index (CPI) as the basis for annual pension increases led to a material negative past service cost of £135.864m in 2010/11. This was included in the non distributed cost line in the Comprehensive Income and Expenditure Statement (CIES).</p>	<p>This change is explained in the detailed notes to the accounts and because this item is of such significance officers have agreed to disclose this item separately on the face of the CIES as an exceptional item.</p>
<p>Each year the Actuary makes an assessment of the fair value of the Council's share of assets held in the County Pension Fund at 31 March. In 2010/11 this assessment was an estimate made at 28</p>	<p>We found that the actual value of Pension Fund assets at 31 March 2011 was slightly lower than the estimated value used by the Actuary in his calculations. As a result your pension fund liability is</p>

Issue	Finding
<p>February 2011. The actual value of assets held at 31 March may vary depending upon the performance of the Pension Fund investments over the one month period since the estimate was made. This may lead a material under or over statement of the Council's liabilities.</p>	<p>understated by £2.243m at the year end. This is not material and the use of the accounting estimate in these circumstances is entirely appropriate. The accounts have not been amended nor do we ask you to consider such an amendment.</p>
<p>During the audit we identified a number of errors and inconsistencies between and within the prime statements and the supporting notes.</p>	<p>These issues, unless trivial in nature and amount, have been corrected before the end of the audit.</p>

### Letter of representation

**33** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

# Value for money

**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

**34** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission, namely:

- Securing financial resilience - focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future. This covers:
  - financial governance
  - financial planning
  - financial control.
- Challenging how the Authority secures economy, efficiency and effectiveness - focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency. This covers:
  - prioritising resources
  - improving efficiency and productivity.

**35** From the work I have carried out, I have concluded that the Council has proper arrangements in place. My conclusion on each of the two specified criteria is set out below.

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Table 5: **Value for money conclusion criterion**

Criterion	Finding
Securing Financial Resilience	The 2010/11 outturn showed a net overspending of £4.3m, excluding schools. This was mainly due to overspending on adult social care and workforce restructuring costs. The Council was able to maintain its General Fund balance at £16.7m at 31 March 2011 which is around its target of 3.5% of total budget. The Council has set a balanced budget for 2011/12.

Criterion	Finding
Challenging how it secures economy, efficiency and effectiveness	<p>In 2010, in light of reductions in funding, the Council completed a thorough review of all essential and desirable services and activities. Essential services have been largely protected but some services have been stopped or reduced. These savings are reflected in the budget approved in February 2011 which shows savings of £125m over the period to 2013/14 whilst maintaining a prudent level of reserves.</p>

**36** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

# Appendix 1 Draft independent auditor's report to Members of Lincolnshire County Council

## **Opinion on the Authority and firefighters' pension fund accounting statements**

I have audited the accounting statements and the firefighters' pension fund accounting statements of Lincolnshire County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Lincolnshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Executive Director of Resources and Community Safety and auditor**

As explained more fully in the Statement of the Executive Director of Resources and Community Safety Responsibilities, the Executive Director of Resources and Community Safety is responsible for the preparation of the Authority's Statement of Accounts, including the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances

and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Lincolnshire County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Lincolnshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of

Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Executive Director of Resources and Community Safety and auditor**

As explained more fully in the Statement of the Executive Director of Resources and Community Safety Responsibilities, the Executive Director of Resources and Community Safety is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditors Responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying

myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Lincolnshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the accounts of Lincolnshire County Council and the Lincolnshire County Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Tony Crawley  
Officer of the Audit Commission

Rivermead House  
Grove Park  
Enderby  
Leicester  
LE19 1SU

31 October 2011

## Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 6:

Adjusted mis-statement	Comprehensive income and expenditure statement	Balance sheet	
		Impact on net book value (increase)	£000's
1. Correction of in year valuation errors.	Aegir School	2009/10	6.746
		2010/11	1.404
	Bourne Robert Manning	2010/11	0.639
	Kesteven and Sleaford High	2010/11	1.671

*Note - the correction of these errors impacts widely across the accounts and is too complicated to show here in a simple format. I have reported simply the errors in terms of the adjusted increase in net book values.*

*Source: LCC journals / information from Finance Team*

## Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 7:

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description				
1. Receipts in advance overstated / income understated. Extrapolated error (£842k).		842	842	
2. Creditors / Receipts in advance understated re Foundation school balances (balance in cash)			520	520
3. In year revaluation errors not adjusted.			1,346	1,346
4. Expenditure cut off errors (actual)	2,381			2,381

Unadjusted mis-statement	Comprehensive income and expenditure statement	Balance sheet
5. Expenditure cut off errors (extrapolated) but not yet quantified. To be reported verbally at Audit cttee.	TBC	TBC

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*Source: Audit schedule of uncorrected errors and uncertainties*

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## Appendix 4 Draft letter of representation

To:  
Tony Crawley  
District Auditor  
Rivermead House  
Grove Park  
Enderby  
Leicester  
LE19 1SU

### **Lincolnshire County Council - Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Lincolnshire County Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

#### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom, International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

#### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

## **Supporting records**

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

## **Related party transactions**

I confirm that I have disclosed the identity of Lincolnshire County Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

## **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Lincolnshire County Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on behalf of the Council on 31 October 2011

Signed

Name Mr P Moore

Position Executive Director of Resources and Community Safety

Date 31 October 2011

Signed

Name Cllr B Young

Position Chairman of the Audit Committee

Date 31 October 2011

## Appendix 5 Glossary

### **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

### **Audit closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

### **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

### **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

### **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.