

Annual Audit Letter

Lincolnshire County Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

I issued unqualified audit opinions on the County Council and Pension Fund. The significant issues were:

- the accounts were presented on time despite the implementation of International Financial Reporting Standards (IFRS), but I could not complete my audit by the statutory deadline because of delays in producing working papers;
- our work identified significant (though not material) errors in relation to in-year asset revaluations, and year-end expenditure charged to the wrong financial year. The most significant errors were corrected; and
- I did not identify any significant weaknesses in internal control.

Value for money

Proper arrangements are in place to secure value for money. The key issues are that the Council:

- has a good system of risk management which should enable it to deal effectively with risks that arise;
- needs to improve Adult Care service commissioning and delivery and has actions plans in place;
- overspent modestly against its budget in 2010/11;
- was able to maintain its General Fund balance at £16.7m at 31 March 2011; and
- has set a balanced budget for 2011/12 and is well placed to maintain a satisfactory financial position over the medium term.

Current and future challenges

The state of the economy, reductions in government funding and increasing demands in priority services continue to put pressure on the Council and its finances. The Council took a number of important actions in 2010/11 in anticipation of the current challenges. This included a significant restructuring of senior management and plans to make large savings in pay and non pay expenditure. The Council is making good progress in achieving its savings targets. It expects to achieve the short term target of £26m over the first two years on staff costs and has a longer term plan of achieving overall savings of £125m to 2013/14.

The Council set a balanced budget for 2011/12 and at the end of October 2011 an underspend of around £3m is forecast for the full year, excluding schools. Although the overall position is expected to be satisfactory, Adult Care is likely to overspend by around £5m and this remains a key area where plans to improve both commissioning and service delivery are well underway. Children's services, another major area of spend, is expected to underspend as a result of additional grant and earlier implementation of some planned savings.

The medium term outlook remains challenging for the Council but the longer term budget report sets out a realistic assessment of the financial position, the difficulties faced, and the steps required to mitigate the financial risks. In addition to improving adult care commissioning, the development of community budgets and the 'Whole Place' pilot and the redesign and refocus of many services are major challenges. A strategic property review is also underway which will take account of the impact of the large staffing reductions and generate further savings. The Council is looking to better align its vision, business planning and budgets over the medium term as other changes impact, such as the expectation that a large number of schools are likely to opt out of Council control and become academies, with a consequent impact on support services and staffing.

Members will need to ensure that the focus on strong financial management and improving efficiency is maintained for the foreseeable future.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion on the County Council 2010/11 accounts on 31 October 2011. I issued my opinion on the Pension Fund annual report on 28 September 2011. The audit has been formally concluded.

This has been a difficult year for the finance team having to cope with the implementation of International Financial Reporting Standards (IFRS), which meant a considerable increase in the work involved in their preparation and auditing including the re-statement of previous year's figures. The accounts were presented for audit by the required statutory date of 30 June 2011, but 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.

As a consequence, the audited statements were not approved by the Audit Committee and published by the statutory deadline of 30 September 2011.

Our work identified several significant, non-material, errors in relation to in-year asset revaluations and year-end expenditure charged to the wrong financial year. Management agreed to amend the accounts for the largest of the in-year asset valuation errors. Members accepted management's proposal not to amend a relatively small number of other errors because the impact, individually and collectively, was not material.

Although I have needed to carry out additional work, the cost of that work has been much lower than it may have been 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 our time was not spent trying to audit incomplete management trails.

I expect to be able to certify the annual Whole of Government Accounts (WGA) return in early December 2011. The deadline of 30 September 2011 for submitting the audited return was not met as a result of the late completion of the audit.

Significant weaknesses in internal control

I did not identify any important weaknesses in internal control however, 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.

This includes a description of the technical and resource problems which led to the delays producing the 2010/11 financial statements and the failure to meet the statutory audit deadline. The Council intends to carry out a full review this autumn, with the service provider, to understand the underlying issues behind the delays and to develop an action plan to ensure there is no repeat of the situation in future. Consequently I do not make any specific recommendations in relation to this matter.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has a good system of risk management in place and is updating the approach to reflect the challenges it faces. It has a sufficient level of General Fund balances which should enable it to manage risks that arise in the short and medium term.</p> <p>In 2010/11 the Council overspent modestly against its budget by £4.3m, excluding schools. This was mainly due to overspending on adult social care and workforce restructuring costs.</p> <p>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 and is well placed to maintain a satisfactory financial position over the medium term.</p>

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

In 2010/11, 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.

Adult Care is a key area for improvement where previous overspending has now been linked with weaknesses in some aspects of service commissioning and delivery. Action plans are now being implemented at management board level to improve accountability and progress is being closely monitored.

Closing remarks

Ongoing independent support

During the year we have continued to support the Council by:

- attendance at Audit Committees to inform Members about progress on the audit and report our key findings; and
- hosting our annual final accounts workshops which are attended by accountancy staff.

Summary

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources and Community Services. I will present this letter at the Audit Committee on 19 December 2011 and will provide copies to all Councillors.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter	April 2010
Audit opinion plans	January 2011
Grant Report	February 2011
Annual governance report – Pension Fund	September 2011
Annual governance report – Council	October 2011
Audit opinions on the financial statements and value for money conclusion	October 2011
Annual audit letter	November 2011

The Council has taken a positive and constructive approach to our audit and I wish to thank the Council staff for their support and co-operation during the audit.

Tony Crawley
District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee	£275,000 Estimated*	£265,000	£10,000 Estimated*
Inspection Fee	£0	£31,223	-£31,223**
Non-audit work	£0	£0	£0
Lincolnshire County Council Total	£275,000 Estimated*	£296,223	-£21,223
Audit Fee	£39,000	£39,000	£0
Non-audit work	£0	£0	£0
Lincolnshire Pension Fund Total	£39,000	£39,000	£0

*The audit fee variance reflects the additional work arising from the delays in producing working papers relating to capital accounting and IFRS changes. The variance remains an estimate until the Whole of Government accounts work, delayed by the late issue of the audit opinion, is completed.

**The planned inspection fee (£16,630) and proposed Access to Services Inspection (£14,593) were not charged as a result of the government's decision to abolish Comprehensive Area Assessment in May 2010.

Since the original proposed audit fee was determined the Audit Commission has subsequently provided rebates totalling £25,332 on the fee to reflect the new approach to the value for money conclusion (£9,290) and the decision to rebate the cost of the work on the IFRS transition (£16,042). The rebates are not reflected in the figures above.

The fee for certification of claims and returns is charged at published daily rates. The work is ongoing and our latest estimate is that the fee will be in the region of £10,000 (£22,800 in 2009/10).

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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.

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.

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.

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