



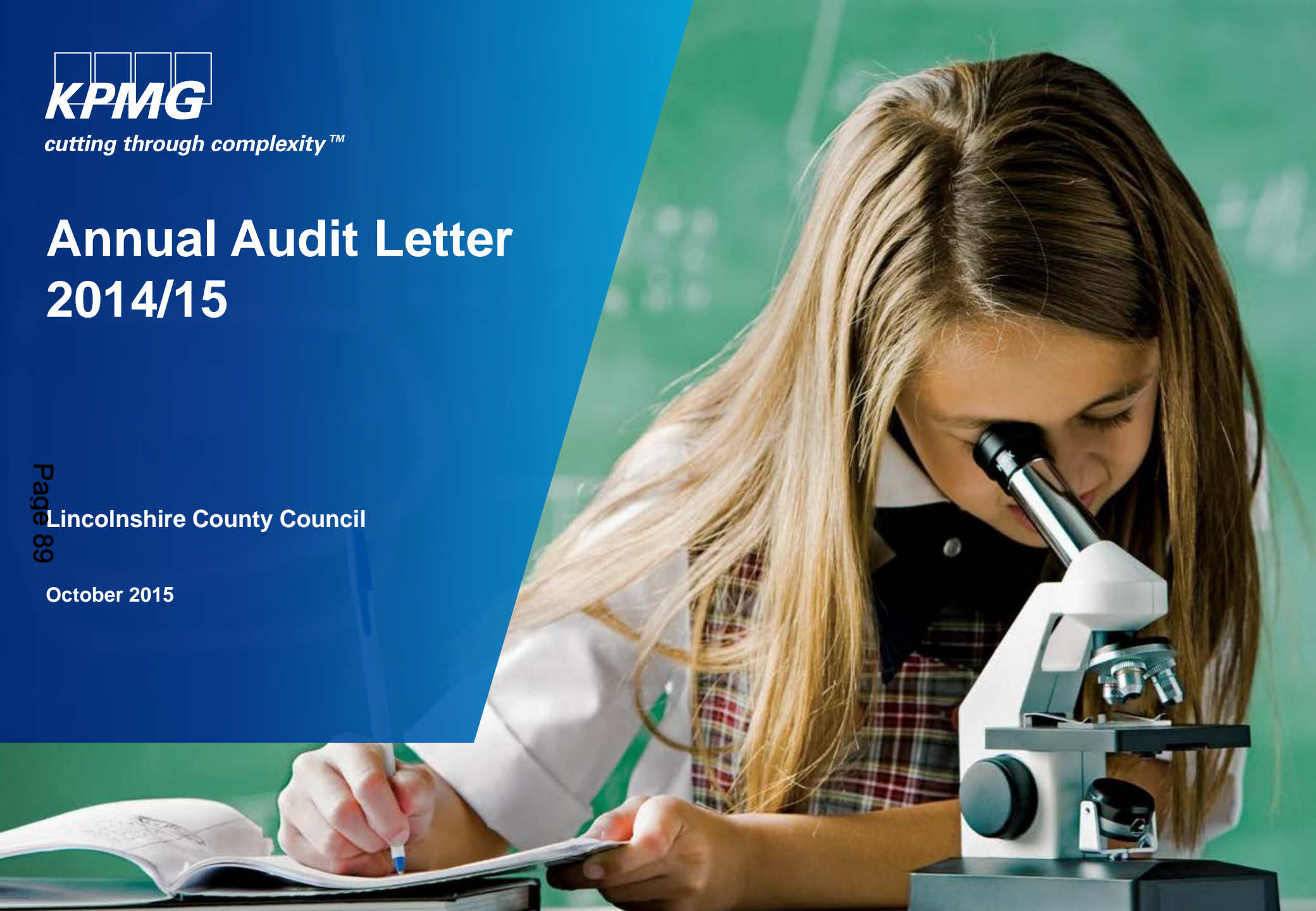
*cutting through complexity™*

# Annual Audit Letter 2014/15

Page 89

Lincolnshire County Council

October 2015



**The contacts at KPMG in connection with this report are:**

**Tony Crawley**

*Director*

*KPMG LLP (UK)*

Tel: 0116 256 6067

[tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

**Mike Norman**

*Manager*

*KPMG LLP (UK)*

Tel: 0115 935 3554

[michael.norman@kpmg.co.uk](mailto:michael.norman@kpmg.co.uk)

**Tom Tandy**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0115 935 4480

[thomas.tandy@kpmg.co.uk](mailto:thomas.tandy@kpmg.co.uk)

**Page**

**Report sections**

- Headlines 2

**Appendices**

1. Summary of reports issued 4
2. Audit fees 5

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. The Audit Commission 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.psa.co.uk](http://www.psa.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 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, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto: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.

This report summarises the key findings from our 2014/15 audit of Lincolnshire County Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

Page 91

<p><b>VFM conclusion</b></p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 29 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
<p><b>VFM risk areas</b></p>	<p>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.</p> <p>Our work took into account the Authority's arrangements for managing the introduction of its new contracts for Corporate Support Services, Property Services and Pension Fund administration. These services have been supplied by new providers under five year contracts from 1 April 2015.</p> <p>There were formal and clear governance arrangements in place during 2014/15 and to date in 2015/16 to oversee the programme for the start of the new contracts. These included regular updates on programme risks and actions taken. The property and pensions administration contracts' arrangements were 'signed off' in June 2015 and are now embedded within the services' management. No significant concerns have been reported in relation to these contracts in 2015/16.</p> <p>An integral component of the new corporate support services contract arrangements has been the implementation of the new Agresso financial system. The Agresso programme has been very challenging for the Authority, with the Authority unable to ensure that there have been during 2015/16 effective processes for accurate and complete payments to creditors and staff. Fully effective financial management and reporting arrangements have also not been in place for the whole of the year, with complete and up to date budget forecast information not expected to be available before the end of October 2015. The programme monitoring and control arrangements have continued to be in place beyond the originally planned end date of June 2015 and are expected to be in place until December 2015.</p> <p>We also considered your response to the significant medium term financial and operational risks faced and carried out further work to assess your arrangements for preparing a balanced and sustainable budget for 2016 onwards. Managers have continued to build up their understanding of the medium term expenditure needs and the likely available funds. Members have continued to be briefed on the issues and good progress had been made in determining priorities and taking forward the results of the Fundamental Budget Review. Managers expected to be able to produce a balanced budget for 2016/17, although this will still require draw-down on the financial volatility reserve. The budget gap for 2017/18 was estimated to be around £20m, although this was based on a number of assumptions which officers will need to monitor closely.</p> <p>Although there are a number of continuing issues in relation to the operation of Agresso and the Authority's medium term financial standing, the Authority had adequate arrangements in place for managing these risks and we gave an unqualified VFM conclusion on the Authority's arrangements for 2014/15. We will need to continue to carry out additional work reviewing the Authority's arrangements for managing these risks in 2015/16.</p>

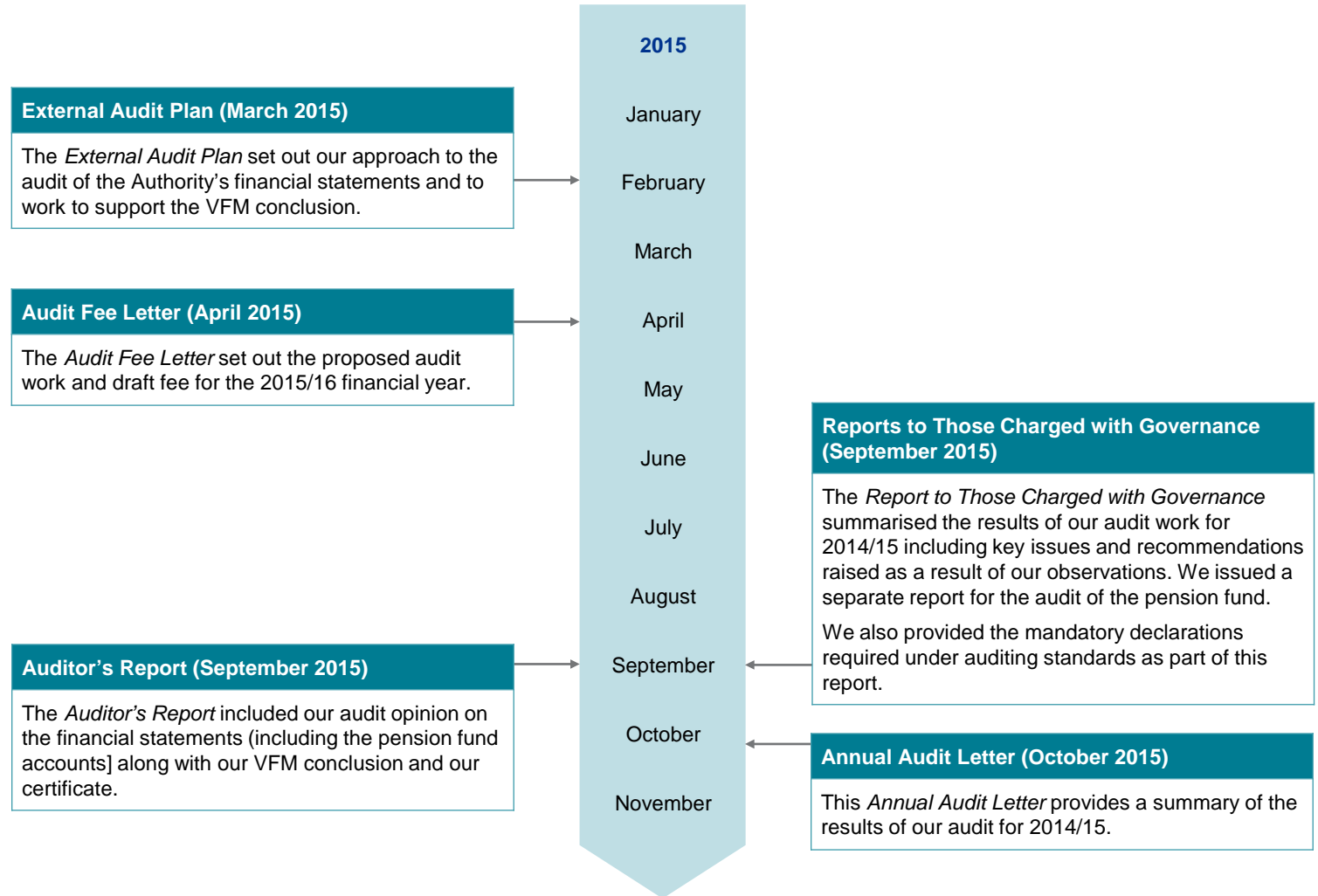
All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Audit opinion	We issued an unqualified opinion on your financial statements on 29 September 2015. 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. The financial statements also include those of the pension fund.
Financial statements audit	The Authority has well established processes in place for the production of its accounts and supporting working papers. A complete set of draft financial statements was available well ahead of the 30 June 2015 deadline. The level of support officers needed to devote to the implementation of the new Agresso system from April 2015 did though have an impact on the Authority's arrangements. We noted that the quality in some areas of the accounts was not to the usual high standard, most notably around the accounting entries and supporting working papers for Property, Plant and Equipment where we identified material accounting errors. The circumstances for this year's audit will not be repeated for 2015/16 but we agreed a small number of recommendations for improvement with officers in relation to the issues encountered this year. We will follow up these recommendations and take into account the Agresso implementation issues when designing our 2015/16 audit.
Pension fund audit	There were no significant issues arising from our audit of the Lincolnshire Pension Fund and we issued an unqualified opinion on the pension fund financial statements on 29 September 2015 as part of our audit report.
Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was not misleading or inconsistent with other information we are aware of from our audit of the financial statements.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Certificate	We issued our certificate on 29 September 2015. The certificate confirms that we have concluded the audit for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our total audit fee for the Authority and the Pension Fund 2014/15 was £177,368, excluding VAT. Further detail is contained in Appendix 2.

## Appendix 1: Summary of reports issued

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

Page 93



**This appendix provides information on our fees for the 2014/15 audit.**

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

#### **External audit**

Our fee for the 2014/15 audit of the Authority was £152,025. This was greater than the planned fee of £143,100 and included additional fees totalling £8,925 relating to:

- the significant audit risk identified in our External Audit Plan (the change in the requirements for accounting for schools in 2014/15);
- additional work dealing with the matters arising during the final accounts audit; and
- the significant VFM risks identified in the External Audit Plan (changes to the Authority's corporate support services contractor and the medium term financial outlook).

Our fee for the audit of the Lincolnshire Pension Fund accounts was £25,343. This was greater than the scale fee of £24,350 and included an additional fee of £993 for the audit work relating to the significant audit risk identified in the Audit Plan regarding the implementation of LGPS 2014.

Our fees are still subject to final determination by Public Sector Audit Appointments.

#### **Other services**

We charged a total of £16,079 for other services in the year. This was made up of:

- £3,000 for the agreed work providing the Authority with our Accountant's Report on the 2013/14 Teachers' Pension Authority return;
- £5,500 for support provided to the Learners with Learning Difficulties and/or Disabilities team; and
- £7,579 for tax advice.



*cutting through complexity™*

© 2015 KPMG LLP, a UK public limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

**This page is intentionally left blank**