Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	**Audit Committee**
Date:	**26 September 2016**
Subject:	**External Audits ISA 260 Report to Those Charged with Governance on Lincolnshire County Council's Statement of Accounts and Lincolnshire County Council Pension Fund Accounts for 2015/16**

Summary:

The Statement of Accounts for Lincolnshire County Council and for Lincolnshire County Council Pension Fund for the financial year 2015/16 have been completed and independently audited.

This report sets out the External Auditors findings in their ISA 260 Report to Those Charged with Governance for the County Council's and Pension Fund Accounts (Appendix A).

Recommendation(s):

The Executive Director (Finance and Public Protection) recommends the Audit Committee:

1. Consider the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council and the Pension Fund (Appendix A); and

3. Approve the Letter of Representation on behalf of the Council to enable the Audit Opinion to be issued (Appendix B).

Background

1.1 The Audit Committee were presented with the draft Statements of Accounts for 2015/16 for scrutiny and comment at its meeting on 18 July 2016. Our external auditors, KPMG, have now completed their work on the draft Statements and have issued their ISA 260 Reports to Those Charged with Governance for the Lincolnshire County Council Statement of Accounts and for the Pension Fund Accounts.

1.2 **Appendix A** to this report is KPMG's ISA 260 Report to Those Charged with Governance, this report summarises the key issues identified during the audit of the Council's financial statements for the year ending 31 March 2016 and the assessment of our arrangements to secure value for money in the use of resources.

1.3 The Audit Committee is asked to consider KPMG's ISA 260 report. The key points contained in the report are:

- Section two – Headlines (pages 5 to 8). This summarises the headline messages from KPMG's audit. These are:
    - The External Auditors work is still ongoing on the County Council Statement of Accounts. They expect to give their audit opinion in October 2016.
    - The External Auditors have completed their work on the Pension Fund Financial Statements and expect to issue an unqualified audit opinion.
    - To date the External Auditor has not identified any material errors within the financial statements to be reported to the Audit Committee.
    - KPMG are currently finalising the position on the Value for Money conclusion and will update the Committee with their findings at the meeting.
- Further details on the Financial Statements audit are provided in section three (pages 9 to 19) and on the Value for Money Conclusion in section four (pages 20 to 22).
- Appendix One – Key Issues and Recommendations (pages 23 to 27) sets out the audit recommendations for next year's Financial Statements and comments on last year's recommendations.
- Appendix Two – Audit Differences (pages 28 to 29) sets out details of the corrected differences in the Financial Statements and the uncorrected differences.
- Appendix Three – Declaration of Independence and Objectivity (pages 30 to 31).
- Appendix Four – Audit Fees (page 32).

<u>Letter of Representation</u>

1.7 **Appendix B** sets out the draft Letter of Representation. This must be approved by the Audit Committee, on behalf of the Council, then signed by the Chair of the Audit Committee and the Executive Director (Finance and Public Protection) before the audit opinion can be given.

Conclusion

2.1 The 2015/16 Statement of Accounts has been audited. The External Auditor expects to issue an audit opinion in October.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	External Audit Report 2015/16
Appendix B	Lincolnshire County Council Letter of Representation 2015/16

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Machej, who can be contacted on 01522 553663 or claire.machej@lincolnshire.gov.uk.

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External Audit Report 2015/16

Lincolnshire County Council

Audit Committee 26 September 2016

Contents

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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 Cornett, 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 (on 0207 694 8981, or by email to 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 3H.

Section one: Introduction

Introduction

This document summarises:

- **The status of the audit work and the key issues identified to date during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report has been prepared for the Lincolnshire County Council Audit Committee's 26 September 2016 meeting and summarises the status of our audit and the key findings to date from:

- Our audit work at Lincolnshire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: Substantive Procedures. Our on site work for this work has been taking place during August and September 2016.

We are in the final stages of the Substantive Procedures phase of the audit and entering the Completion stage. Some aspects of the Completion stage are also discharged through this report.

VFM Conclusion

Our *External Audit Plan 2015/16* explained our risk-based approach to VFM work and we updated the Audit Committee during the year through our regular Progress Reports We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the Fund.
- Section 4 outlines our work on the VFM conclusion.

Our recommendations from the work completed to date are included in Appendix 1.

We will provide the Committee with a verbal update at its meeting on the significant matters contained in this report. We will provide a further written update closer to or after the completion of the audit.

Acknowledgements

This has been a challenging year for the finance team, given the issues resulting from the changes in the Authority's support services provider and the financial systems. We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

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The tables in this section summarise the headline messages for the Authority and the Pension Fund. Sections three and four of this report provide further details on each area.

Proposed audit opinions	Our audit of the Authority's financial statements is still in progress. We do not expect to be able to resolve the outstanding queries and complete the remaining work before 30 September 2016 and expect to give the audit opinion in October 2016. The areas of work still in progress are summarised on page 7. No material errors have identified from the audit work completed to date and there are no other issues from the work completed to date which on their own would prevent us giving an unqualified audit opinion on Authority's statements. Our audit of the Pension Fund's financial statements is complete. We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts, and the Pension Fund Annual Report. We anticipate reporting that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and is not inconsistent with our understanding of your arrangements.
Audit adjustments	Authority Financial Statements – There are no adjusted or unadjusted audit differences arising from the audit work to date that we need to report to the Audit Committee. Pension Fund Financial Statements - There are no adjusted or unadjusted audit differences that we need to report to the Audit Committee.
Key financial statements audit risks	We identified the following key financial statements audit risks in our *External Audit Plan 2015/16* issued in March 2016. ■ The changes to the Authority's corporate financial systems in the year, which affects the accounts of the Authority and Pension Fund; and ■ The change in the Pension Fund's pensions administration support services provider. We also identified the following areas of focus, relating to risks with less likelihood of giving rise to a material error: ■ The changes to the CIPFA Code of Accounting Practice, which include new requirements for the valuation of surplus assets and narrative reporting; and ■ The disclosure and accounting arrangements for Lincolnshire's Better Care Fund, which the Authority hosts. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report.

Headlines (cont.)

The tables in this section summarise the headline messages for the Authority and the Pension Fund. Sections three and four of this report provide further details on each area.

Accounts production and audit process – the Authority's financial statements	The year-end closedown and accounts production process was, as expected, challenging for the accountancy team given the work required to resolve the ongoing issues with Agresso. The team strengthened the arrangements through, amongst other things: • Early planning and liaison (internally and with external audit). • Identifying, managing and monitoring significant issues identified through the team's closedown risk assessment. • Recruiting additional temporary staff to increase capacity for managing and carrying out the year-end processes. The Authority published its draft financial statements on 1 July 2016, very close to the 30 June 2016 DCLG deadline. We were provided with amended draft statements on 27 July 2016 at the start of our main on-site audit work. This set of statements included corrections and adjustments to address matters identified by management as part of their further quality checks on the original draft statements and further finalisation procedures. These statements did not though reflect the annual consolidation adjustments required as part of the verification of schools' spend and year-end balances, as this process was still in progress. Following the completion of this process we were provided with an updated set of draft statements on 6 September 2016. We are currently working through the amended statements, together with the working papers provided to support the schools consolidation adjustments made. We were provided with the majority of the requested working papers at the start of our audit visit and officers have been helpful in responding to audit queries and providing additional working papers as the audit has progressed. Our audit is still audit in progress and the significant remaining areas of work relate to: • Payroll Expenditure – to confirm the completeness, accuracy and presentation of these costs within the Authority's financial statements. Our substantive testing is still in progress. • Schools consolidation – to complete our review and testing of the schools consolidation adjustments. We will provide the Audit Committee with a verbal update on progress on this work at its meeting. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. There were no significant changes in accounting policies compared to the prior year. The Authority has implemented the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. As in previous years, we will debrief with the accountancy team at the end of the audit to share views and hopefully identify any opportunities for improvement in the 2016/17 audit process.

Headlines (cont.)

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The tables in this section summarise the headline messages for the Authority and the Pension Fund. Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	We identified the following VFM risks in our *External audit plan 2015/16* issued in March 2016. — Operation of Serco Support Services Contract — Managing your budget and shaping your medium term financial strategy We have worked with officers throughout the year to discuss these VFM risks. We are finalising our work on these significant factors, including completing our internal consultation on the form of VFM Conclusion required. We will update the Audit Committee.at its meeting on the findings and conclusions from this work. We expect to give the VFM conclusion at the same time as we give our audit opinion on the financial statements.
Completion	At the date of this report our audit of the financial statements is still in progress. The significant areas of work to complete have been summarised at page 7. There are other tasks we need to complete as part of the normal completion process, including: — Final KPMG Director and Manager review — Clearing any the residual queries with officers as part of our completion procedures — Our normal audit closure and reporting procedures. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. At this stage, based on the audit work carried out to date, we are not asking management to provide any additional specific representations. We will update the Audit Committee if, following the completion of the remaining work, any further specific representations are needed. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
Other matters	**Whole of Government Accounts (WGA)** The national audit deadline for reporting on the authorities' 2015/16 WGA return has been extended to 21 October 2016 (2 October 2015 last year). The Authority has not finalised its return yet and we expect to complete the required audit work in October 2016. We will update the Audit Committee if there are any significant audit matters arising from this work. **Audit Certificate** The later deadline for the WGA audit work means that we expect to defer the issue of the Audit Certificate until that work is complete. There are no other audit matters at this stage that impact on the Audit Certificate.

KPMG

Section three: Financial Statements

Audit Progress and audit differences

We have not identified any issues in the course of the audit work to date that are considered to be material.

The audit adjustments agreed to date have no impact on the General Fund balance.

The Authority's Audit

Our audit of the Authority's financial statements is still in progress. No material errors have identified from the audit work completed to date.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £12m. Audit differences below £0.6m are not considered significant.

We have not, based on the audit work to date, identified any material misstatements. Management is to make a number of amendments to the published draft financial statements to correct audit differences identified to date, or to address other issues which have been identified. There are no adjusted or unadjusted audit differences arising from the audit work to date that we need to report to the Audit Committee.

The tables opposite illustrate the total impact of audit differences identified to date on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016. The net impact on the General Fund as a result of these adjustments is nil.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code') or to address casting and cross-referencing errors. We understand that the Authority will be addressing these where significant.

Movements on the general fund 2015/16

£m	Pre-audit	Post-audit
Deficit on the provision of services	(110.2)	(109.1)
Other recognisable gains	(1.4)	(0.2)
Adjustments between accounting basis and funding basis under Regulations	89.5	89.1
Transfers from earmarked reserves	21.8	19.9
Decrease in General Fund	**(0.3)**	**(0.3)**

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit
Property, plant and equipment	1,270.3	1,269.3
Other long term assets	172.2	178.6
Current assets	285.4	286.8
Current liabilities	(136.9)	(134.8)
Long term liabilities	(1,235.5)	(1,235.5)
Net worth	**355.5**	**364.4**
General Fund	15.6	15.6
Other usable reserves	210.8	212.8
Unusable reserves	129.1	136.0
Total reserves	**355.5**	**364.4**

Audit Progress and audit differences (cont.)

We have identified no issues in the course of the audit of the Pension Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

The Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £16 million (2014/15 £17m). Audit differences below £0.8m (2014/15 £0.85m) were not considered significant.

We anticipate issuing an unqualified audit opinion on the Pension Fund statements following approval of the Statement of Accounts by the Audit Committee.

There are no adjusted or unadjusted audit differences that we need to report to the Audit Committee.

We identified a small number of presentational adjustments required to address casting and cross-referencing errors. We understand that managers will be processing these changes in the final version of the amended statements.

Pension Fund Annual Report

We have reviewed the draft Pension Fund Annual Report and confirmed that:

— It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and

— The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks.

Change to financial and payroll systems

— Risk

In April 2015 the Authority changed, under the new support services contract with Serco, its corporate financial system with SAP being replaced by Agresso. The Authority has reported significant issues with the operation of the Agresso system throughout the year, including major difficulties in:

- accurately processing the monthly payrolls;
- making timely and accurate payments through the accounts payable procedures; and
- accounting for transactions, and monitoring and reporting its financial performance due to problems with the operation of the general ledger.

The Authority has been working with Serco throughout the year to establish effective controls to ensure there is a fully operational system platform and resolve historical processing errors. This work is still in progress.

The weaknesses in the system controls and financial reporting arrangements in the year represented a significant audit risk for the Authority and Pension Fund financial statement.

— Findings

Given the difficulties experienced by the Authority in implementing its new financial and payroll systems for a number of areas including payroll and non pay expenditure we took a substantive approach for 2015/16 . The issues involved were known about at the planning stage and were reflected in our audit strategy.

As a result of the difficulties experienced the finance team has had to make a high level of manual adjustments and the Authority presented us with three versions of the accounts. We have worked through these. Whilst it has proved possible to undertake the audit work required there have been delays that impacted upon our work. During the course of our work we have considered the Authority's control environment and have concluded that whilst the Authority has exerted considerable efforts to address the difficulties identified not all the weaknesses in the system controls and financial reporting arrangements have been fully addressed. The Authority is continuing to review its arrangements and to address the residual issues faced.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including those over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

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In our External Audit Plan 2015/16, presented to you in March 2016, we identified two areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each area of audit focus.

Changes required by the 2016 CIPFA Code of Accounting Practice

— Area

The 2016 CIPFA Code of Accounting Practice introduced a number of required changes to the financial reporting framework, including:

- changes to the valuation of surplus assets
- the replacement of the Explanatory Foreword with the Narrative Statement

— Findings

We discussed the new requirements with officers as part of their closedown planning and have reviewed the relevant specific sections of the draft financial statements as part of our audit. There are no issues that we need to report to the Audit Committee.

Better Care Fund

— Area

The Better Care Fund came into operation on 1 April 2015 for the 2015/16 financial year. To administer the fund, local authorities were required to establish joint arrangements with CCGs to operate a pooled budget to deliver more integrated health and social care. The pooled budget has been hosted by the Authority. The risk was that BCF arrangements were not accounted for within Authority and CCGs' accounts in accordance with relevant guidance. The total value of the expenditure from the Fund in 2015/16 was £135m.

— Findings

We reviewed the treatment of the Lincolnshire BCF arrangements to ensure they were in accordance with the guidance and accounting standards. We reviewed the CCGs' and LCC's assessment of the S75 agreements in place and how the fund operated, including their assessments of each scheme within the BCF, and considered their proposed accounting treatment. There are no issues that we need to report to the Audit Committee.

Significant audit risks - pension fund

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified the significant risk specifically affecting the Pension Fund's 2015/16 financial statements. We have now completed our testing of this area and set out our findings and evaluation following our substantive work.

Change to pensions administration services provider

— Risk

In April 2015 the Lincolnshire Pension Fund's support services provider for pension administration chanced from Mouchel to West Yorkshire Pensions. There have been changes to the systems and procedures in place to support the arrangements for processing and accounting for pensioners' contributions and payments of pension. These amounts are material to the Pension Fund accounts.

— Findings

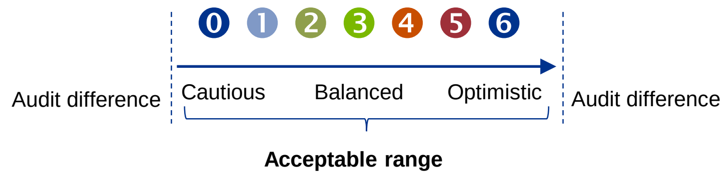
We reviewed the processes and controls in place for the operation of the new pensions administration arrangements and agreed with officers the information required for our detailed testing strategy. We received the information and explanations we required and were able to complete the planned substantive testing.

The Authority (through the Pensions Committee) has continued to monitor the performance of the new provider. There are no issues that we need to report to the Audit Committee.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Level of prudence



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Assessment of subjective areas – Lincolnshire County Council Statements				
Asset/liability class	**14/15**	**15/16**	**Balance (£m)**	**KPMG comment**
Provisions	3	2	£11.7m *(PY: £7.8m)*	The increase is due to: • *Business Rate Appeals Provision* – the Authority's share of the district council's estimates of the amounts payable for lodged appeals has increased to £2.1m (2014/15 £0.6m), and reflects the national 'spike' in appeals in the year. • *Customer Service Centre Volume Fees Provision* – this is a new provision (£2.6m) and represents the Authority's estimate of the amount payable to a contractor for services received during the year. We have reviewed the Authority's approach to estimating both of these provisions and not identified any material misstatement or further issues of concern for the Authority's attention.
Property, Plant and Equipment	3	2	£1,269.3m *(PY: £1,296.5m)*	We have reviewed the arrangements, discussed the approach with managers and followed up the audit recommendations made in the previous year. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements and we have not identified any concerns for the Authority's attention.
Pensions	3	4	£745.6m *(PY: £895.2m)*	There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used.
Earmarked Reserves (non schools)	3	4	£125.5m *(PY: £138.2)*	The largest movements relate to: • Financial Volatility Reserve and Financial Volatility – Budget Shortfall Reserve – the total for the two reserves at end of the year was £43.8m (2014/15 £53.5m). The Reserves have been utilised in the year, as planned, to support shortfalls in Government and other funding. • Growing Places Revenue Grants Unapplied – the £10.2m balance has been fully utilised during 2015/16. We did not identify any concerns regarding the other earmarked reserves.

Judgements (continued)

Level of prudence

0 1 2 3 4 5 6

Audit difference | Cautious | Balanced | Optimistic | Audit difference

Acceptable range

Assessment of subjective areas – Lincolnshire County Council Statements				
Asset/liability class	**14/15**	**15/16**	**Balance (£m)**	**KPMG comment**
Investments	3	3	£1,744.1m *(PY: £1,744.1m)*	We have reviewed arrangements for determining the accurate values for the Fund's investments. There have been no significant changes to the approach and we did not identify any concerns regarding the valuations recorded.
Disclosure of Retirement Benefit Plans	3	2	£2,764.0m *(PY: £2,953.0m)*	IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed (the liability is not included within the Net Assets Statement). There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used.

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Accounts production and audit process

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We observed an impact on the quality of the accounts and the supporting working papers as a result of the difficulties experienced by the Authority in implementing its new financial and payroll systems.

Officers have been helpful in responding to audit queries and providing additional working papers as the audit has progressed.

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2014/15.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	Despite the difficulties experienced by the Authority in implementing its new financial and payroll systems the Authority has produced statements of accounts to a reasonable standard. We consider that the Authority's accounting practices are appropriate.
Completeness of draft accounts	The Authority published its draft financial statements on 1 July 2016, very close to the 30 June 2016 DCLG deadline. We were provided with amended draft statements on 27 July 2016 at the start of our main on-site audit work. This set of statements included corrections and adjustments to address matters identified by management as part of their further quality checks on the original draft statements and further finalisation procedures. These statements did not though reflect the annual consolidation adjustments required as part of the verification of schools' spend and year-end balances, as this process was still in progress. Following the completion of this process we were provided with an updated set of draft statements on 6 September 2016. We are currently working through the amended statements, together with the working papers provided to support the schools consolidation adjustments made

Element	Commentary
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.
Quality of supporting working papers	Our working paper requirements document, which we issued on 27 April 2016 and discussed with the finance team, set out our working paper requirements for the audit. As a consequence of the difficulties experienced by the Authority in implementing its new financial systems it has not been straightforward in all instances for managers to provide all the information required but the working papers overall met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers have been helpful in responding to audit queries and providing additional working papers as the audit has progressed.

Additional findings in respect of the control environment for key financial systems

We considered the Authority's control environment at the planning stage and throughout the audit. We have taken into account Internal Audit's reported findings and communicated our views on your internal controls through our progress reports to the Audit Committee. We have concluded that whilst the Authority has exerted considerable efforts to address the difficulties arising from the implementation of its new financial and payroll systems, not all the weaknesses in the system controls and financial reporting arrangements have yet been fully addressed. The Authority is continuing to review its arrangements and to address the residual issues faced.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented the majority of the recommendations in our ISA 260 Report 2014/15. Appendix one provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lincolnshire County Council and Lincolnshire Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Lincolnshire County Council and Lincolnshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We will provided a template to the S151 officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

At this stage, based on the audit work carried out to date, we are not asking management to provide any additional specific representations. We will update the Audit Committee if, following the completion of the remaining work, any further specific representations are needed.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

At this stage there are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority 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 follow a risk based approach to target audit effort on the areas of greatest audit risk.

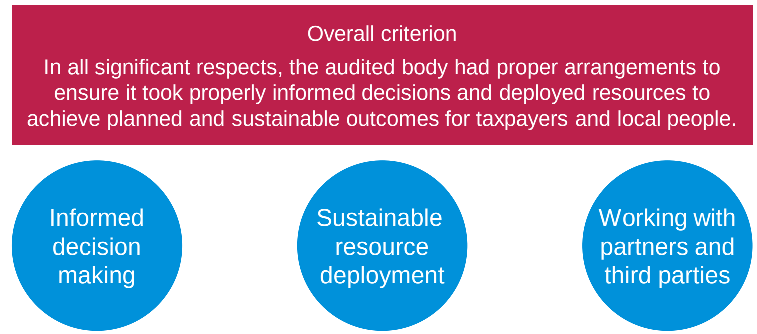
Background

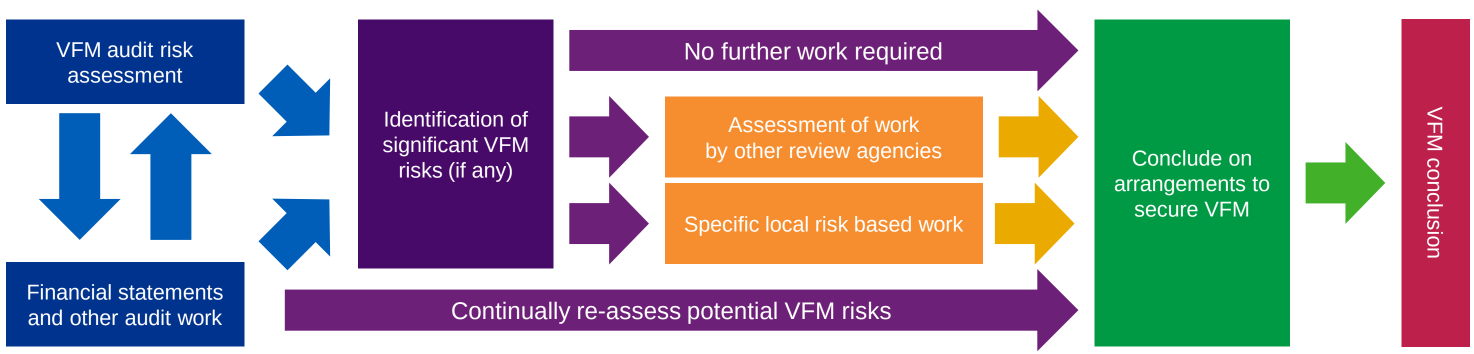
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.





Specific VFM Risks

We have completed our VFM risk assessment and carried out the planned work on the significant risks identified.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work on the identified significant risk

Key findings

In our *External Audit Plan* issued in March 2016 we reported that our initial risk assessment was ongoing but we had identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements were not in place to deliver value for money.

- Your concerns regarding the operation of the Serco support services contract; and
- Difficulties in monitoring your 2015/16 budget and shaping your medium term financial strategy.

We have worked with officers throughout the year to discuss these VFM risks. We have carried out the required additional work regarding your arrangements in these areas.

We are finalising our work on these significant factors, including completing our internal consultation on the form of VFM Conclusion required.

We will update the Audit Committee.at its meeting on the findings and conclusions from this work.

We expect to give the VFM conclusion at the same time as we give our audit opinion on the financial statements.

Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Independence and objectivity

Appendix 4: Audit fees

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up this recommendation next year.

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Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❶	**Change to financial and payroll systems** In April 2015 the Authority changed, under the new support services contract with Serco, its corporate financial system with SAP being replaced by Agresso. The Authority has reported significant issues with the operation of the Agresso system throughout the year, including major difficulties in: accurately processing the monthly payrolls; making timely and accurate payments through the accounts payable procedures; and accounting for transactions, and monitoring and reporting its financial performance due to problems with the operation of the general ledger. The Authority has been working with Serco throughout the year to establish effective controls to ensure there is a fully operational system platform and resolve historical processing errors. This work is still in progress. The weaknesses in the system controls and financial reporting arrangements in the year represented a significant audit risk for the Authority and Pension Fund financial statement. The Authority is continuing to review its arrangements and to address the residual issues faced.	

Follow up of prior year recommendations

The Authority has implemented the recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	2	**Review of Property, Plant and Equipment (PPE) uplifting exercise** We identified material errors in the accounts resulting from the annual asset value uplifting exercise. We found that: • Of the 596 school building related assets which had been uplifted, 517 had been uplifted with the incorrect index, of which 311 had been uplifted by an index of over 40%. • some school buildings had been omitted from the uplifting exercise. These included all Foundation Schools which had been brought onto balance sheet in year and PFI related schools. These errors should have been identified through officers' reasonableness checks on valuation movements. **Recommendation** The Authority should ensure there is a check on the annual indices based uplifting process to ensure that it has been applied accurately and completely. This should include a reasonableness check over the larger movements.	The error was corrected on discovery and the restated figures presented in the 2014/15 Statement of Accounts. An analytical review will be built into the working paper, this should flag significant variances for further targeted checking. Owner – Jackie Allen (Capital Accountant).	The recommendation has been implemented. No significant unexplained variances in the annual indexation were identified during our audit.

Follow up of prior year recommendations

The Authority has implemented the recommendations in our *ISA 260 Report 2014/15*.

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No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
2	2	**Revaluation process of Property, Plant and Equipment (PPE)** For 136 of the 624 revalued assets, the reassessed asset life had not had been updated into the Authority's fixed asset register, resulting in a £1.2m impact on the Authority's calculated depreciation charge. **Recommendation** To help officers in reviewing and processing asset valuations the Authority should consider implementing the following changes: • Request a final electronic schedule of all final asset valuations, alongside the individual hardcopy valuation certificates that are currently provided. The schedule should include an asset number, reassessed asset life and revalued amount. • Review all valuations and reassessed asset lives to ensure they are reasonable. This should be done by calculating the movement on each revalued asset and focusing on those items with the larger asset movements. • Once revaluations have been processed into the fixed asset register, there should be a review process to ensure that all revaluations and asset lives have been updated correctly into the asset register.	A process already exists for reviewing asset lives between accountancy and the valuation team – this ensures that all asset lives are reasonable and movements from previous valuations are considered. Due to staff availability and pressures from the implementation of Agresso this process was not fully undertaken in 2014/15. We will ensure that time is built into the close down process for 2015/16 to complete this work. The process using Agresso will change, and rather than entering changes on an individual asset we will be able to upload this data from the working papers – this should ensure all data is accurately and completely entered into the Asset Register. Owner – Jackie Allen (Capital Accountant).	The recommendation has been implemented. We did not identify any issues regarding the completeness and accuracy of the asset life information used in preparing the 2015/16 draft financial statements.

Follow up of prior year recommendations

The Authority has implemented the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
3	2	**Accounts Production Process** The accounts production process this year was carried out against a backdrop of implementing the new Agresso financial system which has placed significant additional pressure on the finance team. Some areas of the audit took longer to complete than originally planned and some of the additional information required from non-finance staff was difficult to obtain. Fully effective financial management and reporting arrangements have not been in place for the first half of 2015/16 and there have been difficulties in making accurate and complete payments to creditors and staff. These will require a higher than normal volume of in-year correcting entries in and the Authority needs to have effective arrangements for managing the clearance of the backlog of issues. **Recommendation** Finance staff should consider any lessons learned from this year's audit and the specific closedown processes and requirements of the Agresso system. Finance staff should hold early planning discussions with other staff engaged in the process and with external audit.	Planning for the 2015/16 close down will commence in October 2015. Full consideration needs to be given to the change in processes arising from the implementation of the new financial system and to ensure that all audit requirements can be met in a timely fashion. Owner – Claire Machej (Assistant Head of Finance (Corporate) and Corporate & Capital Team Leader)	The year-end closedown and accounts production process was, as expected, challenging for the accountancy team. The team strengthened the arrangements through, amongst other things: • Early planning and liaison (internally and with external audit). • Identifying, managing and monitoring significant issues identified through the team's closedown risk assessment. • Recruiting additional temporary staff to increase capacity for managing and carrying out the year-end processes. The Authority was able to publish a substantially complete set of financial statements very close to the 30 June 2016 deadline, although further work was required to complete all of the year-end school accounts reconciliation procedures. The 2016/17 closedown and accounts production should be much more straightforward given the increased knowledge of Agresso and its improved reliability in the year. We will continue to liaise with management as part of the planning for the 2016/17 audit.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified to date through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences arising from the audit work carried out to date.

Corrected audit differences

Based on the audit work carried out to date, there are no corrected material misstatements or corrected non material audit differences that we need to report to the Audit Committee.

The only significant amendments from the audit work to date were:

Authority Accounts

- Heritage Assets – increased by £6.8m to reflect a revised valuation methodology based on insurance valuations.

Pension Fund Accounts

- Investments/cash - the Pension fund holds a £1m cash float with the West Yorkshire Pension Fund which is used to pay pension benefits. This had been incorrectly included in Investments (cash deposits) rather than Current Assets.

A small number of presentational amendments, to correct rounding errors or improve cross-referencing, were also made to the statements.

Materiality and reporting of audit differences

For 2015/16 our materiality is £12m for the Authority's accounts. For the Pension Fund it is £16m.

We have reported all audit differences over £0.6m for the Authority's accounts and £0.8m for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2015/16*, presented to you in March, 2015.

Materiality for the Authority's accounts was set at £12m which equates to a little over one percent of gross expenditure.
We design our procedures to detect errors in specific accounts at a lower level of precision.

We design our procedures to detect errors at a lower level of precision, set at £8m million for 2015/16.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £16m which is approximately one percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £10m million for 2015/16.

An individual difference could normally be considered to be clearly trivial if it is less than £0.8m for the Pension Fund

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Lincolnshire County Council and the Lincolnshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Fees

Audit Fees

Our scale fee for the Authority's audit is £107,325 plus VAT (£143,100 in 2014/15), and £24,350 plus VAT for the Pension Fund (£24,350 in 2014/15). Our audit is still in progress and has included additional work in relation to the significant audit opinion and value for money conclusion risks summarised in this report. We will discuss with the Authority any additional fee required in relation to this work and keep the Audit Committee informed. In any event an agreed additional fee is subject to final determination by Public Sector Audit Appointments Limited. We will report the final agreed fee later in the year in our Annual Audit Letter.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	fee	Potential threat to auditor independence and associated safeguards in place
Accountant's report on the 2014/15 Teachers' Pension return	£4,000	**Self interest** – This engagement is entirely separate from the audit through a separate engagement letter. **Self review** – The nature of this work was to provide a Reporting Accountants' independent reasonable assurance report in connection with Teachers' Pensions return for the year ended 31 March 2015. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. **Management threat** – This does not apply and we will not be required to make any decisions on behalf of the Authority's management. **Familiarity** – This threat is limited given the scale, nature and timing of the work. **Advocacy** – We did not act as advocates for the Authority in any aspect of this work. **Intimidation** – not applicable
Skills Funding Agency (SFA) subcontracting arrangements 2015/16.	£5,000	**Self interest** – This engagement is entirely separate from the audit through a separate engagement letter. **Self review** – The nature of this work was to provide a report evaluating the design and operational effectiveness of the policies and procedures in place at the Authority intended to achieve compliance with the subcontracting requirements set out within the SFA's Funding Agreements and the funding rules 2015/2016. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. **Management threat** – This does not apply and we will not be required to make any decisions on behalf of the Authority's management. **Familiarity** – This threat is limited given the scale, nature and timing of the work. **Advocacy** – We did not act as advocates for the Authority in any aspect of this work. **Intimidation** – not applicable
Total fees from non-audit services	**£9,000**	
Total estimated fees as a percentage of the scale fees	**7%**	

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Lincolnshire
COUNTY COUNCIL
Working for a better future

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26 September 2016

Dear John

Lincolnshire County Council – Audit for the year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of Lincolnshire County Council ("the Authority") for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements of the Authority give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

   - give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

   - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

   - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

   - additional information that you have requested from the Authority for the purpose of the audit; and

   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Authority has disclosed to you all information in relation to:

      a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

         - management;
         - employees who have significant roles in internal control; or
         - others where the fraud could have a material effect on the financial statements; and

      b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.

11. The Authority confirms that:

   a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.

b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 26th September 2016.

Yours faithfully,

Chair of the Audit Committee

Executive Director for Finance and Public Protection

Appendix A to the Board Representation Letter of Lincolnshire County Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period.

For pension funds participating in the following pension schemes, pension fund accounts must be prepared by the local authority that administers the Pension Fund in accordance with the Code of Practice:

a) the Local Government Pension Scheme (in England and Wales)

For pension funds participating in the following pension schemes, pension fund accounts must be prepared:

a) the Firefighters' Pension Scheme for England

The financial statements of a defined benefit pension fund and of fire and rescue service authorities in England and Wales must contain:

a) A fund account disclosing changes in net assets available for benefits.
b) A net assets statement showing the assets available for benefits at the year end.
c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue, and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:

   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and

b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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