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External audit progress report

Page 201

Lincolnshire County Council

January 2016

This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

Page 202

PROGRESS REPORT	
Progress Report	3
APPENDICES	
Appendix 1 – Technical Update	6
Appendix 2 - Audit Deliverables 2015/16	9



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Progress report

This document provides the Audit Committee with a high level overview on our external audit planning.

At the end of each stage of the audit we issue certain

deliverables, including reports and opinions. A

summary of progress

against these deliverables is

provided in Appendix 2 of this report.

Audit Plan 2014/15

We are updating our risk assessments and completing our detailed planning to determine our audit plans for the Authority and the Pension Fund.

Financial statements audit – Lincolnshire County Council

In line with auditing standards, we will present our detailed annual plan to the Audit Committee in March 2016. This will highlight the key risks to our audit at the planning stage. Our plan will include our response to any issues identified through our risk assessment regarding:

- the accounting requirements for 2015/16, including relevant changes to the CIPFA guidance; and
- the closure of accounts process generally and our working paper requirements.

We have held initial discussions with managers to better understand the continuing significant issues with the operation of the Agresso system and to shape our audit approach. The known difficulties with Agresso means that our approach this year will be largely substantive rather than controls based testing. In February 2016 we expect to carry out our interim visit to review processes further, to assess the arrangements for preparing the financial statements, and to set up our planned data and analytics testing.

Value for Money Conclusion

We will also carry out our VFM conclusion risk assessment and assess your arrangements against the new criterion specified by the National Audit Office (issued in November 2015) for 2015/16 onwards. The assessment will now require us to conclude whether *in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people*. The NAO's guidance sets out sub-criteria that we need to consider in forming our conclusion. The sub-criteria cover the Council's arrangements for:

- *Informed decision making*
- *Sustainable resources deployment; and*
- *Working with partners and other third parties.*

We have included a link to the new guidance in our technical update included with this report (Appendix 2). We will discuss this new criterion, and the additional information required, with managers as part of the detailed audit planning work. We will discuss any specific significant risks to the VFM conclusion with Managers and highlight our planned response and any additional work required. The areas of focus will continue to include your arrangements for:



- managing the risks around your corporate support services and the operation of the Agresso financial system; and
- Managing your finances and shaping your medium term financial strategy

<p>Audit Plan 2014/15 (continued)</p>	<p>Governance, risk management and Internal Control</p> <p>We will continue to liaise with Internal Audit, and consider your assurance frameworks and your response to issues you identify throughout the year. We review your 2015/16 Annual Governance Statement for consistency with our understanding of your arrangements and issues identified.</p> <p>Financial statements audit - Lincolnshire Pension Fund</p> <p>In line with auditing standards, we will present our detailed annual plan to the Audit Committee in March 2016. This will highlight the key risks to our audit at the planning stage, including any changes to the accounting requirements for 2015/16, any concerns regarding the closure of accounts process generally and our working paper requirements. At this stage there are no specific significant audit issues that we need to bring to the Audit Committee's attention in this report.</p>		
<p>Audit fee update</p>	<p>At this stage the indicative audit fee remains the same as that notified to the Council in April 2015, that is £107,325 (£143,100 in 2014/15) for the Council's audit and £24,350 (£24,350 in 2014/15) for the Pension Fund. We will update the Audit Committee in March 2016 on any likely changes to the fee, and confirm the final fee later in the year in our Annual Audit Letter.</p>		
<p>Other work</p>	<p>In November 2015 we issued our Independent Accountant's 'Reasonableness Assurance Report' in relation to the Teachers' Pensions 2014/15 return. The fee for this work was £4,000.</p> <p>We are currently scoping a separate short engagement to carry out the work required to provide the Council with an external auditor's assurance report on your arrangements for managing and controlling education training provider subcontractors in 2015/16. This report is required, by the end of January 2016, under the funding agreement with the Skills Funding Agency. We will update the Committee on this work at its next meeting.</p>		
<p>Actions</p>	<p>We ask the Audit Committee to:</p> <ul style="list-style-type: none"> ▪ NOTE this progress report and technical update. 		
<p>Contacts</p>	<p>The key contacts in relation to our audit of the Council and the Pension Fund are:</p>		
	<p>John Cornett Director 07468 749927 John.cornett@kpmg.co.uk</p>	<p>Mike Norman Manager 07500 125105 Mike.norman@kpmg.co.uk</p>	<p>John Pressley Assistant Manager 07919 697377 John.pressley@kpmg.co.uk</p>



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Appendix 1

Area	Level of Impact	Comments	KPMG perspective
CIPFA Survey of Chief Financial Officers	 For information	<p>Confidence in councils' ability to keep delivering services amid ongoing government budget cuts has continued to fall sharply among chief financial officers (CFOs), according to a survey by the CIPFA published in November 2015. The survey found that:</p> <ul style="list-style-type: none"> • 49% were less confident in their ability to deliver services for 2016/17 than a year ago. The proportion of respondents who were less confident has increased from 41% of CFOs last year for 2015/16 and 27% for 2014/15. • 56% were less confident over their organisation's overall financial position for the next financial year (2016/17) – up from 44% for 2015/16 and 20% for 2014/15. • the services under the biggest pressure were considered to be adult social care (95% of respondents), children's social care (94%), environment and regulatory services (44%) and housing (37%). 	<p><i>The Committee should note the survey findings.</i></p>
Provisional Local Government Finance Settlement 2016/17	 High	<p>The provisional local government finance settlement for 2016/17 was issued on 17 December 2015, and sets out the distribution of centrally allocated resources for local authorities in England. Responses to the consultation are due by 15 January 2016, and the final settlement will be issued in February 2016.</p> <p>The key points are:</p> <ul style="list-style-type: none"> • Local authorities will see an average cut in funding of 2.8% in 2016/17, and a real terms cut of 6.7% over the spending review period. • The government will also offer any council that wishes to take this up a four-year funding settlement to 2019/20. This can provide funding certainty to enable longer term planning. • The referendum threshold for council tax increases is being set at 2%. As announced in the November 2015 spending review, the government is also giving authorities with social care responsibilities the flexibility to raise council tax in their area by up to 2% above the referendum threshold for each year between 2016/17 and 2019/20, to fund adult social care services. • A technical consultation on reforms to the New Homes Bonus is being published alongside the provisional local government finance settlement. • As announced in the spending review, by the end of the current Parliament local government will retain 100% of business rate revenues to fund local services. The system of tariffs and top-ups will be retained, and the main local government grant will be phased out and additional responsibilities devolved to local authorities. These changes will require legislation. The government will set up systems to involve councils, businesses and others in the process, and will consult on the implementation of the 100% business rates retention proposals in summer 2016. 	<p><i>The Committee may wish to enquire of officers how the Council is to respond to the provisional settlement.</i></p>

Area	Level of impact	Comments	KPMG perspective
<p>National Audit Office Value for Money Conclusion guidance</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 208</p>	<p style="text-align: center;">● Medium</p>	<p>The Local Audit and Accountability Act 2014 provides the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. In November 2015 the NAO published Auditor Guidance Note 03 covering auditors work on audited bodies arrangements for Value for Money.</p> <p>The guidance sets out:</p> <ul style="list-style-type: none"> • The general framework for the auditor's assessment, within the Act and the Code of Audit Practice • The expected areas of focus in determining whether the audited bodies' arrangements are adequate • The expected risk based audit approach and the reporting arrangements • Sector specific guidance for NHS and Foundation Trusts, CCGs, local government, police, fire and rescue and other bodies. The guidance also provides illustrative examples of the types of developments that auditors would be likely to consider to be 'significant risks' and sets out the actions they would be expected to take. <p>We will discuss the guidance with managers and report our findings to the Audit and Risk Committee.</p> <p>https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p>	<p><i>We will discuss the guidance with managers and report our findings to the Audit and Risk Committee.</i></p>



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Appendix 2

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Issued April 2015
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016 (for March 2016 Audit Committee)	TBC
Interim			
Interim progress report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	April 2016	TBC
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC



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