



External Audit: Progress Report and Technical Update

Lincolnshire County Council

Audit Committee – January 2017

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

The report also highlights some of the recent communications and other publications on the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

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.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact 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.

External audit progress report - December 2016

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.

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Commentary	
2015/16 Audit	<p>On 30 November 2016 we issued:</p> <ul style="list-style-type: none"> the auditor's report for 2015/16, including our unqualified audit opinion on your 2015/16 financial statements and the qualified Value for Money Conclusion. ; our report on the Authority's 2015/16 Whole of Government Accounts return. There were no adverse findings in our report to DCLG. our certificate, confirming that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice; <p>We have also issued our 2015/16 Annual Audit Letter as required by the National Audit Office's Code of Audit Practice.</p> <p>The 2015/16 scale audit fee set by PSAA for the Authority was £107,325 and for the Pension Fund was £24,350. We have applied to PSAA for additional fees of £14,052 and £2,097 for the audits of the Authority and Pension Fund respectively. This is to meet the additional costs of addressing the significant audit and VFM risks identified in the audit plan and the issues which emerged during the audits.</p>
2016/17 Audit	<p>We have commenced our planning work for the 2016/17 audit. The Audit Plan has been drafted and will be issued to management soon. We will share the agreed Audit Plan with the Audit Committee at its next meeting. There are no changes to the scope of our audit and the key members of the audit team are unchanged. At this stage the areas of focus and risk for the accounts opinion and VFM risks are likely to be similar to those in 2015/16 and include:</p> <ul style="list-style-type: none"> The Agresso system and the year-end closedown arrangements The SERCO support services contract The Authority's medium term financial outlook. <p>We expect to meet with members of the finance team in March 2017 at a finance training session to brief them on the external audit approach, working paper requirements and other specific issues for this year's audit.</p>
Other audit related work	<p>We met with the Pensions Board in December 2016 to brief members on the external audit work carried out and planned.</p> <p>We issued our Accountant's Report relating to the 2015/16 Teachers' Pension Return on 30 November 2016. There are no matters arising from that work that we need to bring to the Audit Committee's attention.</p> <p>We are currently discussing with managers the scope and timing of the likely 2017 review of the Authority's SFA Sub-contracting arrangements (the SFA is expected to confirm that a similar review to that in 2016 will be required). We will update the Audit Committee on this at its next meeting.</p>
Technical Update	<p>At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.</p>

Appendix 1 - Technical update - National Audit Office publications

Area	Comments
<p>Roundup for Audit Committees</p>	<p>This interactive round-up (published in October 2016) is designed to make it easy for Audit Committees, Boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations. The Round-up includes a focus on risk, summarising some of the learning points in NAO reports that provide particularly useful lessons for key aspects of risk management.</p> <p>The round-up will normally be published each autumn and spring and look back over six months. As the inaugural edition, this publication highlights NAO reports published over the last year, including an introduction by Sir Amyas Morse, Comptroller and Auditor General.</p> <p>The NAO's full report can be found at:</p> <p>https://www.nao.org.uk/wp-content/uploads/2016/10/Round-up-for-audit-committees.pdf</p>
<p>Overview of Local Government and DCLG</p>	<p>The NAO has recently published two overviews drawing on their recent work in the local government sector which may be of interest to Audit Committee members.</p> <p>Overview: Local government (November 2016)</p> <p>This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as the NAO's work with local authorities. It covers:</p> <ul style="list-style-type: none"> • how local government is constituted and funded; • together with its spending; • findings from NAO's work on local government; and • a look ahead to the coming year for local government. <p>The report can be found via the following link:</p> <p>https://www.nao.org.uk/report/overview-local-government/</p> <p>Departmental Overview 2015-16: Department for Communities and Local Government (November 2016)</p> <p>This Departmental Overview looks at the Department for Communities and Local Government and summarises its performance during the year ended March 2016, together with NAO's recent reports on it.</p> <p>This guide is designed to provide a quick and accessible overview of the Department and focuses in particular on where NAO believe the Department's performance could be improved, using examples from its published work. It covers:</p> <ul style="list-style-type: none"> • the department's responsibilities and how it spends its money; • financial management; • reported performance; and • issues identified in NAO reports. <p>The report can be found via the following link:</p> <p>https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/</p>

Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p>The Commercial Imperative</p>	<p>This July 2016 report published by Civica, in partnership with CIPFA, outlines the need for councils to improve their commercial skills and seek new income streams in order to close the current funding gap. The report explores the role of commercialisation as a way for authorities to tackle current financial challenges, become self-sufficient and provides step-by-step guidance on how to find the right path to achieve a sustainable commercial model.</p> <p>Independent research spanning 45 local authorities found that:</p> <ul style="list-style-type: none"> • 40% of local authority leaders say commercialisation plays some part in their current strategy, however, only 4% of public sector CEOs and CFOs say they have significant commercial expertise • positive progress is being held back by a lack of understanding of what the market needs (36%) and concerns about the risks involved (56%) • a restrictive culture (40%) and discomfort about new models (56%) is also having an impact • those with a commercial strategy say commercialisation gives them more control over developments in the community, builds closer relationships with the people they serve and supports the creation of new jobs. <p>Following increased financial uncertainty and another tough financial settlement for councils in England, where government grants have been cut by 25% and organisations are expected to be financially self-sufficient by 2020, local authorities are looking beyond service reduction towards commercialising services. While commercialised approaches and options are plentiful, finding the right strategy that delivers genuine returns is a task that few local authorities have found easy.</p> <p>The report outlines critical success factors influencing commercial journeys, four ways to generate revenue and six practical steps to help local authority leaders build a sustainable commercial model.</p> <p>http://www.cipfa.org/policy-and-guidance/reports/civica-the-commercial-imperative</p>

Appendix 1 - Technical update - CIPFA publications

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Area	Comments
<p>Understanding Local Authority Financial Statements</p>	<p>CIPFA and CIPFA/LASAAC have published 'Understanding Local Authority Financial Statements' (previously How to Tell the Story) as a part of its programme of changes under its Telling the Story Review.</p> <p>This publication is intended to help chief finance officers and other senior staff to present the financial statements to members and other key stakeholders by explaining how the formats can be used to convey key information in these areas and covers the main financial statements.</p> <p>It also features the changed formats of the financial statements from the 2016/17 Code and discusses the new Expenditure and Funding Analysis.</p> <p>CIPFA and CIPFA/LASAAC are clear that the financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used.</p> <p>A key to achieving the aims of the changes brought about by the review will be to use the information not just in the narrative section of the financial statements to explain performance during the year, but more widely to all stakeholders, including elected members as citizens' representatives, in a range of formats and media to provide a definitive position on financial performance. Local authorities are also urged to look to their balance sheets as a part of this explanation and the key messages that can be drawn out.</p> <p>The publication can be found on CIPFA's website via the following link:</p> <p>http://www.cipfa.org/~media/files/policy%20and%20guidance/boards/cipfa%20lasaac/understanding_lafs_v6.pdf?la=en</p>

Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p>Update to the 2016-17 Code of Practice on Local Authority Accounting in the United Kingdom</p>	<p>Following its decision to postpone implementation of the new measurement requirements for the Highways Network Asset until the 2017/18 year, CIPFA/LASAAC has issued this January 2017 Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).</p> <p>CIPFA/LASAAC's November 2016 announcement to postpone the new requirements was based on delays in the process of reviewing and confirming the up to date Gross Replacement Cost rates authorities were to use nationally.</p> <p>The Update to the 2016/17 Code reverses the previous implementation provisions for the new measurement requirements in the 2016/17 Code. References to the Highways Network Asset will no longer apply for the 2016/17 year. This will mean that the infrastructure class of assets for 2016/17 will continue to be accounted for as in previous years – that is, at depreciated historical cost (and it will include the components of the Highways Network Asset).</p> <p>CIPFA/LASAAC will review the decision on implementation at its meeting in March 2017 with a view to implementation in 2017/18. In making its decision in March CIPFA/LASAAC will be looking to ensure that central Gross Replacement Cost rates and central assurance processes will be delivered in a timely manner to allow successful implementation. The announcement will be made following its March meeting on the CIPFA/LASAAC webpages and communicated via Treasurers' Societies. The January 2017 update to the 2016/17 Code also includes those changes introduced by statutory provisions after the 2016/17 Code was published, ie:</p> <ul style="list-style-type: none"> - the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English housing authorities, and - the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. <p>The publication can be found on CIPFA's website via the following link:</p> <p>http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/ifrsbased-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-the-code</p>

Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p>CIPFA Annual Chief Financial Officer Survey</p>	<p>In December 2016 CIPFA published the results of its annual CFO confidence survey. The survey found that CFOs of English councils claim adult and children’s social care services are facing the most significant budgetary pressures in comparison to other services.</p> <p>When asked which three areas are under the greatest budget pressures, 86% of CFOs identified adult social care, with virtually the same percentage also naming children’s social care (85%).</p> <p>CIPFA reported that this came as reports indicate the government is set to encourage local authorities in England and Wales to raise the social care precept even further to boost adult and children’s services. CIPFA questions whether the precept is the fairest solution to the funding shortfall.</p> <p>The survey also reveals that CFOs are significantly less confident in the ability of their council to keep delivering services in the next financial year in comparison to this year. Thirty-eight percent of CFOs are ‘less confident’ in their organisation’s ability to deliver services in 2017/18, compared to 15% for 2016/17.</p>
<p>Other CIPFA publications</p>	<p>In recent months CIPFA has issued guidance covering the following topics which are relevant to the authority:</p> <ul style="list-style-type: none"> • 2016/17 Accounts – CIPFA has published Guidance Notes for Practitioners for the Code on LA Accounting, and example accounts and disclosure checklist for the LGPS Accounts • Local Authority Capital Accounting – a reference manual for practitioners • The Guide to Local Government Finance (2016 edition) • A Practical guide to Alternative Models - This guide gives clear explanations of the different types of alternative models and vehicles, their structures and frameworks • Investment Pooling Governance Principles for LGPS Administering Authorities - this guidance to supports authorities in demonstrating best practice governance during the implementation of and when participating in, LGPS asset pooling arrangements. • Property Asset Valuation: A Handbook for Property and Finance Professionals in Local Authorities (2016 Edition) - this examines complex issues surrounding local authority property assets including classification, valuation and component accounting. This new edition provides guidance around the requirements of IFRS 13 for property asset valuations.

Appendix 1 - Technical update - NAO/CIPFA publications

Area	Comments
<p>'Financial Sustainability of Local Authorities' and 'National Treasury Risk Study'</p>	<p>In June 2016 the National Audit Office (NAO) published its report to the Department for Communities and Local Government (DCLG) into the financial sustainability of local authorities: capital financing and resourcing. Since the demise of the Audit Commission this is the first report providing a national perspective on the state of the financial health of local authorities.</p> <p>Their report considers the capital spending and resource implications over the same period and has some expected and more surprising findings. Despite the fall in revenue resources, capital grants over the same period actually increased albeit by 0.2% and the use of other capital resources such as capital receipts has also increased.</p> <p>The major issue around capital financing has been minimising the impact on revenue spending. The report is complimentary of the approaches taken by authorities using prudent treasury management strategies to minimise external borrowing and reviewing MRP (Minimum Revenue Provision). The use of internal borrowing has avoided revenue interest payments and minimised investment cash balances.</p> <p>The report also looks at the role of DCLG in overseeing the systems in place to ensure sustainability and overall concludes that 'assurance' can be taken from the capital framework based upon CIPFA's Prudential Code. However, there are areas where DCLG can improve performance particularly around identifying issues and trends in the sector. Concerns are raised that with the inevitable focus on short-term revenue pressures some decisions such as changing MRP policies and reducing maintenance programmes may not prove to be prudent decisions in the longer term.</p> <p>In order to help the sector and DCLG, CIPFA re-launched its National Treasury Risk Study on 30 September 2016. Aimed at all local authorities the Risk Study provides objective quantification of an authority's treasury position set against the best practice CIPFA treasury risk framework. The analysis is carried out based on portfolio positioning, the latest balance sheet position and projected spending plans. The results are to be provided to each authority free of charge and will set individual positions and risk strategies against participating peers. The results will also be shared with DCLG to aide with their identification of long term trends within the sector. CIPFA encouraged all authorities to participate to enhance their own decision making and benefit all stakeholders in the sector.</p> <p>NAO's full report and CIPFA's survey can be accessed via the links below:</p> <p>https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</p> <p>http://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report/risk-management-study</p>

Appendix 1 - Technical update - NAO and PSAA publications

Area	Comments
<p>Updated Guidance to Auditors</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. To support auditors in their work and facilitate consistency of approach between auditors NAO publishes a series of Auditor Guidance Notes (AGNs). Auditor guidance notes, and supporting information (where relevant) published on the NAO's website:</p> <p>https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>In December 2016 the NAO updated:</p> <ul style="list-style-type: none"> • <i>Auditor Guidance Note 1 (AGN 01) – General Guidance.</i> This is relevant to all auditors of local bodies. It sets out the overall framework for issuing guidance and for providing other support to local auditors. AGN 01 explains the status of statutory guidance issued by the NAO on behalf of the C&AG. It also explains that the NAO issues supporting information and describes arrangements for engagement between the NAO and auditors. There continues to be a section in the AGN on co-operation between local auditors and a section on whistle-blowing. The AGN also continues to set out the protocol that auditors should follow when dealing with technical and legal queries. The main revision to the AGN is to update explanatory and supplementary guidance on meeting the requirements in the <i>Code of Audit Practice</i> to safeguard integrity, objectivity and independence in the conduct of local audit. • <i>Auditor Guidance Note 7 (AGN 07) – Auditor Reporting.</i> This is relevant to all local auditors of bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code) including auditors of foundation trusts. The updated AGN 07 reflects some minor consequential changes arising from revisions to AGN 01, and to refer to NHS Improvement instead of Monitor where relevant.
<p>Report on the results of auditors' work 2015/16: local government bodies</p>	<p>This Public Sector Auditor Appointments (PSAA) December 2016 report summarises the results of auditors' work at 497 principal bodies and 9,756 small bodies for 2015/16. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.</p> <p>PSAA concluded that the timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations. PSAA's report can be accessed via the link below:</p> <p>http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/</p>

Appendix 1 - Technical update - DCLG and Home Office

Area	Comments
<p>The provisional 2017-18 local government finance settlement</p>	<p>In December 2016 DCLG published the provisional settlement. The publication set out DCLG’s proposals for:</p> <p><u>The distribution of central resources</u> – it outlines:</p> <ul style="list-style-type: none"> the second year of the multi-year settlement offer for those councils that accepted the Government’s offer, and arrangements for those that did not the reforms to the New Homes Bonus, following consultation earlier this year the introduction of an Adult Social Care Support Grant to be funded from additional savings from the New Homes Bonus in 2017-18 the confirmed approach to distributing funding through the Better Care Fund and the allocation methodology. <p><u>Changes to local resources</u> - including:</p> <ul style="list-style-type: none"> the Government’s proposals for the council tax referendum principles for 2017-18. changes to the approach for adjusting Business Rates (BR) tariff and top ups to manage the impact of the 2017 BR revaluation on local authorities’ income confirmation of the methodology, for the final settlement, for calculating amongst other things the agreed changes in the local share of retained BR confirmation of the mechanism for voluntary transfer of funding between the Mayoral Combined Authority and constituent authorities <p>The consultation period ended 13 January 2017.</p>
<p>Organised Crime Procurement Pilot Report</p> <p>Page 243</p>	<p>The Home Office has produced an <i>Organised Crime Procurement Pilot Report</i>, which has been circulated to all local authorities, police forces and police and crime commissioners in England and Wales. The report provides findings from pilot studies it has undertaken on the threat that serious and organised crime poses to publicly procured services in local authorities and how to respond to that threat. The report estimates that of the £2.1 billion of local government fraud in 2013, £876m related to procurement fraud. Local government spent around £60 billion on procurement (excluding central services) in 2014-15, so this area is considered to be attractive to serious and organised criminals.</p> <p>The pilots indicated the sectors most at risk were waste services, taxi/transport services and low value spending (generally payments in the hundreds of pounds and in schools for property maintenance services). These sectors can be more vulnerable because they are predominantly cash-based businesses; enable high-value cash transactions; can have market domination within geographical areas; have predictable returns or high levels of potential profit; and present opportunities to launder cash by, for example, acting as a ‘front’ company. Local authority taxi contracts were identified as being at particular risk. The main focus of those contracts is to provide transport for some of the most vulnerable members of society, and criminal groups can use taxis to gain access to the vulnerable.</p> <p>The Home Office is recommending that local authorities share the report and its findings with senior management teams to raise awareness among those responsible for procurement, finance, fraud investigation, internal audit and licensing. The Home Office recommends that authorities liaise with the police as well organised crime local multi-agency partnership groups in order to identify the greatest areas of risk.</p> <p>The report includes suggestions to strengthen arrangements, and in addition, the Home Office has also produced tools to both raise awareness and protect and reduce vulnerability:</p> <ul style="list-style-type: none"> <u>A Serious and Organised Crime Checklist</u> - this enables local authorities to quickly assess their serious and organised crime risks within their organisation. <u>A Serious and Organised Crime Audit</u> - a more developed methodology that allows local authority internal audit teams to scrutinise business operations to establish where there may be vulnerabilities.

Appendix 1 - Other publications

Area	Comments
Care Quality Commission – State of Care	<p>Demands are increasing on health and social care. On 13 October 2016 the Care Quality Commission (CQC) published 'State of Care', which is its annual overview of health and social care in England and looks at the trends, highlights examples of good and outstanding care, and identifies factors that maintain high-quality care.</p> <p>The CQC found that most services provide people with good care, but variation exists. Some care services are closing, increasing pressure on other services including GP practices and hospitals. Strong leadership and collaboration will be important to ensure services improve and quality is maintained.</p> <p>This year's report provides a comprehensive view ratings from the CQC's expert-led inspections. Their inspections have found that many health and care services in England are providing good quality care despite a challenging environment, but that substantial variation remains.</p> <p>The report can be found at the following link: http://www.cqc.org.uk/content/state-of-care</p>



kpmg.com/socialmedia



kpmg.com/app



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