



External Audit: Progress Report and Technical Update

Lincolnshire County Council

Audit Committee – March 2017

Contents

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Page

Report sections

— External audit progress report 3

Appendix

1. Technical Update 4

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 - March 2017

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.

Page 75

Commentary	
<p>2016/17 Audit</p>	<p>We have completed our planning work for 2016/17 and the Audit Plan for the County Council and Pension Fund audits is on the March 2017 Audit Committee's agenda. There are no changes to the scope of our audit and the key members of the audit team are unchanged. The areas of focus and risk for the accounts opinion and VFM risks are 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>Specific additional risks for 2016/17 include the arrangements for managing the pension fund triennial valuation, and the disclosure and reporting changes introduced by this year's CIPFA Code on Local Authority Accounting.</p> <p>The Pension Fund interim audit was carried out at the beginning of March 2017 and there are no matters of concern at this stage that we need to report to the Committee.</p> <p>The County Council interim audit is scheduled for the last week in March and we will update the Audit Committee at its next meeting on any matters arising.</p> <p>The final accounts visits for the County Council and Pension Fund audits have been scheduled for July 2017.</p> <p>We delivered a year-end accounts workshop to our East Midlands Local Government clients at Leicester on 15 March 2017, which was attended by the Council's finance team. We are 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>
<p>Other audit related work</p>	<p>The Skills Funding Agency (SFA) has now issued the guidance for the scope and timing of their required review of sub-contracting arrangements. There are no significant changes to the approach in 2016 and the deadline for the work is the end of May 2017. We are firming up the engagement arrangements with managers and expect to start the work towards the end of April 2017.</p>
<p>Technical Update</p>	<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 - NAO publications

Area	Comments
<p>NAO Report – Health and Social Care Integration</p>	<p>In this 8 February 2017 publication the NAO warns that progress with integration of health and social care has, to date, been slower and less successful than envisaged and has not delivered all of the expected benefits for patients, the NHS or local authorities. As a result, the government’s plan for integrated health and social care services across England by 2020 is at significant risk.</p> <p>In the face of increased demand for care and constrained finances, while the Better Care Fund (BCF), the principal integration initiative, has improved joint working, it has not yet achieved its potential. The BCF has not achieved the expected value for money, in terms of savings, outcomes for patients or reduced hospital activity, from the £5.3 billion spent through the Fund in 2015-16.</p> <p>Nationally, the BCF did not achieve its principal financial and service targets over 2015-16, its first year. Planned reductions in rates of emergency admissions were not achieved, nor did the Fund achieve the planned savings of £511 million. Compared with 2014-15, emergency admissions increased by 87,000 against a planned reduction of 106,000, costing £311 million more than planned. Furthermore, days lost to delayed transfers of care increased by 185,000, against a planned reduction of 293,000, costing £146 million more than planned.</p> <p>The BCF has, however, been successful in incentivising local areas to work together; more than 90% of local areas agreed or strongly agreed that delivery of their plan had improved joint working. Local areas also achieved improvements at the national level in reducing permanent admissions of people aged 65 and over to residential and nursing care homes, and in increasing the proportion of older people still at home 91 days after discharge from hospital into reablement or rehabilitation services.</p> <p>The NAO reports that there is general agreement across the health and social care sectors that place-based planning is the right way to manage scarce resources at a system-wide level. However, local government was not involved in the design and development of the NHS-led sustainability and transformation planning programme. Local authorities’ engagement in the planning and decision making phase has been variable, although four sustainability and transformation planning areas are led by local authority officials.</p> <p>The DoH and the DCLG have identified barriers to integration, such as misaligned financial incentives, workforce challenges and reticence over information sharing, but are not systematically addressing them. Research commissioned by the government in 2016 concluded that local areas are not on track to achieve the target of integrated health and social care by 2020.</p> <p>The report also found that NHS England’s ambition to save £900m through introducing seven new care models may be optimistic. The new care models are as yet unproven and their impact is still being evaluated. According to the NAO, while the Departments and their partners have set up an array of initiatives examining different ways to transform care and create a financially sustainable care system, their governance and oversight of the initiatives is poor. The Integration Partnership Board only receives updates on progress of the BCF with no reporting from other integration programmes.</p> <p>In addition, the NAO found no compelling evidence to show that integration in England leads to sustainable financial savings or reduced acute hospital activity. While there are some good examples of integration at a local level, evaluations have been inhibited by a lack of comparable cost data across different care settings, and difficulty tracking patients through different care settings. The NAO reiterates its emphasis from its 2014 report on the Better Care Fund that there is a need for robust evidence on how best to improve care and save money through integration and for a co-ordinated approach.</p> <p>The report can be found at the following link: https://www.nao.org.uk/wp-content/uploads/2017/02/Health-and-social-care-integration.pdf</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Local Support for People with Learning Disabilities	<p>On 3 March 2017, the NAO published a report on <i>Local Support for People with a Learning Disability</i>. The report examines how NHS in England and local authorities seek to improve the lives of the 129,000 people aged 18 to 64 who use local authority learning disability support services.</p> <p>The report highlights the good progress made by the Department of Health and NHS England in setting up a programme to close hospital beds for people with a learning disability, but concludes that the programme is not yet on track to achieve value for money. The programme partners have yet to resolve a number of complex challenges if they are to achieve the ambition of a substantial shift away from reliance on inpatient care.</p> <p>Between £135 million and £195 million annually will need to be made available to pay for health and social care support in the community for people with learning disabilities discharged from mental health hospitals. Unless more funding is made available for local services, this will be an unfunded pressure on the budgets of local authorities and clinical commissioning groups (CCGs). NHS England has recognised that it will take time for funding to move from hospitals to community support. To help in the short-term, it has provided £30 million revenue funding over three years, to be match-funded by partnerships, and £100 million of capital funding.</p> <p>The report can be found at the following link: https://www.nao.org.uk/report/local-support-for-people-with-a-learning-disability/</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
<p>NAO Report – Capital Funding for Schools</p>	<p>In this February 2017 report NAO point out that The Department for Education, working with local authorities and schools, has created a large number of new school places and is making progress in improving schools in the worst condition, but significant challenges remain.</p> <p>Between 2010 and 2015, the Department and local authorities created 599,000 new school places at a cost of £7.5 billion, mostly in good or outstanding schools, enabling them to meet the growing demand for places. The Department has also improved how it estimates the need for school places, collecting more localised forecasts of pupil numbers, and allocates money more closely according to need.</p> <p>Pupil numbers are continuing to grow and the demand for places is shifting to secondary schools where places are more complex and costly to provide as they require specialised facilities, such as science laboratories. NAO’s report found indicators of pressure on school places in some local areas, with large amounts of spare capacity elsewhere. Nationally, in 2016, 10 per cent of primary places and 16 per cent of secondary places were unfilled. Some spare capacity is needed to allow parents to exercise choice. This spare capacity does not, however, mean that all areas have enough places, with particular pressure in London and the South East.</p> <p>According to the NAO, the expected deterioration in the condition of the school estate is a significant risk to long-term value for money. Responsibility for maintaining the condition of school buildings is devolved to schools, multi-academy trusts and local authorities. The Department’s property data survey estimates it would cost £6.7 billion to return all school buildings to satisfactory or better condition, and a further £7.1 billion to bring parts of school buildings from satisfactory to good condition. The most common major defects are problems with electrics and external walls.</p> <p>While the Department cannot yet assess reliably how the condition of the school estate is changing over time, it estimates that the cost of dealing with major defects in the estate will double between 2015-16 and 2020-21, even with current levels of funding, as many buildings near the end of their useful lives. Much of the school estate is over 40 years old, with 60% built before 1976.</p> <p>Free schools were introduced to introduce innovation, offer parents more choice and help improve the quality of education through competition between schools. They are also playing an increasingly important role in addressing demographic need for new school places. In some areas, however, free schools are creating spare capacity which may have implications for schools’ financial sustainability. The Department plans to open 500 new free schools between May 2015 and September 2020 but the biggest risk to delivering these schools is the availability of suitable sites. A lack of suitable land means that the Department sometimes enters into complex commercial agreements and pays large sums to secure sites in the right places. The NAO found that while the average cost of the 175 sites bought by the Department is £4.9 million, 24 sites have cost more than £10 million, including four that have cost more than £30 million. To help secure free school sites quickly and at the best price the Department is setting up a property company.</p> <p>The report can be found at the following link: https://www.nao.org.uk/report/capital-funding-for-schools/</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Local Support for People with Learning Disabilities	<p>This February 2017 report looks at the chain of events which led to the government paying £711m in compensation to 34,000 pensioners who retired from the Police and Firefighters’ Pension Schemes between 2001 and 2006 without receiving their full pension entitlement. Due to the extent of the legal process in the case, some police and firefighters were retired for over 15 years before they received their full pension entitlement from government.</p> <p>It found that the government failed to understand its obligations for the oversight of key factors that translated annual pension payments to lump sums, resulting in payments totalling £711m covering 34,000 pensioners.</p> <p>The initial query about the appropriateness of the 2001 to 2006 commutation factors was raised by the Office of the Deputy Prime Minister now known as DCLG, in 2002. During the period this issue arose, there was a lack of independent oversight of the schemes by parties outside government or representation from scheme members. This was addressed in April 2015 through the introduction of pension boards with independent oversight and representation from pension scheme members.</p> <p>GAD has reviewed its funding mechanisms and internal controls to ensure its statutory duties, such as the review of commutation factors, are clearly understood and discharged. GAD’s revised controls, together with the updated approach to governance of government pension schemes, are designed to provide a more rigorous approach to ensuring that scheme regulations are considered sufficiently in future cases of this nature.</p> <p>The report can be found at the following link:</p> <p>https://www.nao.org.uk/report/investigation-into-police-and-firefighters-pension-scheme-commutation-factors/</p>

Appendix 1 - Technical update - CIPFA publications

Area	Comments
Statement by CIPFA/LASAAC on the Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities	<p>At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board's press release states:</p> <p>"The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.</p> <p>The Board recognises the work undertaken by accounts preparers, auditors and highways engineers in preparing for the planned changes and would encourage continued improvement of the management of the highways network asset through better inventory and cost information".</p>

Appendix 1 - Technical update - CIPFA/IFG publications

Area	Comments
<p>CIPFA/institute for Government Performance Tracker Report</p>	<p><i>Performance Tracker</i>, published 28 February 2017 by the Institute for Government (IfG) and CIPFA (the Chartered Institute of Public Finance and Accountancy), finds that until recently the government managed to maintain the quality of public services while controlling spending. The report states though that <i>“government’s own data clearly shows its original approach had run out of steam by 2015”</i>.</p> <p>The report uses government data to examine five key public services: hospitals, adult social care, police, prisons and schools. It says the government now risks bouncing from spending crisis to crisis, against the backdrop of contentious Brexit negotiations.</p> <p>The report states that:</p> <p><i>Adult social care and hospitals are being pushed to breaking point and, in the case of prisons, beyond it. The pressures are easy to identify: People routinely wait longer for critical hospital services such as A&E and cancer treatments.</i></p> <p><i>Delays in transferring people from hospitals into social care have risen by 40% since 2014.</i></p> <p><i>Violence in prisons has risen sharply since 2014, with assaults on staff rising by 61% in two years.</i></p> <p>The report makes several recommendations, including that assumptions behind spending decisions should be subject to independent scrutiny. <i>“Governments of all shades have long promised to transform public services but these ambitions have never truly been realised”</i>.</p> <p>To counter this, the report suggests government should consider creating an “Office for Budget Responsibility (OBR) for public spending”, to help embed efficiency within public sector decision making and prevent wishful thinking.</p> <p>The report and a recording of its launch can be seen at the following links:</p> <p>http://www.cipfa.org/~/-/media/files/publications/reports/performance-tracker-final-web.pdf?la=en</p> <p>https://livestream.com/accounts/5208398/events/6986204</p>



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