



# External Audit: Progress Report and Technical Update

**Lincolnshire County Council**

Audit Committee – June 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](http://www.psa.co.uk)).

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

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# External audit progress report - June 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.

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Commentary	
<b>2016/17 Audit</b>	<p>We presented the draft 2016/17 audit plan for the external audit of the Authority and the Lincolnshire Pension Fund to the March 2017 Audit Committee. We have continued to liaise with management on the significant financial and operational issues at the Council.</p> <p>The Pension Fund interim audit was carried out at the beginning of March 2017 and there are no matters of concern that we need to report to the Committee. We have further work in progress regarding the normal IAS19 reporting arrangements which we expect to complete in August 2017.</p> <p>The County Council interim audit was carried out during March and April 2017. We found a general improvement, compared to last year, in the framework of controls in place and in the arrangements for financial monitoring and reporting. Payroll system controls continue to be a area of concern and we expect our audit approach to this to again be largely substantive. There are two areas of planned interim work which are still in progress:</p> <ul style="list-style-type: none"> <li>• review of Agresso general IT controls - the Council and Serco are working to provide the outstanding information requested by our IT audit specialists. We expect this work to be complete by the end of June 2017</li> <li>• payroll and Accounts Payable data and analytics work – we are working through the data already provided by the Council and Serco and have requested further information. We expect to complete this work before we start the main audit visit at the end of July 2017.</li> </ul> <p>Our work over the coming quarter will include:</p> <ul style="list-style-type: none"> <li>• ongoing liaison with finance staff and Internal Audit and further meetings with senior officers as part of the audit process to better understand the current and longer term issues that the council is addressing;</li> <li>• liaising with internal audit;</li> <li>• starting our final accounts audits. The Pension fund and County Council audits are planned to start 3 and 31 July 2017 respectively; and</li> <li>• revisiting our VFM conclusion risk assessment and forming our VFM conclusion for 2016/17.</li> </ul> <p>The results of our audit will be reported to the September 2017 Audit Committee.</p>
<b>Other audit related work</b>	<p>In May 2017 we completed our planned review of the systems and controls in place at the Council to manage subcontractors delivering education and training funded by the Skills Funding Agency in 2016/17. We issued our assurance report on 24 May 2017.</p>
<b>Technical Update</b>	<p>At Appendix 1 we have provided a technical update on a small number relevant reports and publications by the National Audit Office and CIPFA which have been issued in recent months.</p>

# Appendix 1 - Technical update - NAO publications

Area	Comments
<p>Planning for 100% retention of Business Rates</p>	<p>In March 2017 NAO published a report on <i>Planning for 100% local retention of business rates</i>. The report finds that the Department for Communities and Local Government (DCLG) has made good progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.</p> <p>DCLG's core objectives for the scheme, due to start in 2019/20, are to drive local economic growth, and to promote financial self-sufficiency for English local government. The NAO report, however, raises questions as to whether DCLG's current planning approach is best configured to deliver a scheme capable of meeting those objectives fully.</p> <p>By allowing local authorities to retain 100% of business rates, DCLG hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The report finds that these issues have not been fully examined in DCLG's work to date. Crucially, DCLG has not looked in detail at whether the current scheme, in which authorities retain 50% of business rates, has promoted pro-growth behaviour in authorities.</p> <p>DCLG is promoting financial self-sufficiency in the sector through the 100% local retention scheme in the context of a long-term reduction in local authority funding. DCLG is reviewing the relative distribution of funding in the sector through a Fair Funding Review, but there is not scheduled to be a Spending Review in which the absolute level of funding in the sector is reviewed, until after the 100% scheme is operational. In this context, the report highlights the risk of implementing a 100% local rates retention scheme that might be technically sound but lacks sufficient funding for the sector to deliver its statutory functions.</p> <p>The report recognises that DCLG is managing a complex project, involving extensive sector engagement, and made good progress. The NAO, however, found clear risks to the timely delivery of the 100% scheme. Many significant and challenging issues remain outstanding, such as delivering the Fair Funding Review. Some slippage on meeting milestones to date, constraints on DCLG's resources, and DCLG's intention to concentrate important decisions in a short space of time towards the end of the timetable create the potential for pressure in the late stages of the project. The NAO highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested. The report also stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.</p> <p>A copy of the report can be found on the NAO website at <a href="http://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates">www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates</a></p>

# Appendix 1 - Technical update - NAO publications

Area	Comments
Protecting information across Government	<p>This May 2017 report highlights some issues relevant in light of the malware cyber-attack on 12 May. It sets out the increasingly complex challenge of protecting information while re-designing public services and introducing the technology necessary to support them.</p> <p>According to the NAO, too many bodies with overlapping responsibilities operate in the centre of government, confusing departments about where to go for advice. As at April 2016, at least 12 separate teams or organisations in the centre of government had a role in protecting information, many of whom produce guidance. While the new National Cyber Security Centre (NCSC) will bring together much of government's cyber expertise, in the NAO's view, wider reforms will be necessary to further enhance the protection of information.</p> <p>As accountability for information security is devolved to departments, government does not currently collect or analyse its overall performance in protecting information on a routine basis. This means it has little visibility of information risks in each department and has limited oversight of the progress departments are making to better protect their information.</p> <p>Reporting personal data breaches is chaotic, with different mechanisms making departmental comparisons meaningless. In addition, the Cabinet Office does not have access to robust expenditure and benefits data from departments, in part because they do not always collect or share such data. The Cabinet Office has recently collected some data on security costs, though it believes that actual costs are 'several times' the reported figure of £300 million.</p> <p>Some departments have made significant improvements in information governance, but most have not given it the same attention as other forms of governance. The Cabinet Office does not currently provide a single set of standards for departments to follow, and does not collate or act upon those weaknesses it identifies.</p> <p>In the context of a challenging national picture it has been difficult for government to attract people with the right skills. The government established a security profession in 2013, and has undertaken some initial work to establish professional learning and development. Demand for skills and learning across government is growing and is likely to continue to grow. According to the NAO, plans to cluster security teams may initially share scarce skills, but will not solve the long-term challenge.</p> <p>According to the NAO, the Cabinet Office is taking action to improve its support for departments, but needs to set out how this will be delivered in practice. The NAO recommends that to reach a point where it is clearly and effectively coordinating activity across government, the Cabinet Office must further streamline the roles and responsibilities of the organisations involved, deliver its own centrally managed projects cost-effectively and clearly communicate how its various policy, principles and guidance documents can be of most use to departments.</p> <p>The report can be found at the following link:  <a href="https://www.nao.org.uk/report/protecting-information-across-government/">https://www.nao.org.uk/report/protecting-information-across-government/</a></p>

# Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p><b>Reality Check: Next steps in developing Sustainability and Transformation Plans</b></p>	<p>The NHS planning guidance set out the notion of Sustainability and Transformation Plans (STPs) in 2015. The plans aimed to bring together local leaders in health, local government and patient representation to plan how services would become sustainable between 2016 and 2021.</p> <p>The STPs would facilitate health service providers and local authorities working together to ensure that services are delivered across the whole of the local health and care economy and not lead by any particular organisation's priorities. Forty four local areas were established and initial plans were to be submitted in February 2017.</p> <p>The 44 STPs which form the basis for NHS planning in the coming years, and explicitly link it to social care, are all now public in their draft forms.</p> <p>In this May 2017 'Insight' report CIPFA concludes that the success of the STPs is reliant on realistic plans that set out appropriate actions, while fostering a culture of genuine sharing and working together.</p> <p>In its assessment of the 44 draft STP plans, CIPFA says that while in principle STPs represent a positive, place-based step forward, the timescales and speed of savings required have led to a number of 'business as usual' propositions, rather than the development of the concrete, transformational changes needed to deliver financial sustainability in the long term.</p> <p>If STPs are going to have a meaningful impact on what CIPFA estimates to be a £10bn funding gap by 2020/21, CIPFA says there must be adequate upfront investment; robust governance arrangements; and thorough contingency planning, with realistic assessments of alternative scenarios.</p> <p>"Service integration is a no-brainer for patients, families and stretched NHS teams and as a means of addressing the need for financial stability in the health sector, STPs offer a promising start towards taking forward the changes needed in the health and social care system.</p> <p>"In reviewing the 44 plans, it is clear that much still needs to be done, particularly in developing full scenario planning and understanding risk. Transparency and realism is crucial, even if it does expose the difficulties involved in achieving the plans. Otherwise there is a danger that the desire to present a positive position will lead to unrealistic judgements being made.</p> <p>CIPFA's report can be found at the following link:  <a href="http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/sustainability-of-the-nhs-is-reliant-on-upfront-investment,-robust-governance-and-awareness-of-risk">http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/sustainability-of-the-nhs-is-reliant-on-upfront-investment,-robust-governance-and-awareness-of-risk</a></p>



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