

Annual Audit Letter

City of Lincoln Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Current and future challenges4**
- Financial statements and annual governance statement.....5**
 - Overall conclusion from the audit.....5
 - Significant weaknesses in internal control.....5
- Value for money.....6**
- Closing remarks8**
- Appendix 1 – Fees.....9**
- Appendix 2 – Glossary.....10**

Traffic light explanation
Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Value for money

I have assessed your arrangements to secure economy, efficiency and effectiveness against the VFM conclusion criteria specified by the Audit Commission and I issued an unqualified VFM conclusion on 30 September 2011.

Audit opinion and financial statements

I issued an unqualified audit opinion on the Council's accounts for 2010/11 on 30 September. At the same time I issued my certificate of completion of the audit in accordance with the requirements of the Audit Commission Act 1998, and the Code of Practice issued by the Audit Commission.

The financial statements were prepared for the first time on the basis of the International Financial Reporting Standards (IFRS), and the work involved in their preparation and auditing has increased considerably.

Current and future challenges

Economic downturn and pressure on the public sector	Councils face severe and long-term social and financial challenges over the next few years as the coalition Government aims to eliminate the structural deficit by 2015/16. District Councils have felt the impact of reduced income from fees and charges as a result of reduced economic activity. The 2010 comprehensive spending review identified year-on-year cuts in government grants until 2014/15, with the City of Lincoln Council's grant funding reducing by 24.4% between the period 2011/12 to 2012/13. The Council's medium term financial strategy sets out how the Council plans to address this significant reduction in funding, in particular a general fund savings target which increases from £750,000 in 2011/12 to £2,750,000 on 2015/16. The Council has reported that it has already secured £700,000 of the 2011/12 savings as at August 2011. These savings will come from four strands, specifically income maximisation, collaborative working, reviews of Council services and cost-cutting, with the largest savings anticipated from cost-cutting in the early years.
Shared services	The Council in partnership with North Kesteven District Council established a joint revenues and benefits shared service in 2011, with the City Council hosting the service. As part of this arrangement the City of Lincoln Council is in the process of updating its computer system for revenues and benefits with the new system due to go live on 1 February 2012.
Reform of the HRA (Housing Revenue Account) subsidy system	The Housing Revenue Account (HRA) subsidy system is due to be abolished in April 2012. Under plans in the Localism Bill, English councils will take control of their housing rental income, enabling them to plan effectively for the long-term management of these key assets. As a consequence of this the Council will be required to make a capital payment to the Government. The precise amount is not yet known but it is expected that the HRA debt will increase by approximately £27m. The Council in response to this is currently developing a 30-year Housing Business Plan, and revising its Medium Term Financial Strategy.
Income streams	Future changes to funding for English councils were recently announced by the government. Included are proposals to decentralise the distribution of business rates, by replacing the current system with plans for councils to retain rates collected locally. In 2010/11 business rate income for the Council was £35.4m. The detail of the proposed changes has yet to be finalised, and so the impact on the Council's financial plans cannot yet be determined. In addition there are plans by the government to localise support for Council Tax and replacing a demand-led central government budget for council tax benefit to a cash-limited grant for each local authority. It is anticipated that this could cost the City of Lincoln Council £800,000 per annum.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the financial statements on 30 September 2011. This has been a challenging year for councils with the implementation of International Financial Reporting Standards. Despite this the Council's financial statements were supported by good quality working papers, and officers responded promptly to our queries during the audit.

I found that the financial statements were of a good quality. I did identify a number of amendments and non-trifling errors (other than those of a trivial nature). Management corrected them, including material amendments relating to the presentation of the past pension credit and impairment on housing stock. I reported my findings to the September Audit Committee in my Annual Governance Report.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council's 2010/11 outturn showed small underspends for both the General Fund and Housing Revenue Account. The Council maintained its General Fund and Housing Revenue Account balances above the approved minimum levels.</p> <p>The Council has set a balanced budget for 2011/12. The Medium Financial Strategy has been updated in response to the Comprehensive Spending Review.</p>

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

The Medium Term Financial Strategy 2011-2016 sets out how the Council plans to deliver its services over the next 5 years taking into account a reduction in Government funding of 24.4% between 2011/13. This is to be achieved with a savings target of £2m in 2011/12, made up of service saving proposals of £750,000 and the balance funded through reserves.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in our use of resources. There are no such matters of such significance which I needed to refer to in the wording of my formal value for money conclusion. I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Closing remarks

I have discussed and agreed this letter with the Director of Resources. I will present this letter at the Audit Committee on 6 December 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee Letter	23 April 2010
Grant Report	8 February 2011
Opinion Audit Plan	3 May 2011
Annual Governance Report	13 September 2011
Opinion on financial statements	30 September 2011
Value for Money Conclusion	30 September 2011
Annual Audit Letter	9 November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Tony Crawley
District Auditor

9 November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee (financial statements/vfm conclusion)	£108,795*	£108,795	0
Inspection work	£0	£8,320	(£8,320)**
Non-audit work	0	0	0
Total	£108,795	£117,115	(£8,320)

Explanatory Notes:

(1) *In July 2009, in recognition of the financial pressures that public bodies are facing, the Commission confirmed that it would give a 'one-off' subsidy to cover the additional cost of transition to IFRS for local authorities in 2010/11 only. A refund of £7,495 against the above audit fee was issued in April 2010. In addition a further 1.5 per cent rebate (£1,809) was given on 2010/11 fees in December 2010.

(2) **The planned inspection fee was not charged as a result of the Government's decision to abolish Comprehensive Area Assessment in May 2010.

(3) The fee for certification of claims and returns is charged at published daily rates. Our original estimate was that the total fee would be £35,201. Subsequently, we have agreed a joint work programme with internal audit, and provided training to explain what we need to be able to rely on its work. The current estimate is that the fee will be reduced to approximately £25,305 (£46,985 in 2009/10), although this is partly dependent on the results of the testing. Our work on claims and returns is currently ongoing.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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