

Annual Audit Letter

City of Lincoln Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Audit fees	2
Current and future challenges	2
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Significant weaknesses in internal control	4
Annual governance statement	4
Readiness for IFRS	5
Value for money	6
2009/10 use of resources assessments	6
VFM conclusion	6
Approach to local value for money work from 2010/11	8
Current and future challenges	9
Financial position	9
Future developments	9
Closing remarks	10
Appendix 1 – Audit fees	11
Appendix 2 – Glossary	12

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Council's 2009/10 financial statements on 30 September.

2 The closedown arrangements for producing the financial statements worked well. The accounts were presented for audit before the required statutory date and were free from material error.

Value for money

3 I concluded the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 30 September.

Audit fees

4 I was able to complete my audit within the planned audit fee. The standard of working papers and financial statements, together with the co-operation my team received from the Council's officers, were key factors in achieving this.

Current and future challenges

5 Across the country, councils face severe and long-term financial challenges over the next few years. District councils have already had to deal with reduced income from fees and charges and councils have in-year cuts in government grant from 2010/11 as well as the prospect of future cuts following the 2010 comprehensive spending review.

6 For councils, the challenge will be to manage services as income from central government falls. There will be few opportunities to raise income from fees and charges until the economy strengthens and council tax levels will be frozen in 2010/12.

7 The City of Lincoln Council is currently forecasting for 2010/11 £864,000 and £415,000 overspends on its General Fund and Housing Revenue Account services respectively. The Council is however on track with its savings plan and is currently projecting an overachievement of £392,000 on its £1.7 million target for the 2010/11 year.

8 A key aspect of the Council's long-term financial plan has been the purchase of the City Hall building in 2009/10. It is expected to result in significant financial benefits, with anticipated annual savings of up to £9.1m in the long-term. This is a good example of the Council making decisions that will achieve substantial savings in the long-term, and will be increasingly important in the difficult financial climate that all public sector bodies are facing.

9 The Council continues to work in close co-operation with neighbouring councils to achieve economy of scale for its services. This work will have increasing importance over the coming years given the financial constraints that will be felt by all public sector bodies. Progress includes establishing a Central Lincolnshire Joint Planning Unit, and work is underway to extend joint cooperation to services such as benefits.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010.

Overall conclusion from the audit

10 I issued an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010.

11 The arrangements for producing the financial statements worked well, with good quality working papers to support the financial statements.

12 The accounts were presented for audit before the required statutory deadline of 30 June 2010 and were free from material error. Importantly, officers also responded quickly and appropriately to audit queries, providing clear explanations.

13 I identified a small number of presentational errors in the financial statements, which were amended by officers and there was one other unadjusted error reported to members that was not material.

14 I certified the annual Whole of Government Accounts (WGA) return on 30 September 2010.

Significant weaknesses in internal control

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

Annual governance statement

16 The maintenance of sound and effective governance arrangements are reported each year in the annual governance statement which forms part of the financial statements. I identified no matters of concern from our review of your annual governance statement.

Readiness for IFRS

17 During the year, I reviewed the Council's preparations for the introduction of International Financial Reporting Standards (IFRS) in the current financial year.

18 The Council is on track to produce IFRS-complaint accounts for 2010/11 by 30 June 2011. It has reviewed its contractual arrangements to identify whether there are any assets that now need to be accounted for by the Council, as required by the new standards, in 2009/10.

19 The Council expects to complete the restatement of the 2009/10 accounts by mid January 2011 in readiness for our audit of the restated accounts and agreement of the revised opening balances.

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.

2009/10 use of resources assessments

20 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

21 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

22 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

23 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

24 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources on 30 September 2010.

25 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

26 I have previously reported my conclusions on each of the relevant areas to the Council in my Annual Governance Report and the key findings are summarised below.

Managing finances

27 The Council has improved its integrated financial planning processes. It is achieving priorities by shifting resources from low to high priority areas. Financial governance and leadership have improved.

28 There are signs that the value for money of some previously high cost, low performing services is improving, although overall costs and the cost of most services are still comparatively high. Reports provide sufficient information to enable managers to make decisions and for members to understand complex issues.

Governing the business

29 The Council engaged stakeholders when reviewing its Strategic Plan, and has improved access through online services and mobile technology. The evaluation of purchasing City Hall included whole life cost considerations. The Council's performance management system helps to ensure accurate and timely data.

30 Member training has improved, although attendance rates are sometimes low, and ethical training needs to develop. Risk management arrangements have also improved, and there is progress in establishing joint risk registers with key partners. The Council has also improved its arrangements in place for counter fraud and corruption.

Managing resources

31 The Council has set targets to reduce CO2 emissions by 5 per cent by 2010, a further 7.5 per cent by 2011 and 12.5 per cent by 2013. It monitors its use of gas, electricity, water, waste and its carbon emissions through business mileage. It has identified its CO2 emissions across main service areas and benchmarked these against other Lincolnshire districts. It has used this information to develop action plans targeting initiatives to reduce the use of natural resources in areas of high usage.

Approach to local value for money work from 2010/11

32 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

33 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

34 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial position

35 Across the country, councils face severe and long-term social and financial challenges over the next few years. Demand for local services is growing and demographic change, particularly an ageing population, places increased pressure on local services.

36 District councils have already had to deal with reduced income from fees and charges. Reduced economic activity has cut income from planning fees, rents, car park charges and capital receipts. Councils have in-year cuts in government grant from 2010/11 and the prospect of future cuts following the 2010 comprehensive spending review.

37 The government plans to eliminate the structural deficit by 2015/16. Public spending will have to fall and councils will play a major part in helping to reduce the deficit. The October spending review has set the overall public spending levels for the period 2011/12 to 2014/15. The spending review has clarified where greater cuts are required and the timing of those cuts.

38 For councils, the challenge will be to manage services as income from central government falls. There will be few opportunities to raise income from fees and charges until the economy strengthens and council tax levels will be frozen in 2011/12.

39 The City of Lincoln Council is currently forecasting for 2010/11 £864,000 and £415,000 overspends on its General Fund and Housing Revenue Account services respectively. The largest variances against budget relate to reduced income from car parking (down by £507,000) and building regulation (down by £226,000). The Council is however on track with its savings plan and is currently projecting an overachievement of £392,000 on its £1.7 million target for the 2010/11 year. While the Council's forecast takes account of some of the national picture, some uncertainties remain about future funding levels. The Council faces the challenge of delivering savings now while ensuring that short-term decisions do not undermine long-term opportunities and achievement of strategic objectives.

Future developments

The Council is exploring options for providing services in partnership. Following the launch of the new Central Lincolnshire Joint Planning Unit, the Council is working with two neighbouring authorities to look at options for offering revenues and benefits services that are more efficient and provide better service for customers. The revenues services include the collection of Council Tax and Business Rates. Benefits services include applications (such as Council Tax and Housing Benefit), benefit fraud and benefits advice.

Closing remarks

40 I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Audit Committee on 7 December 2010 and will provide copies to all board members.

41 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	21 April 2009
Grant report	15 February 2010
Opinion audit plan	9 June 2010
Annual governance report	14 September 2010
Opinion on financial statements	30 September 2010
Value for money conclusion	30 September 2010
Annual Audit Letter	23 November 2010

42 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Tony Crawley
District Auditor

November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£60,780	£60,780	0
Value for money	£40,520	£40,520	0
Total audit fees	£101,300	£101,300	0
Non-audit work	0	0	0
Total	£101,300	£101,300	0

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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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- any third party.



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