

# Audit Progress Report

City of Lincoln Council

May 2019





# CONTENTS

1. **Audit progress**
2. **National publications**

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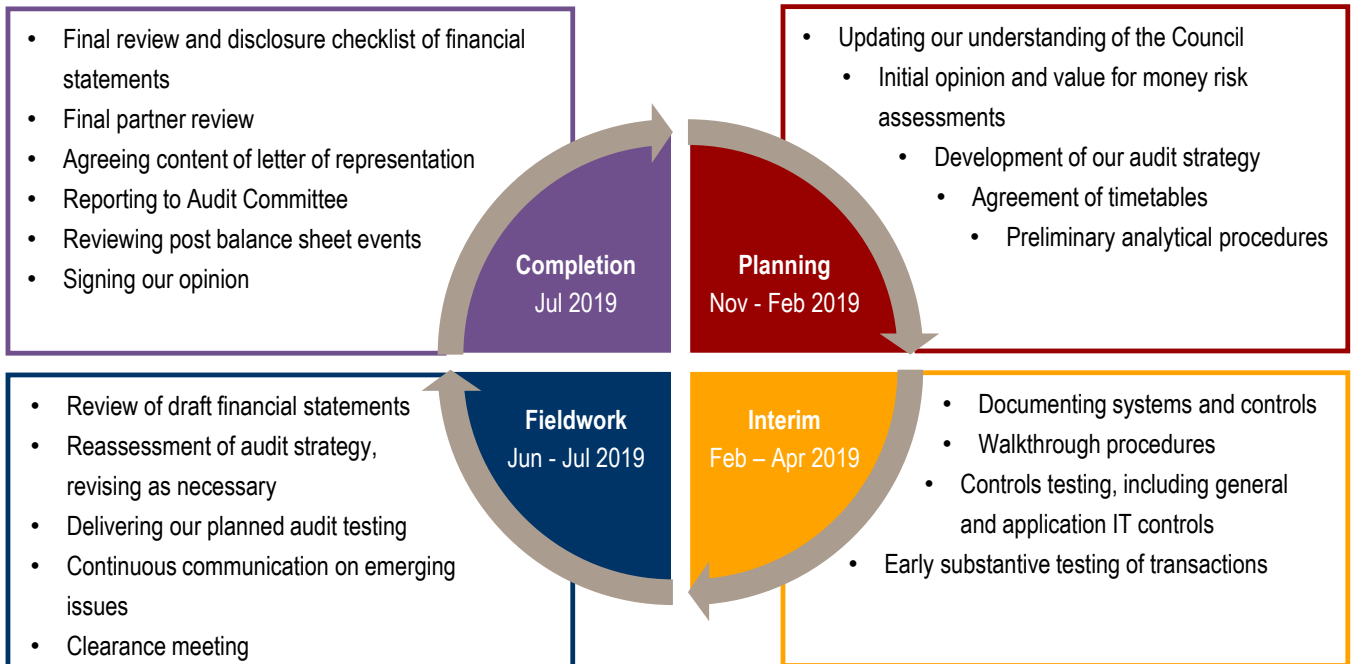
# 1. AUDIT PROGRESS

## Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor for City of Lincoln Council. We have also included at Section 2 our briefing for the Committee on recent publications which are relevant to your responsibilities.

## Audit progress

Our key audit stages are summarised in the diagram shown below, together with the key tasks.



Since the Committee last met we have:

- Met with finance staff to clarify our requirements and expectations in respect of our 2018/19 final audit visit;
- Issued our 'Client Deliverable List' to the finance team, setting out the expected working papers and supporting information required to complete our final audit visit;
- Continued our detailed audit work for our 2018/19 VFM conclusion; and
- Held ongoing liaison discussions with Internal Audit colleagues as part of our approach to maintain an accurate understanding of the Council for our 2018/19 audit.

Our detailed audit work will continue with our final audit visit which commences on 3 June 2019.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

# 1. AUDIT PROGRESS (CONT.)

## Other Issues

At this stage of the audit we recognise that the scale fees set by PSAA, as communicated in our fee letter of 25 April 2018, are based on the Council's previous non-public interest entity classification. We therefore recognise that there will be a need to increase these fees to reflect the additional audit requirements. The scale fee set by PSAA is £33,961.

We will discuss and agree these additional fees with the Chief Finance Officer prior to submitting them to PSAA for approval.

We have also been separately engaged by the Council to carry out additional work outside of that in relation to our appointment by PSAA, in respect of the Housing Benefits Subsidy Assurance. We have agreed a fee of £6,600 with the Council's officers and again at this stage we are not planning any divergence from this.

We are satisfied that we continue to comply with the Financial Reporting Council's Ethical Standard and there are no matters or relationships which we believe may have a bearing on our independence or the objectivity of the audit team. We will further confirm this, or report any relevant matters in our Audit Completion Report.

## Technical Update

Section 2 includes, for the Committee's information, summaries of recent technical and other sector publications (from the National Audit Office, Chartered Institute of Public Finance and Accountancy and the Local Government Association) which we believe are relevant to your responsibilities. The reports covered in this section, and the key messages, are summarised overleaf.

## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
<b>National Audit Office (NAO)</b>			
1	<b>Planning for New Homes</b>	Overall assessment that planning system not working effectively.	7
2	<b>Building Public Trust Awards – good practice in annual reports 2017-18</b>	Examples of good practice in annual reports	7
3	<b>Guidance for audit committees on cloud services</b>	Guidance on use of cloud services	8
4	<b>Framework to review programmes</b>	Questions to ask when reviewing major programmes and projects	8
5	<b>Round-up for Audit Committees</b>	Summary of NAO publications for Audit Committees	8
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>			
6	<b>An introductory guide to Local Government Finance</b>	Updated guide which may be of interest to Members.	9
7	<b>CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements</b>	Clarification of issues relating to the 2018/19 financial statements	9
8	<b>Local Authority Capital Accounting - A Reference Manual for Practitioners</b>	Practitioners guide to capital accounting	9
9	<b>The Guide To Local Government Finance</b>	Introductory guide to local government finances	10
10	<b>Social Care Statistics 2017/18 Actuals</b>	Analysis of adult social care expenditure	10
11	<b>Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20</b>	Accounting requirements for 2019/20	11
12	<b>An Introductory Guide to Housing Finance in England and Wales</b>	Introductory guide to Housing Finance	11
13	<b>Practitioners' Guide To Capital Finance</b>	Practitioners Guide	12
14	<b>Local Government Application Note for the UK Public Sector Internal Audit Standards</b>	Guidance for application of Internal Audit Standards	12

## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
<b>Chartered Institute of Public Finance and Accountancy (CIPFA) (continued)</b>			
15	<b>CIPFA's Proposed Financial Management Code for Local Government – Consultation</b>	Consultation on CIPFA's financial management code	13
16	<b>CIPFA Service Reporting Code of Practice (SeRCOP) 2020/21: Service Expenditure Analysis – Consultation</b>	Consultation on CIPFA's Service Reporting Code of Practice	13
<b>Local Government Association</b>			
17	<b>Twenty-first Century Councils</b>	Toolkit to help councils empower women, parents and carers to become local councillors and take on leadership positions.	14

## 2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

### 1. Planning for New Homes, NAO, February 2019

The NAO has recently published a report on Planning for new homes. This report is part of a series on housing in England, including Housing in England: overview (2017) and Homelessness (2017). The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average. The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

<https://www.nao.org.uk/report/planning-for-new-homes/>

### 2. Building Public Trust Awards – good practice in annual reports 2017-18, May 2019

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. This interactive document illustrates a range of good practice examples across annual reports in both the public and private sector.

In 2018 the public sector award for excellence in public sector reporting was jointly won by the Crown Estate and the Ministry of Justice. This interactive pdf summarises the judging criteria based on the principles of a good annual report. The guide highlights examples of "what good looks like" in reporting on strategy, risk, operations, governance, success measures, financial performance, people factors, external factors and ensuring the report is understandable to its users.

<https://www.nao.org.uk/report/building-public-trust-awards-good-practice-in-annual-reports-2017-18/>

## 2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

### 3. Guidance for audit committees on cloud services, April 2019

Public and private sector organisations are increasingly adopting cloud services with the aims of reducing costs, increasing efficiency and transforming their operations. Government policy supports this move but recognises that accessing systems through the internet can bring new contracting models and new challenges. Some organisations may lack the capacity or expertise to select the right product for their needs, implement it securely and manage it effectively.

The guidance provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for audit committees to consider asking when engaging with their management at three stages:

- Assessment of cloud services – looking at cloud services as part of organisational and digital strategies; the business case process; and due diligence.
- Implementation of cloud services – considering system configuration; data migration; and service risk and security.
- Management of cloud services – covering operational considerations; the need for assurance from third parties; and the capability needed to manage live running.

The guidance points to and complements detailed cloud guidance available elsewhere.

<https://www.nao.org.uk/report/guidance-for-audit-committees-on-cloud-services/#>

### 4. Framework to review programmes, April 2019

Major programmes are expensive, high profile and carry great uncertainties and risks. It is not surprising that many fall short of their objectives, in terms of cost and/or outcomes.

The NAO has completed about 140 reports on major projects and programmes since 2010. Based on this experience, this framework draws together the key questions the NAO ask when we review major programmes. It was developed for NAO value-for-money auditors to use when reviewing programmes, but may be useful for those seeking an overview of the NAO work on projects and programmes.

The questions are structured into four sections:

- Purpose: Is there a strategic need for the programme and is this the right programme to meet the business need?
- Value: Does the programme provide value for money?
- Programme set-up: Is the programme set up in accordance with good practice and are risks being well managed?
- Delivery and variation management: Are mechanisms in place to deliver the intended outcomes and respond to change, and is the programme progressing according to plan?

There are 18 key questions, each illustrated with examples of good practice and lessons learnt from previous NAO reports.

The Framework also outlines the NAO's related resources that provide further support for examining issues in more depth.

<https://www.nao.org.uk/report/framework-to-review-programmes/>

### 5. Round-up for Audit Committees, March 2019

This interactive round-up of NAO publications is intended to help Audit Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors.

<https://www.nao.org.uk/report/round-up-for-audit-committees/>



## 2. NATIONAL PUBLICATIONS - CIPFA

### 6. An introductory guide to Local Government Finance, February 2019

This introductory guide addresses the basic questions regarding how money flows, how budgets are set and where it is spent in local government. An understanding of these issues is essential to realising the current issues in local government.

This guide is aimed at helping local councillors, those working with and for local councils, and anybody with an interest in the sector to understand the complexity of local government finance.

The guide covers revenue and capital financing, financial reporting, governance and auditing as well as giving an overview of some of the key services provided by local councils.

This guide is available online only.

<https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2019>

### 7. CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements, March 2019

This bulletin covers the closure of accounts for the 2018/19 year and provides further guidance and clarification to complement the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2018/19 Code Guidance Notes.

Key areas covered include:

- A lengthy section of clarification on Financial Instruments, in particular the impact of the implementation of IFRS9 and IFRS15 on Local Authority accounts
- Streamlining the Accounts guidance
- Analysis of debtors and creditors
- EU withdrawal
- Guaranteed Minimum Pensions

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-03-closure-201819>

### 8. Local Authority Capital Accounting - A Reference Manual for Practitioners, April 2019

Intended to be read alongside other CIPFA publications, including the Code of Practice on Local Authority Accounting, the Guidance Notes for Practitioners and the Practitioner's Guide to Capital Finance in Local Government, this book demonstrates the requirements of capital accounting through fully worked and explained examples covering all the major transaction types and asset classes.

A comprehensive reference section, drawing upon frequently asked capital questions received by CIPFA's Finance Advisory Network, Technical Enquiry Service and TISonline discussion forum, provides further discussion of typical areas of concern.

There are top tips on the real-life application of the Code of Practice, including advice on the most effective use of financial systems, working with non-finance colleagues such as valuers, and getting through the external audit as smoothly as possible.

With clear cross-referencing to allow readers to follow a topic as it appeals to them, this publication provides unique insight and practical support in one of the most technical and demanding areas of local authority accounting.

This edition has been updated to reflect new statutory guidance and the suspension of arrangements for the recognition of the highways Network Asset. The opportunity has also been taken to add a few more frequently asked questions (FAQs).

<https://www.cipfa.org/policy-and-guidance/publications//local-authority-capital-accounting--a-reference-manual-for-practitioners>

## 2. NATIONAL PUBLICATIONS - CIPFA

### 9. The Guide To Local Government Finance, April 2019

This guide covers the current arrangements and provides insights into possible future changes at a time when political uncertainty makes future developments difficult to foresee.

Covering both revenue and capital financing, this guide provides the reader with an introduction to the technical complexities of funding each type of expenditure.

The publication is presented in dedicated service areas that have their own funding streams and financial complexities. These include:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

For those requiring more of an introduction to local government finance, CIPFA also produces an Introductory Guide to Local Government Finance that summarises the key information in a way that is aimed at non-finance specialists and those new to the sector..

<https://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2019>

### 10. Social Care Statistics 2017/18 Actuals, April 2019

This publication provides a detailed analysis of adult social care expenditure analysed by support group, such as: physical support, sensory support, support with memory and cognition, learning disability support and mental health support.

Other information includes a breakdown of the total population by age group and number of resident weeks.

<https://www.cipfa.org/policy-and-guidance/publications/s/social-care-statistics-201718-actuals>

## 2. NATIONAL PUBLICATIONS - CIPFA

### 11. Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20, April 2019

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2019/20 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2019.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements, as well as changes in some of accounting requirements. In particular the following areas should be noted:

- Improved clarity regarding the specification of proper accounting practices, the Code's role in these, the impact of statutory accounting requirements on the annual accounts, and the manner in which they affect the presentation of local authority reserves, including the distinction between usable and unusable reserves
- Significant amendments to Chapter Two to reflect the revisions made by the IASB to the Conceptual Framework for Financial Reporting (Conceptual Framework)
- Changes relating to the previous Carbon Reduction Commitment Scheme and Landfill Allowances Schemes
- An additional section to address the treatment of the Apprenticeship Levy
- For Scottish authorities, recognition of the ability to present transfers to or from other statutory reserves, allowance for voluntary transfers between the Revaluation Reserve and the General Fund, and pension fund legislation amendments
- For Welsh authorities recognition of legislation changes relating to separate publication of pension fund accounts
- Amendments to Section 7.1 (Financial Instruments) arising from amendments made to IFRS 9 Financial Instruments
- Changes to group accounts requirements implementing scope clarifications for disclosure requirements.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201920-book>

### 12. An Introductory Guide to Housing Finance in England and Wales, March 2019

The provision of social housing is a big issue for government and the public sector. Local authorities have a key role in responding to the needs of those in the community and understanding how the relevant finance structures work is vital if they are fully going to play their part.

Housing, and social housing in particular, has undergone many changes since the last edition of this title in 2011. The guidance looks at the current landscape for social housing and outlines the statutory duties placed on local authorities to provide housing for those in need. It looks at local housing strategies to address supply and working with the private rented sector. Chapters outline the policy agenda, consider the consequences of welfare reform, tackling homelessness and the consequences of the Grenfell Tower fire in 2017. Arrangements are no longer uniform across the UK and this edition provides a greater level of detail including where policies and practices in Wales differ.

The publication will be useful for local authority officers who have a need to understand the main financial principles that apply to providing housing services, as well as anyone working in housing provision or who is charged with scrutinising policy and practice.

<https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-housing-finance-in-england-and-wales-2019>

## 2. NATIONAL PUBLICATIONS - CIPFA

### 13. Practitioners' Guide To Capital Finance, March 2019

This publication contains the background knowledge you need on capital finance and how to account for it. It summarises the key features of the systems of capital finance that operate under the Prudential Framework in England, Wales, Northern Ireland and Scotland.

It provides explanations and definitions of capital expenditure, credit arrangements and capital financing including minimum revenue provision (MRP) arrangements and local authority borrowing.

Its intention is to assist practitioners in managing the capital programmes of their authorities and in particular addressing the technical issues associated with the financing of the programme. It summarises the key capital finance implications of the Local Government Act 2003, the Local Government Finance Act (Northern Ireland) 2011, the Local Government in Scotland Act 2003 and associated regulations.

The publication uses worked examples throughout to allow practitioners to apply theoretical concepts to practical examples. In carrying extracts from the relevant legislation and the Prudential Code, the aim has been to produce a one-stop guide for both those with previous local authority capital finance knowledge and those new to the subject.

<https://www.cipfa.org/policy-and-guidance/publications/p/practitioners-guide-to-capital-finance-2019-edition>

### 14. Local Government Application Note for the UK Public Sector Internal Audit Standards, March 2019

This Application Note is aimed at those who play a significant part in shaping or managing the internal audit function within their organisations, including:

- chief executives
- chief financial officers and other senior management
- audit committees
- selected members within local government in the United Kingdom, as well as
- chief audit executives/heads of internal audit.

UK Public Sector Internal Audit Standards (PSIAS) have been developed to apply across the whole of the public sector in all sectors of government. The PSIAS are based on standards issued by the Institute of Internal Auditors (IIA), with additional requirements and interpretations that make them directly applicable to the UK public sector. The PSIAS are developed jointly by the relevant internal audit standard setters (RIASS) for central government, local government, devolved government administration bodies and the National Health Service (NHS). The PSIAS set out requirements which apply generally to all UK public sector engagements, but do not include any sector requirements or guidance for specific parts of government.

CIPFA has been designated as the RIASS for local government. CIPFA recognises the need to supplement the PSIAS with additional information and guidance on the requirements and practice of internal audit in the local government environment, and this Application Note provides that guidance.

Included with the Application Note is an authoritative checklist for measuring the performance of internal audit against the requirements of the PSIAS and the Application Note, in line with PSIAS 1300 Quality Assurance and Improvement Programme. The checklist can be used for both the internal and external assessments required in PSIAS 1300-1322.

<https://www.cipfa.org/policy-and-guidance/publications//local-government-application-note-for-the-uk-psias-2019-edition>

## 2. NATIONAL PUBLICATIONS - CIPFA

### 15. Consultation on CIPFA's Proposed Financial Management Code for Local Government, March 2019

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation. The general financial management of a local authority, however, has not been supported by a professional code. CIPFA is now proposing that a Financial Management Code (CIPFA FM Code) should be designed and developed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The CIPFA FM Code would therefore for the first time set standards of financial management for local authorities in the UK. The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

- financially manage the short-, medium- and long-term finances
- manage financial resilience to meet foreseen demands on services
- financially manage unexpected shocks in their financial circumstances.

The draft FM Code is consistent with other CIPFA codes and statements in that it is based on principles rather than prescription. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the FM Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

Significantly, the CIPFA FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial freedoms to make local decisions on matters that had hitherto been subject to central government control.

The draft FM Code is not expected to be considered in isolation, and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making.

To date, the draft FM Code has been developed with a specified governance process which includes practitioners, auditors and representatives of governments across the UK. It was then 'road tested' by a range of local authorities to provide early evidence of both practicality and fitness for purpose. Now, CIPFA is seeking to consult more widely and consequently invites comments on the draft FM Code. Note – the consultation closed on 30 April 2019.

<https://www.cipfa.org/policy-and-guidance/consultations/financial-management-code-consultation>

### 16. CIPFA Service Reporting Code of Practice (SeRCOP) 2020/21: Service Expenditure Analysis (SEA), March 2019

The SEA sets out a framework for reporting local authority service expenditure. This structure is an important factor in determining and defining the information that are collected in the CIPFA statistics and also government returns such as the RA/RO, Section 251 and ASC-FR. Effectively revising the SeRCOP SEA and keeping it fit for purpose is about finding a consensus across these many considerations and the various stakeholders. It is therefore essential to gather a broad base of opinion to inform this process. Note – consultation close on 10 May 2019.

While ensuring the accuracy of the current structure and the definitions therein is important, CIPFA are keen to challenge the usefulness of the analysis in the following ways:

- Do the expenditure divisions reflect how services are delivered and organised in practice?
- Do the service divisions provide the basis for robust, reliable, consistent and comparable information?
- Is the number of mandatory and discretionary levels about right in your service area?
- Are they well balanced in terms of the proportion of total costs in each division?
- Does the current breakdown help you in your benchmarking, policy or value for money analysis?

<https://www.cipfa.org/policy-and-guidance/consultations/cipfa-service-reporting-code-of-practice-sercop-2020-21-service-expenditure-analysis-sea>

## 2. NATIONAL PUBLICATIONS – LOCAL GOVERNMENT ASSOCIATION

### 17. Twenty-first Century Councils, March 2019

This toolkit has been developed to help councils create the underlying policies, procedures, ethos and environment that encourages and empowers women, parents and carers to become local councillors and take on leadership positions.

The Local Government Association is encouraging councils to consider their existing practices, celebrate what is working, share good practice and take action to support councillors who are women, parents and carers.

The equal participation of women and men in local politics, as our elected councillors and as our leaders, is an important condition for effective democracy and good governance. Representative councils are best able to speak to, and for, their communities and to support the effective business of local government. Democracy and decision-making are strengthened when councillors reflect the people they seek to serve and represent.

<https://www.local.gov.uk/twenty-first-century-councils>

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