

Annual Letter

Lancashire County Council

INSIDE THIS REPORT

PAGES 2 - 3

- Key messages
- The purpose of this Letter
- Background to the audit and inspection programme

PAGES 4 - 15

- Objectives of audit and inspection
- Council performance
- Financial aspects of corporate governance
- Audit assurance work

PAGES 15 - 17

- Other work
- Boundary Committee
- Audit and inspection fees
- Strategic regulation: future audit and inspection work
- Status of our Audit and Inspection Annual Letter
- Closing remarks

PAGES 18 - 20

Appendix 1

- Reports issued during 2003

Appendix 2

- Auditor's Statutory Report on the Best Value Performance Plan

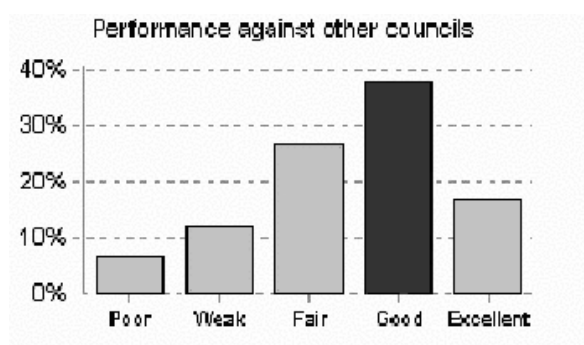
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Key messages

Council Performance

The Council has continued to make improvements over the last year and this is reflected in its Comprehensive Performance Assessment (CPA) which has remained at 'good'. Further improvements are required if the council is to move to the excellent category, particularly in social care.

The chart below shows the proportion of councils receiving a 'good' rating, compared to other categories.



The Council has continued to develop its vision and draft community strategy. The Local Strategic Partnership (LSP) is a developing partnership that is focusing on the key issues facing the county.

The Council's performance management arrangements have been further improved.

Many services show improvement during 2003, notably in the key priority areas of social services and education.

As a 'Good' Council, Lancashire has the potential to be an 'Excellent' Council by further improving the way it works and the services it provides to local people.

Performance management

Our conclusions from our performance reviews and inspections are set out below.

Social Services Performance Management Arrangements

The Social Services performance management system provides a sound framework within

which targets can be set and activity measured across the Department.

However all staff need to be engaged to obtain a wider ownership of the key elements of the process. Our review found a real commitment from members and officers to improve the system.

Local Public Service Agreements

The Council is generally well prepared to deliver the Local Public Service Agreement (LPSA).

Risk Management

The Council is making good progress on improving risk management at both a strategic and an operational level. The Council has a strategy for implementing risk management and is developing a more detailed implementation plan to ensure the risk management approach becomes an integral part of decision-making and strategic and operational management.

Pupil Referral Service

There are opportunities for the Council to clarify the role of the PRS and improve collaboration between all school sectors. The Service needs to develop a systematic approach to reviewing performance.

Inspections

Two inspections were undertaken during 2002/2003. We judged the Council's Information Centres to be a **'good' two star** service that has **uncertain** prospects for improvement.

We assessed the Council's Library service as providing a **'good', two star** service that has **excellent prospects** for improvement.

Financial aspects of corporate governance

Our conclusions on this element of our work are as follows:

- The Council's overall financial standing remains sound. However, there are pressures in social services and strong financial management will be required for the overall sound position to be maintained
- Lancashire has developed and maintained sound systems of internal financial control.

Internal Audit is a key element of the control environment and provides an effective overall service.

- Arrangements for the prevention and detection of fraud and corruption continue to reflect good practice, with Internal Audit providing a key input.
- The Council has sound arrangements in place for considering legality of significant financial transactions and ensuring appropriate action is taken.

Accounts

We issued an unqualified opinion on the accounts on 8 December 2003.

Best Value Performance Plan

Your Best Value Performance Plan complies in all significant respects with the statutory guidance and an unqualified opinion was issued during December 2003.

Grants

During the last year we have certified over 100 returns. The majority of the grant claims and returns are presented for audit on time and are well supported by good quality working papers. Nonetheless there are a minority of claims that require either amendment, more timely submission or improvements to the quality of working papers.

The purpose of this letter

This is our first joint audit and inspection 'annual letter' for members which incorporates our annual audit letter, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our 2002/2003 audit and inspection programme and comments on other current issues up to December 2003.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this letter should be viewed in the context of that more formal background.

Background to the audit and inspection programme

To ensure that Councils receive a tailored seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each Council. The Relationship Manager is the Commission's primary point of contact with you and is also the interface between the Commission and the other inspectorates, Government Office and other key stakeholders.

The role of Relationship Manager is separate from the role of the District Auditor, although in your Council's case both roles are performed by me, Michael Thomas. I took over the role of District Auditor from Tim Watkinson with effect from March 2003.

Objectives of audit and inspection

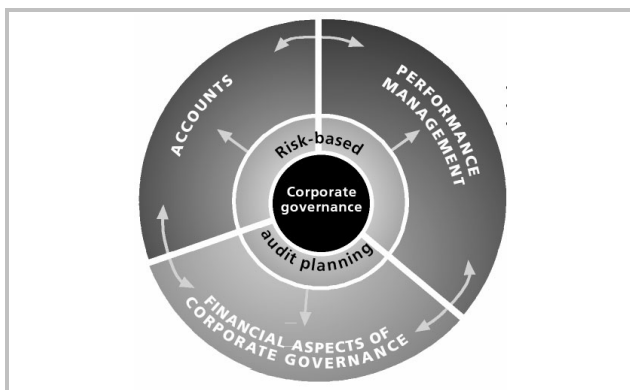
Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1

The three main elements of our audit objectives



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct & the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered
- enable the Council to assess how well it is doing
- enable the Government to assess how well its policies are being implemented
- identify failing services where remedial action may be necessary.

The remainder of this Letter reports the conclusion of the 2002/03 audit and, where appropriate, the progress made to date in completing the 2003/04 audit and inspection plan. The outcomes are reported in the next three sections of this Letter, under the following headings:

Council performance – this section updates the Council's CPA score from last year, reports on the Council's progress in delivering its improvement agenda and summarises the results of inspections and performance audit work.

Financial aspects of corporate governance – this section covers issues relating to financial standing, legality, systems of internal financial control and standards of financial conduct & the prevention and detection of fraud and corruption.

Audit assurance work – this section reports the auditor's opinion on the Council's financial statements and the Best Value Performance Plan.

Council Performance

Lancashire has made improvements in some services over the last year, particularly educational attainment, recycling and social care services. The council is committed to improving services and has set clear priorities. It has robust plans in place to deliver these improvements. The council is well placed to improve the way it works and the services it provides to local people.

CPA Scorecard

The Audit Commission's role in CPA is to form a judgement on the performance and proven corporate capacity of local authorities.

Updated judgements for all single tier authorities and county councils were published by the Audit Commission in a 'balanced scorecard' on 18 December 2003. The results of Lancashire's assessment are detailed below.

Element	Assessment
Overall	
Current Performance	Out of 4
• education	3
• use of resources	4
• social care (children)	2
• environment	3
• libraries and leisure.	3
Capacity to improve (not reassessed in 2003)	3 out of 4

CPA Improvement Report

Background

The Corporate Assessment findings in 2002 found that the Lancashire County Council provided effective services for local people and was rated as a 'Good' authority overall. While social care provision was less strong there had been some improvements and educational effectiveness was also increasing. The Council was recognised as having strong political and managerial leadership and was good at managing its finances. To ensure the Council delivered real outcomes for local people it was

recognised that more could be done to establish a clear vision for the County linked to the delivery of local priorities.

In November 2003 the Audit Commission reviewed the progress made by the Council in 2003 and carried out an update against the agreed improvement plan that arose from last year's CPA.

The CPA improvement report provides a means of tracking and reporting on the progress made by the Council since the Corporate Assessment and the Improvement Plan agreed following on from the assessment.

Priorities

The Corporate Assessment findings in 2002 identified a need for the Council to strengthen its approach to the delivery of key parts of its agenda. The Council has worked hard to make improvements through:

- further development of the Local Strategic Partnership and longer term vision for the County
- developing its approach to community cohesion
- developing the older people agenda by investing in services to support people in their own homes while decreasing the use of residential care
- reviewing its approach to Crime and Disorder through working with the 12 District Crime and Disorder Partnerships. Carrying out a number of Best Value reviews in this area which are close to completion.

The Council has also continued to develop its approach to priority based budgeting and business planning. This has identified a number of areas for decisions over both investments in services and reductions which are closely aligned to achieving the Council's overall objectives.

The Chief Executive is working to a common agenda and priorities with the Leader and senior members. The Council is monitoring performance against key performance indicators for corporate objectives.

The Council has worked hard to ensure that there is clarity among Chief Officers and Members over the key corporate objectives. This work should continue to enable the shared vision

to develop into improved services for local people.

Ambition

The Council has taken a leading role in establishing the Lancashire Strategic Partnership. The key to the success of the partnership is the commitment of both County and the partners. This is being achieved through meetings of both the full partnership and the partnership executive to develop a common vision and to work jointly to achieve agreed goals. This partnership approach will help the Council play a leading role in ensuring there is a longer term vision for the County. It has, with partners, drafted a Community Strategy that reflects all parts of the community. This will be critical to the future success of the Council and its ability to track improvements in the quality of life of those who live in the County.

The Council remains clear and strong on its own overall ambitions which have been linked to the delivery of service objectives through the business planning process.

Future plans

Future plans are focused on the improvement agenda. Key elements of the Council's future plans are linked to the development of a Community Strategy which will come from the shared vision being developed through the Lancashire partnership. The Community Strategy will be a key element of the Council's business planning approach in the future.

The Council has taken a pro-active role in planning for changes to the delivery of services in the future. Working with District Councils the Council is developing an approach to establishing a contact centre to manage enquiries from the public more effectively. Not all the District Councils have signed up for this and in some places different arrangements will be needed.

Focus

The Council recognises the importance of service delivery if it is to achieve its priorities. There has been some effective work to identify key performance indicators and link them to the delivery of corporate objectives. Key performance indicators are monitored quarterly and both Members and Officers understand the

objectives they are assigned to deliver. Work to develop the key performance indicators and ensure they are focused on corporate priorities will continue to be a theme of the work to develop the community strategy.

The overview and scrutiny function continues to develop to ensure it remains at the heart of the service planning and delivery agenda.

Capacity

The Council has invested in corporate capacity building as part of its Culture Change initiative. The Culture Change initiative links staff development to the achievement of corporate aims and is being rolled out widely across the Council. The initiative also looks to ensure the Manager Development programme is taken up across the authority. Both of these elements of the Culture Change are designed to improve capacity in the Council in the medium term. Measurable success in this programme should be identifiable by improved performance across the range of the Council's services in the future.

The Council has a good programme in place to develop the skills of members and this has been recognised by external accreditation.

The Council has recognised that to improve services for local people it must not simply rely on working alone but that they will be best served where it works in partnership with others. The Council has established a network of District Partnership Officers which has quickly improved the Council's links with the District Councils.

The Lancashire Partnership is enabling the Council to work with partners in Health and other sectors more effectively and has sustainable economic regeneration at its heart enabling the Council and local business organisations to work together. Many of these arrangements are relatively new and will need continued effort to ensure the investment is followed by achievement of common objectives.

Performance management

The Council's performance management framework has been strengthened through the work of the Cabinet Committee on Performance Improvement, chaired by the Leader. This level of involvement ensures that performance management remains high on the agenda across the Council. The Cabinet Committee runs

alongside the County Management Board and the Senior Officer Corporate Performance Working Group which review performance management issues in some detail.

The performance management system at the Council has been reviewed and a number of key actions agreed to ensure improvements are achieved in:

- service and financial planning
- performance measurement and monitoring
- performance improvement culture.

These actions are not yet fully implemented but are monitored and reported on to enable the Council to ensure its performance management delivers improvement and change.

The Council uses internal communications effectively to promote the importance of performance management to employees across the organisation.

Achievement

In determining the Council's achievements over the last 12 months we have considered the evidence provided by:

- a review of the 2002/2003 performance indicators including a comparison against other authorities as well as an evaluation of year on year performance
- any relevant reports from external inspectorates
- relevant output from our performance work
- the Council's own self assessment, progress reports and other documentation.

The key points are summarised below and show a mixed picture in terms of overall improvement. However, it is worth noting that there has been a real improvement in that the Council can now demonstrate a much better understanding of why they haven't achieved the hoped for improvements in some areas and comparator action plans have been developed for each PI which identifies the barriers to improvement and what action can be taken to address these.

Education

Education PIs show continued improvement overall year on year with 60% of key indicators showing improvement. The overall performance

in key areas is good with over 70% of indicators in the top two quartiles and almost 27% in the upper quartile. These upper quartile results reflect the Council's achievement in primary and pre school education. Educational attainment has improved with a greater percentage of 16 year olds receiving 5 or more GCSE's and improvements to the percentage of students gaining level 5 or above at Key Stage 3.

The appointment of a new Director of Education demonstrates the Council's continued commitment to effective leadership and direction for the Education service.

Social care

Social care PIs show overall improvement year on year with 80% of the key indicators improving. For Lancashire 40% of the social care indicators are now in the top 40% of authorities. The across the board improvement in PIs reflects a strong management team that is beginning to deliver. The Council continues to develop its performance management, I.T. and management information infrastructure to enable it to develop ways of improving its social care arrangements.

The recent Social Services Inspectorate (SSI) review of social services concluded that Lancashire is serving some people well with promising prospects for improvement in both adult and children's services. The overall assessment of a one star service is a reflection of the solid progress that has been made in Social care across the County.

Further management restructuring, including separate service head roles for Adults and Older people, will enable the Council to develop a specialist focus for delivery and improvement, particularly in the area of mental health and services to people with a physical disability or sensory impairment.

Environment, Transport and Planning

The Council has achieved the target set for it by DEFRA on the percentage of waste recycled or composted and continues to improve performance in this area.

Other specific achievements include:

- a Beacon Council award for 2003/2004 for Supporting the Rural Economy
- the introduction of a successful 0845 telephone number covering Highways works across the County
- Lancashire Waste Partnership were recent winners of a national recycling award
- the award of PFI credits to enable the County to work in partnership with two unitary authorities in the delivery of a fully integrated waste management solution.

There are some other elements of environment, transport and planning which need further improvement.

Looking to the future

The Council is committed to continuous improvement and there is evidence that there is significant investment in a number of key areas. The Council's investments have already led to measurable achievement in some of its activities.

To ensure the investment and achievements are translated into service improvement that can be measured by the CPA process the Council needs to continue its work on the improvement plan.

The future of CPA

The Audit Commission has consulted on the future arrangements for CPA and has concluded that it will be developed by the:

- introduction of a new CPA framework in 2005/2006 and again in 2010, that enables assessments to be made in the context of an agreed set of local and national policy priorities
- release of annual improvement reports in December 2003 and December 2004.

The CPA programme from January 2005 will seek to understand the impact of the council in its locality, and to recognise the leverage, co-ordination and leadership the council provides to achieve a wider improvement agenda.

The precise shape and nature of this approach has yet to be finalised, though the Commission has recognised the need to agree the strategy for improvement reporting after 2004, leading up to a further re-assessment from 2010.

Inspection and performance work

The main issues arising from the inspection and performance audit work that has been completed during the past twelve months are set out below.

This year we have reviewed the following:

- Social Services performance management arrangements
- Pupil Referral Service
- Local Public Service Agreements
- Risk Management arrangements
- Supporting People – high level review of arrangements
- Information Communication and Technology (ICT)

Social Services

Last year we told you about the work we were undertaking with Social Services around the Council's development of its performance management system and the infrastructure needed to support it. We have now concluded our work. This focused on specific parts of the Children's and Adults Service Divisions.

The performance management system in conjunction with a range of strategic, commissioning and other business plans, is being relied upon to deliver a significant reconfiguration of services.

The system provides a sound framework within which targets can be set and activity measured across the directorate. A range of management information is made available to staff and Members and performance management training is being provided. However having established the framework, further work is needed to engage all staff to gain wider ownership of key elements of the process. In particular, involvement in the target setting process needs to be improved. Links between Team and Service Plans and day to day activity need to be made explicit and links between activity and budgetary control need to be clarified.

We are satisfied that there is a real commitment from officers and members to improve the performance management system. An action plan has been developed to take forward the recommendations in our report which should

further strengthen the arrangements that are now in place. We will follow up progress as part of our 2003/2004 work.

Pupil Referral Service (PRS)

Last year we told you about the results of the first stage of this review where we concluded there was a lack of key information which impacts on all aspects of the Service. New management arrangements have been put in place and an action plan was drawn up to address the issues in our first stage report.

This year we have developed our work in conjunction with officers to gain a greater understanding of the views of service users, and to use this insight as the basis for service improvement.

We have used a broad definition of the term 'user' for this review to include not only pupils but also staff, parents/carers, mainstream head teachers, and other teams/agencies. We have worked closely with officers in the Education Department through a Management Review Group, made up of senior managers from the PRS and chaired by the Head of the School Effectiveness Service.

The review has comprised a number of elements of research that have engaged with users, ranging from interviews to surveys and focus groups. Various media have been used, including video and audio recording. The research has largely been undertaken by the service's staff and pupils themselves, with the Audit Commission adopting a facilitation and co-ordination role.

We have gathered together the evidence from this research and involved Pupil Referral Unit head teachers in workshops to identify the main issues arising from the evidence and the priorities for improvement.

The main findings include the need to:

- define the role of the PRS within a continuum of provision through improved collaboration between all school sectors
- build the methods we used in our evidence gathering into a systematic approach for reviewing performance.

We will issue a summary report shortly. PRS intend to report the findings and proposed next

steps for the Service to stakeholders before Easter.

Local Public Service Agreements (LPSAs)

Local Public Service Agreements (LPSAs) require councils to commit themselves to achieving twelve specific targets that will require performance beyond that which would be achieved without the LPSA. Councils select the targets but the majority must reflect specific national PSA targets set by central government.

The Council has recently signed a three year agreement from 2003-2004 to 2005-2006. The Council receives a pump-priming grant of almost £2m but the potential performance reward grant available is almost £28m.

The Council is generally well prepared to deliver the Local Public Service Agreement (LPSA) with good political leadership and commitment demonstrated and with the specific LPSA targets well linked to corporate priorities and plans. The Council and its partners consider the targets are achievable and there is the capacity to deliver them. However, like other councils, you are heavily dependent on your partners to achieve the targets.

There are ongoing issues around developing project plans, the design of the final reports that will describe the outcomes from the LPSA and how continuous improvement will be achieved after the end of the agreement. Officers are currently addressing these issues.

Risk Management

We are satisfied that the Council is making good progress on improving Risk Management at both a strategic and an operational level. Last year the Council approved a Risk Management policy and strategy. The Risk Management Steering Group is implementing the approach across the organisation. Corporate and Departmental risk registers are now in place based on risks identified at a series of workshops facilitated by an external consultant. The Risk Management Steering Group reports to the Performance Working Group as the Council sees risk management as being an integral part of the business planning process.

The next phase will be to develop an implementation plan to ensure the Risk Management approach becomes an integral part of decision-making and strategic and operational management.

Supporting People

Supporting People radically overhauls the way housing related support is strategically planned and funded. Since April 2003 councils have received a single, cash limited grant for funding support services in their area.

An inspection of supporting people services is planned by the Audit Commission's Housing Inspectorate in 2004. This will review, in more detail, all aspects of the service. Following on from our risk based planning in 2003 we have briefly assessed the progress made to date.

We found that the Council has put appropriate arrangements in place to deal with this new initiative. Nonetheless a number of significant risks remain, for example around skills levels and planning for future funding. These risks will need to be addressed and managed over the coming months if the initiative is to be delivered effectively in Lancashire.

Many of these risks are because Supporting People is a new activity, operated by a new team, and accountable to a new body with a network of new relationships, both professional and political, based on a new grant system which replaced a complex system.

We have recently issued a draft report of our findings to officers who are addressing the issues we have raised as part of the preparation for the inspection.

Information, Communication and Technology (ICT)

The Council continues to develop its approach to ICT. In particular the Council:

- is developing its infrastructure, including networks, internet and e-mail, and voice mail in order to provide secure, resilient, reliable platforms to support the e-government agenda
- has a structure in place that provides an adequate framework for detailed policies and standards for ICT

- has strong arrangements in place for managing security
- produced an updated Implementing Electronic Government Statement (IEG) for 2003
- e-government continues to be well controlled. There is a clear e-government Action Plan, comprising a number of projects, including the implementation of a Contact Centre for the County and some of the Lancashire Districts
- has developed a number of innovative projects, including the webcasting of council meetings.

Inspections

Two inspections were undertaken during 2002/2003.

Information Centres

We judged the Council's Information Centres to be a **'good' two star** service that has **uncertain** prospects for improvement.

We identified a number of positive features of this service, including:

- aims are connected to corporate priorities and performance standards are clear and communicated to staff and customers
- successful partnership working with district councils and private sector partners to provide a seamless, integrated service for the public of Lancashire and tourists
- use of new technology to give customers 24 hour access to the most up to date local information.

We also identified a number of areas where further attention is needed, including:

- the service has not explicitly clarified its strategic objectives or priorities and has no systematic business planning or monitoring to enable performance to be managed most effectively
- the service does not monitor the profile of its users and so has no details of whether all sections of the community are accessing its services.

We believe that the prospects for significant improvement for the service are **uncertain**.

Library Services

We assessed the Council's Library service as providing a 'good', **two star** service that has **excellent prospects** for improvement.

The service displays many positive features including:

- library services provided to the range of communities in large and small towns and villages in rural areas
- disabled access to the majority of libraries and a programme of development to bring the remaining libraries up to the required standard
- the introduction of the People's Network which has been well planned and managed with timely staff training.

However, there are some issues which need further attention including:

- opening hours which do not meet the public library standards
- the duplication of information sources by both Libraries and the County Information Centres.

Financial aspects of corporate governance

It is the Council's responsibility to put in place arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. It is our responsibility to review and, where appropriate, report on the financial aspects of the Council's corporate governance arrangements.

Our audit focuses on four key elements, in line with the Code of Audit Practice responsibilities. These are:

- the **financial standing** of the Council
- systems of **internal financial control**
- standards of financial **conduct**, and the prevention and detection of **fraud and corruption**
- the **legality** of transactions that might have significant financial consequences.

One of the outputs from our work this year has been to update the 'auditor judgements' relating to each of the above elements which contributed to the Council's Comprehensive Performance

Assessment (CPA) for 2002/2003. A summary of our overall assessments for each of the above elements is set out in Exhibit 4.

EXHIBIT 2

Financial aspects of corporate governance	Overall assessment	Key to assessments
Financial standing	4	1 = inadequate 2 = adequate overall, but some weaknesses that need to be addressed 3 = adequate 4 = good
Systems of Internal financial control	4	
Standards of financial conduct and prevention and detection of fraud and corruption	4	
Legality of significant financial transactions	4	

Financial standing

The Council's financial position remains healthy, but it needs to continue to monitor the position within Social Services and the level of school balances.

We have found over recent years that the Council has robust financial arrangements in place. The Council sets and manages its budget under the framework of its three year County Finance Strategy (CFS). Service Directorates are given cash limits as part of this rolling three year financial plan. Within the cash limits directorates have significant flexibility, including the ability to carry forward any under (or over) spends in the year. Also, during 2002/03 the Council introduced quarterly budget reporting to Cabinet.

The Council's final outturn for 2002/03 was broadly in line with budget, with net expenditure of £964.3m compared with the budget of £965.8m. The saving of £1.5m increased the County Fund balance to £12.8m which represents 2.1% of net expenditure (excluding schools).

Budgets operating under the Council's Devolved Financial Management (DFM) schemes underspent overall by £2.1m in the year,

increasing the level of DFM balances to £9.3m. However, the Social Services Directorate finished the year with a deficit of almost £1m, having overspent its budget by nearly £2m.

Schools underspent their delegated budgets by £4.7m resulting in total school balances of £45.6m at the year end. Many of these schools continue to maintain balances which are above DfES guidelines. Reductions of £13.8m are planned for 2003/04 bringing the excess above guidelines to £9.4m. The Council has submitted an amended 'Scheme for Financing Schools' to the Secretary of State for approval. It is important that the Council continues to closely monitor the position with these schools.

Eighteen schools had deficit balances at March 2003 and the number is expected to increase by March 2004. The Council is working with these schools to establish arrangements for financial recovery.

Total capital expenditure was £85.4m, representing a 26.5% increase over the previous year.

The current position

For 2003/2004 the Council set a net budget of £1,059m. Non-DFM budgets are currently expected to under spend by £1.9m. £0.8m of this sum relates to the change contingency which will remain unallocated at the end of the year.

DFM balances are projected to reduce from £8.7m to £4.2m in the current year. £1.5m of this reduction relates to planned spend on re-phasing of certain repair and maintenance works into 2003/04. The Environment Directorate brought forward balances of £1.6m in April 2003. However, it proposes to fully utilise these balances during the year and the Cabinet has expressed concern that this will leave no flexibility to meet unforeseen demands. The Education Directorate is projecting that it will overspend by £1.2m, but year-end balances will remain at more than £2m.

The Social Services Directorate is expected to break-even, but it is likely to carry forward a deficit balance into 2004/2005. The Director of Social Services has taken action to limit spending and budgets are being closely monitored.

The capital programme for 2003/2004 was set at £113.2m. Spend is currently £0.2m in excess of resources, but this is likely to be covered by additional capital receipts.

Looking forward

The Council had the lowest budget increase in 2003/2004 compared with other County Councils at 6.7%. To contain the budget increase to this level, Members approved £12m of reductions in expenditure, resulting in a Council Tax increase of 9.46%.

For 2004/2005 based on the provisional grant settlement the Council's continuation budget estimates currently indicate a spend of £1,084m, which equates to a budget increase of 6.03%. Directorates have been asked to consider the implications of potential budget reductions on their services.

The Council has agreed to adopt a 'priority-led' approach to budgeting by aligning its budget more closely to its aims and objectives. This process aims to develop links between service plans and budgets.

The implementation of the new prudential code in 2004/2005 will change significantly the way in which councils determine how to finance their capital programmes. The introduction of new financial measures and indicators will put additional pressures on the 2004/2005 budget process. The Council has recognised that in future the capital programme and its revenue consequences will need to be more closely integrated.

Systems of internal financial control

Systems of internal control operate effectively. Internal Audit provides a good quality and effective service which assists the Council's overall corporate governance framework.

Each year we review the arrangements the Council has in place to satisfy itself that its internal financial controls are adequate and effective in practice.

Internal Audit is an integral part of these arrangements and has facilitated the Director of Resources' certification of the Statement of Internal Financial Control. In this transitional audit year we have undertaken a more limited review of Internal Audit's compliance with

CIPFA's Code of Practice for Internal audit. We have been able to place some reliance on the work from our previous year and based upon our review we have concluded that the quality of their work is of a good standard. We are satisfied with Internal Audit's coverage of the main financial systems and have concluded that we are able to rely on their work.

Early in 2004 as part of our 2003/2004 audit we plan to carry out a more detailed review of Internal Audit which is in accordance with our cyclical approach which involves a detailed review every four or five years.

In addition to our audit of overall arrangements, we have carried out other specific work on Internal Financial Control around Private Finance Initiative and pooled budgets. The main issues arising are summarised below.

Private Finance Initiative (PFI)

The new Fleetwood School, built as a result of a PFI scheme opened in September 2002. We have worked with officers in previous years to ensure that any potential problems with accounting arrangements were anticipated. For its first year of operation, we are satisfied that transactions have been accounted for in line with good practice.

In June 2003, the Council submitted an outline business case for a major Waste Management Scheme. Also, invitations to tender have been invited for a Public Private Partnership in respect of waste recycling. We will continue to monitor progress on each of these schemes and liaise with your officers over the coming months to ensure compliance with good practice.

Pooled budgets

The Council is the lead authority for a number of pooled budgets. The Drugs Action Team pooled budget operated during the year and a number of learning disability pooled budgets came into existence in the current 2003/2004 financial year. From the work we have undertaken we are satisfied that the Council is making good progress in establishing reliable systems for managing these budgets.

The number of such schemes are likely to increase in the future. It is important, therefore, that the Council ensures new partnerships make

best use of the expertise gained in establishing and operating existing schemes.

Standards of financial conduct & prevention and detection of fraud and corruption

Arrangements for preventing and detecting fraud and corruption are sound.

The Council must ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. We have reviewed key features of the Council's arrangements and found them to be sound, with Internal Audit providing a major input.

National Fraud Initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you earlier in the year.

We understand that data matches have been investigated by Internal Audit and twelve matches have been identified resulting in payments being stopped in respect of twelve deceased pensioners. The loss arising from these cases is currently being quantified.

Legality of transactions

The Council has a sound system of identifying legal issues relating to significant financial transactions and ensuring that appropriate action is taken.

Our review of the Council's overall arrangements found that legality issues surrounding significant financial transactions are properly considered. Our work in this area has not revealed any issues of concern. During the last year neither of the statutory officers has had to exercise formal powers associated with unlawful or potentially unlawful action.

As well as our work on the Council's general overall arrangements, we have also reviewed specific issues. Our findings from these are set out overleaf.

Race Equality Scheme

The Race Relations (Amendment) Act 2000 imposes a duty on public bodies to promote racial equality and prevent unlawful discrimination.

We found that the Council is making good progress in establishing the arrangements required by the Act. We are satisfied that the Council's Race Equality Scheme complies with good practice in most areas.

Human Rights Act

The Human Rights Act sets out the rights that need to be taken account of in the delivery of public services. Managers need to have a clear understanding of their obligations under the Act and carefully balance an individual's rights against those of the wider community in making decisions.

The Council has developed a sound approach to ensure that decision makers take human rights issues into consideration. It has clearly set out the steps which need to be taken in respect of all reports and decisions that go to Members. All Members' decisions must go through this process. The Council's arrangements and its Human Rights checklist is cited as a good practice example in the Audit Commission's national report 'Human Rights: Improving Service Delivery'.

Issues raised by members of the public

During the year we have received and dealt with three matters raised by members of the public. These issues related to Members' allowances, the closure of a Community School and a financial guarantee being sought by a Housing Association. In each instance, based on our enquiries and discussions with officers we have been satisfied that there is no evidence of improper or unlawful action by the Council and we have not needed to take any statutory action.

Audit assurance work**Accounts**

We issued an unqualified audit opinion on the Council's accounts and the Pension Fund on 8 December 2003.

The core process review

The accounts are an essential means by which the Council accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. Our core process review examines the controls over the main accounting system, the effectiveness of budgetary control procedures and preparations for the production of the annual accounts. These systems are fundamental to effective financial control within the Council, the achieving of financial targets and the accuracy of the accounting statements.

Based on the audit work we have undertaken we found the core processes to be working satisfactorily, providing appropriate assurance for the completeness and accuracy of the Council's financial statements.

The financial statements

The draft accounts were produced for audit in August, well in advance of this year's 30 September deadline, and were approved by the Audit Committee on 15 September. Over the next three years the Council will be required to bring forward its accounts closure in order to meet the new timetable for the approval of accounts as set out in the Audit and Accounts Regulations 2003 which will need to be produced by 30 June for the 2005/2006 financial year. Officers are considering the actions they will need to take to ensure the earlier deadlines are met and we will be working closely with them over the coming months on this issue.

Working papers submitted for audit were generally of a good standard and, as usual, we received a good level of co-operation from officers. A number of changes were made to the accounts during the course of the audit.

Pension Fund

Our audit of the Pension Fund this year involved additional work relating to FRS17 (retirement benefits). Arising from this work we were able to give satisfactory assurances to the relevant admitted bodies.

The report of the Actuarial Valuation of the Fund covering the three years commencing 1 April 2002 showed the overall funding level to be 99% compared with 103% three years ago. However, this is based on the 2001 valuation. Managers are monitoring the position quarterly, in conjunction with the Actuary, to ensure that underfunding caused predominantly by generally poor investment returns on the stock market does not widen.

During the year, globally falling stock markets have led to a fall in market value of investments held by the Fund from £2.288bn to £1.933bn. This result is similar to that reported by a number of other Pension Funds in the North of England. The Fund returned -18.6% on investments compared with its benchmark of -18.7% and a local authority average of -19.5%. However, the performance of some investment managers is not meeting targets and is being reviewed by the Investment Panel.

Reporting to the Council

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit, to members, in your Council's case the Audit Committee, before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than members, but the SAS encourages openness and accountability by ensuring that members take responsibility for the Council's accounts.

We reported to members under SAS 610 in early December 2003. The only matter we commented on was the Director of Resources decision not to provide us with a general letter of representation around the accounts, although he had stated he would provide a letter on any specific issues where we were unable to obtain sufficient evidence. Further discussion on this matter has taken place with the Director of

Resources and a view from CIPFA and the Society of County Treasurers is to be sought.

Best value performance plan audit

The Council's 2003/2004 best Value performance Plan complies with statutory requirements

We have commented in detail on your arrangements to comply with best value in the earlier section 'Council Performance'. We have completed our statutory audit of your 2003/2004 Best Value Performance Plan and found that it complies with legislation and the supporting guidance. We report to you our statutory BVPP report at Appendix 2, which includes an unqualified audit opinion.

Performance information

Systems for producing performance indicators are satisfactory.

We found that systems in place to collect and calculate BVPIs have again improved since our last audit. We found the performance information in the BVPP to be well supported and evidenced and concluded the Council's arrangements for producing and publishing the required information to be satisfactory.

Other work

Grant Claims

In addition to the work we carry out to meet our Code of Audit Practice responsibilities we are also responsible for the certification of grant claims for which the County Council is the accountable body. The number of claims that we have been required to audit has continued to grow in recent years.

During the last year we have certified over 100 returns. The majority of the grant claims and returns are presented for audit on time and are well supported by good quality working papers. Nonetheless there are a minority of claims that require either amendment, more timely

submission or improvements to the quality of working papers.

In recent months we have worked closely with officers to seek to improve procedures. The Council has acknowledged that it would benefit by allocating overall responsibility for the co-ordination and submission of all grant claims and returns to specific officers in the main departments. In our view this should reduce the number of problems encountered and, consequently, reduce the cost to the Council of auditing these claims.

Boundary Committee

The Boundary Committee has recently issued its proposals for the organisation of Local Government in Lancashire as part of its Regional Government consultation. Under three of the options proposed Lancashire County Council would be subsumed within other organisations. Despite this and regardless of the outcome of any future referendum it will be important for Members and Officers to continue to work together to provide high quality services for the people of Lancashire.

Audit and inspection fees

The following table sets out our latest estimate of the actual fee for 2002/2003 on the basis that some work remains in progress, together with explanations where there are variances.

EXHIBIT 3

Audit fee update

Audit area	Plan 2002/03	Anticipated actual 2002/03
Accounts	£87,000	£87,000
Financial aspects of corporate governance	£70,000	£70,000
Performance	£55,000	£55,000
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	£212,000	£212,000
Inspection (1)	£61,000	£61,000
Additional s35 work	Nil	Nil
Certification of grant claims (2)	£115,000	£165,000
TOTAL AUDIT FEE	£388,000	£438,000

(1) Inspection fees are net of ODPM grant received.

(2) The grant claim audit continues until early 2004 and the actual fee reported is our current estimate of the likely fee for the 2002/03 certification work.

Strategic regulation : future audit and inspection work

Strategic Regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

For the first time we have brought together co-ordinated audit and inspection plans that make clear how our work supports the improvement agenda of each single tier and county council. These plans are now available on the Audit Commission website.

Our joint audit and inspection plan for 2003/2004 was presented to members in June 2003 following close working with officers and members. We have developed a programme of work that is proportionate to both the Council's risks and its performance as assessed through CPA. We have structured our work programme across the following themes that help to clarify the purpose of our work.

- Assessment
- Improvement
- Assurance.

The key areas of work programmed for 2003/2004 are:

- Community cohesion
- Partnership arrangements
- Delivering the priorities in the Corporate Plan
- Review of Internal Audit
- Supporting People Inspection
- OFSTED

Audit and Inspection planning for 2004/2005, linked to your improvement plan, will be carried out in early 2004.

Status of our Audit and Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Closing remarks

This Letter will be discussed and agreed with Cabinet. A copy of the Letter will be provided to all Members and will be presented to the Audit Committee in March 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the Council's improvement agenda. We recognise the value of your co-operation and support.



Michael Thomas
District Auditor and
Relationship Manager

January 2004

APPENDIX 1

Audit and Inspection reports issued during 2002/2003

Inspection of Information Service	January 2002
Inspection of Library Service	July 2002
Audit plan	January 2003
Grant Claims	May 2003
Interim Audit Report	August 2003
Procurement	October 2003
Social Services	October 2003
LPSAs	September 2003
Supporting People	December 2003
Audit Opinion	December 2003
Best Value Opinion	December 2003
Statement of Auditing Standard 610	December 2003

Auditor's Report to Lancashire County Council on its Best Value Performance Plan for 2003/2004

Certificate

I certify that we have audited Lancashire County Council's Best Value Performance Plan in accordance with Section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Council and the Auditor

Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a Best Value Performance Plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the Plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived. The form and content of the Best Value Performance Plan are prescribed in Section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditors, we are required under Section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that we have done so, and:

- to report whether we believe that the Plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Act and statutory guidance
- where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements
- to recommend:
 - where appropriate, procedures to be followed in relation to the Plan
 - whether the Audit Commission should carry out a best value inspection of the Council under Section 10 of the Local Government Act 1999
 - whether the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the Plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide an opinion on whether the Plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. Our work therefore comprised a review and assessment of the Plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the Plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the Plan I am required to recommend how the Plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Unqualified opinion

In my opinion, Lancashire County Council has prepared and published its Best Value Performance Plan in all significant respects in accordance with Section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of our work:

- I do not recommend that the Audit Commission should carry out a best value inspection of Lancashire County Council under Section 10 of the Local Government Act 1999
- I do not recommend that the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.



Michael Thomas, District Auditor
12 December 2003

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.