

Annual Audit Letter Lancashire County Council

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APPENDIX 1

Auditors Statutory Report on the Best Value Performance Plan



DISTRICT AUDIT

Reference:	LA004-11-2002 AAL
Date:	February 2003

Introduction

This year has been one of significant change for local authorities with the introduction of the Comprehensive Performance Assessment (CPA) providing a detailed analysis of local government performance.

In December 2001 the Government published a White Paper which announced the introduction of CPA across local authorities. The Audit Commission was given responsibility for developing the methodology. The first stage of CPA has resulted in all metropolitan, county and unitary councils being ranked into one of five categories - excellent, good, fair, weak and poor. The results were published nationally on 12 December 2002.

The CPA process assesses the Council's services and the overall way in which the Council is run. The message from this work is clear: the Council provides effective services for local people, has strong political and managerial leadership, is good at managing its finances, but could do more to establish a clear vision for the County that is linked to the delivery of priorities. This would help the Council to better deliver real outcomes for local people.

Improvement will require drive and leadership and the Council has shown that it is determined to act on the messages from the CPA assessment to drive up performance and bring about sustained improvement, focusing on the areas that matter most to local people.

At a local level, there have been a number of other significant developments in Lancashire including:

- implementing modern political structures
- taking action to get Social Services out of Special Measures
- continued focus on implementing, and achieving Best Value
- adopting a local Code of Corporate Governance and enhancing the Council's Corporate Governance framework
- tackling the causes of the disturbances in East Lancashire
- a new Chief Executive and a new corporate management structure

- continuing the implementation of the culture change programme
- implementing the e-government agenda
- restructuring residential services for the elderly.

The Council also agreed to assist the Audit Commission in piloting its Citizen Focused Audit initiative.

This annual audit letter summarises the results of the 2001/2002 audit. It takes into account the outcome of the CPA process, but retains as its main focus our statutory responsibilities as external auditor to the Council.

KEY MESSAGES

Comprehensive performance assessment

Lancashire was categorised as a good council in the recent CPA. Both the services provided and the way the Council is run received marks of 3 out of 4 in the Audit Commission's assessment.

In response to the CPA, the Council has identified its improvement priorities. Progress on these issues needs to be closely monitored by members. The priorities will also form an important element in the planning of future audit and inspection work.

Best Value

The Council's Best Value Performance Plan for 2002/2003 complied in all significant respects with statutory requirements. Our statutory certificate and opinion are attached at Appendix 1.

The production of Best Value Performance Indicators (BVPIs) has much improved this year and they can now be relied on to provide the information needed for Performance Management.

Economic development

The Council has a long history of pursuing its objectives for economic development by establishing and placing contracts with economic development companies. However, the arrangements for stewardship and governance of the Council's significant investment of public money in economic development are now not in accordance with best practice. The Council has made some improvements recently, but should build on the progress already being made, particularly in relation to the monitoring of contracts and the corporate governance arrangements with its partners.

Financial standing

The Council is in a healthy financial position, but will need to continue to monitor the position regularly to ensure that balances are maintained and that expenditure is contained within budget.

School balances

School reserves have increased from £34m to £41m. This is a significant amount. Members will no doubt continue to review the need for - and size of - individual school reserves whilst recognising that the decisions are ones for the schools themselves to make.

New political arrangements

The Council has responded well to the Local Government Act 2000 in the introduction of new political arrangements. We found them to be working well, with much good practice.

Social Services

The Council is making progress on the actions it committed itself to in response to the Joint Review. In May 2002 the Department of Health categorised the Council as a one star authority, which resulted in the Council being released from 'Special Measures'. This is a notable achievement. However, the best performing departments were awarded three star status and so the Council still has further and considerable progress to make.

Special Educational Needs (SEN)

Good progress has been made in the last year. A new policy for SEN provision in Lancashire is currently out for consultation with a view to implementing it from the summer. Members will need to ensure that the implementation of the policy is properly managed and that its impact is thoroughly evaluated.

Pupil Referral Service (PRS)

The PRS costs over £7million, much more than comparable authorities, but cannot demonstrate that it is providing good value for high costs.

Members should ensure that there is a clear strategy with targets, milestones, monitoring strategies and evaluation mechanisms and an up-to-date service plan.

The purpose of this Letter

This Annual Audit Letter summarises for members the more important matters arising from our audit for 2001/2002 and comments on other current issues. We have worked with officers as new arrangements have been considered and implemented, as well as producing reports and memoranda during the year on specific aspects of our work, and these have been discussed in detail with officers. These are listed at the end of this Letter for members' information.

The Audit Commission has circulated a statement to all audited bodies, which summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit objectives

Audit work is based on the significant financial and operational risks that the Council faces and is structured around three main elements:

EXHIBIT 1

The three main elements of audit objectives



Accounts

- Opinion
- Core process review

Financial aspects of corporate governance

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

Performance management

- Use of resources
- Best Value Performance Plan
- Performance management
- Best Value Performance Indicators.

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach. We have reviewed arrangements for dealing with risks and have undertaken more detailed work in selected areas of higher audit risk.

Accounts

Opinion

We issued an unqualified audit opinion on the Council's accounts and the Pension Fund on 29 November.

The Council approved the accounts on 26 September. Subsequently these accounts were amended to include, for the first time, summarised Group Accounts, and were approved by the Urgency Committee on 21 November.

As usual, both the standard of working papers presented to us and the extent of co-operation from all staff in the finance department was high.

We identified a number of errors ranging from minor errors to significant (non-material) errors and these have been reported to the Head of Finance.

The audit of the Pension Fund included additional work relating to the introduction of FRS 17 (Retirement Benefits). We carried out a review of the Fund in accordance with guidance issued by the Audit Commission. As a result we were able to give satisfactory assurances to the auditors of the (main) admitted bodies.

There were no matters arising which we need to draw to the attention of members.

Core process review

These processes consist of the main accounting system, budgetary control and closedown processes. Our review found satisfactory controls were in place during 2001/2002.

Financial aspects of corporate governance

Legality of financial transactions

The Council has a sound system of identifying legal issues and ensuring that appropriate action is taken.

Our review of the Council's overall arrangements found that legality issues are properly considered. Our work in this area has not revealed any issues of concern.

Neither of the statutory officers has had to exercise their formal powers associated with unlawful or potentially unlawful action.

Financial standing

The Council is in a healthy financial position, but will need to continue to monitor the position regularly to ensure that balances are maintained and that expenditure is contained within budget.

Councils must have robust arrangements to meet financial obligations, and to ensure financial standing is soundly based. The consequences of poor financial standing can be significant, with the risk of reductions in service.

We have found over the years that the Council's arrangements are sound and this year is no exception. Indeed, our CPA judgement on the Council's stewardship of finance (use of resources) confirmed that view.

The Council's budget was, once again prepared under the framework of the three year County Finance Strategy (CFS). In 2001/2002, it spent just under £933m on providing services for its residents, which compared with the revenue budget of £934m.

Capital expenditure during the year was nearly £68m, only £0.5m less than planned. On resources available over two or more years, £16.4m was carried forward in line with approvals.

As a result of the underspend on revenue budgets, £1.3m was added to the County Fund, increasing the balance to £11.2m, which is just under 1% of expenditure. We feel this is currently a prudent level, given the Council's sound financial arrangements.

Earmarked revenue reserves, including DFM balances and school balances, totalled just over £58m.

During 2001/2002 school balances increased significantly from £34m to £41m, with 42 schools exceeding LEA guidelines by more than £100k and 130 schools by between £50k and £100k. Also, 15 schools were in deficit.

Schools are planning to reduce balances by £9.3m in 2002/2003. However, forecast balances will remain some £10.4m in excess of LEA guidelines.

We share members' concerns at the level of Schools' reserves and agree with the action they have taken. Recommendations aimed at addressing the problem of excessive balances and which were set out in a report from the Education Directorate to the Cabinet Member for Education and Young People in November 2002 have been agreed. In particular, 23 schools which have held balances of more than £50k in excess of the guidelines for at least three years are to be pressed to explain the reason for this level of balances.

The latest budget monitoring report to Cabinet projected that DFM balances will reduce by £3.9m in 2002/2003, leaving Directorates with little flexibility to meet future, unforeseen liabilities. Social Services Directorate is forecasting an overall deficit of £1.4m and is taking action to contain this projected overspend within its brought-forward balances. Within this figure, the most significant overspend is by the Purchasing DFM where the forecast deficit is some £4m.

The proposed changes to the operation of residential homes for older people may mean that financial support in addition to that already planned will be needed for Lancashire County Care Services in 2002/2003 and 2003/2004.

Looking forward, the Council plans to adapt the County Finance Strategy to align the service and financial planning process. This approach, which we strongly support, will be introduced for 2003/2004 and will be connected to the Council's purpose and objectives via costed service and business plans. It will also involve a technique termed "decision conferencing", which has been piloted in the current year, and which links budget decisions to the Council's aims and objectives. It will continue to operate on a three year cycle linked to the Government's Comprehensive Spending Review.

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. We are satisfied with the coverage of their work and assess the quality of their work to be of a high standard.

We have also relied on Internal Audit's work on major financial systems and reviewed compliance with CIPFA's Code of Practice for Internal Audit. We found these to be of a high standard with no major concerns.

In addition to our review of overall arrangements, we have carried out other specific work on Internal Financial Control.

Public Private Partnership (PPP)

For the Fleetwood School PPP scheme, we worked with officers to ensure that any potential problems with accounting were anticipated. The result is that we consider the accounting proposals, residual interests and asset disposals to be reasonable.

So far we have found the Council's management of the PPP process to be good. We will keep the arrangements under review for current and new schemes.

Information and Communications Technology (ICT)

Last year, we commented on the need for the Council to introduce a corporate approach to managing information security in line with best practice. During 2002, the Council initiated a pilot exercise, in Social Services, of implementing best practice information security and we reviewed progress as part of this year's audit. The Social Services pilot of best practice corporate information security was not completed due to resourcing difficulties, and a new approach has now been agreed. The basis of this revised approach is a corporate information security framework, currently in draft, and being discussed by officers.

The Council's ICT Strategy includes a corporate requirement for best practice information security to be in place by April 2003. This is a challenging target, and we will continue to monitor progress.

On a related area, we also reviewed progress on the arrangements for ensuring compliance with Data Protection legislation. We found these arrangements to be satisfactory.

Standards of financial conduct, and the 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. One of the main reasons for this is the anti fraud and corruption culture promoted over the years by members and officers, and the high quality of preventative work carried out by Internal Audit.

In addition to our general assessment of the Council's arrangements, we carried out specific work on several issues. There are no matters arising from our work.

Citizen focused audit

One of the Audit Commission's key strategic objectives is 'focusing our work on the public and users' diverse experience of public services and their outcomes'. This year Lancashire County Council is one of 14 sites taking part in the Audit Commission's Citizen Focused Audit pilots. We aimed to examine how citizens can be positively involved at each stage of the audit process. With the agreement of members, and using the Council's own consultation mechanisms, we did this by:

- *consulting with Lancashire's Citizens' Panel on the audit process*
- *developing communication mechanisms to encourage better engagement with Citizens and users*
- *carrying out a specific review, with a user focus, of Lancashire's Pupil Referral Service (PRS).*

We were delighted with, and grateful for, the co-operation we received both from your staff and the citizens of Lancashire.

We are currently assessing the outcomes from our consultation with the Life in Lancashire panels, but one recommendation that we are actively addressing is that we should communicate key issues to the public in a user friendly style, tailored to the public's needs.

Stage 2 of our audit of the PRS will see users of the service sharing with us their experiences of the service, and contributing ideas as to how the service might be improved.

Economic development

The Council has a long history of pursuing its objectives for economic development by establishing and placing contracts with economic development companies. This year we have assessed the arrangements in place to secure proper stewardship by the County Council of its relationship with its principal, wholly owned, Economic Development Company, Lancashire County Developments Limited, LCDL.

The Council has been innovative in developing new methods of service delivery outside of the direct control of the Council. These arrangements provided greater flexibilities and freedoms than would otherwise have been possible if these services had been provided directly by the Council. The arrangements have delivered significant levels of economic development.

However, the arrangements for stewardship and governance of the Council's significant investment of public money in economic development are now not in accordance with best practice. Over recent years thinking has developed on the checks and balances required to ensure proper stewardship of public money where services are provided other than directly by the Council. Without such checks and balances the Council may be exposed to increased risk that its funding for economic development does not provide value for money (as measured in terms of economic delivery) or is not used for its intended and proper purpose.

Significant improvements have been made to the arrangements, particularly over the last two years, including the repackaging and re-letting of contracts and the strengthening of financial procedures and governance arrangements. However there is scope for the Council to develop its arrangements still further, particularly in relation to the monitoring of contracts and the corporate governance arrangements with its partners.

We have discussed these issues with officers, and agreed recommendations aimed at building on the progress already being made.

Performance management

- *Comprehensive Performance Assessment*
- *Best Value Performance Plan*
- *Performance information*
- *Use of resources*

Comprehensive Performance Assessment

The Comprehensive Performance Assessment has resulted in Lancashire being categorised as a good council. Both the services provided and the way the Council is run received marks of 3 out of 4 in the Audit Commission's assessment.

The Comprehensive Performance Assessment (CPA) was developed by the Audit Commission, in partnership with local government, other inspectorates and the Government. In addition to a score for performance across key services, authorities receive an overall score for the way they are run by being placed in one of five categories (excellent, good, fair, weak, poor).

Lancashire was ranked as a good council in the way it provides services for local people.

Exhibit 2 shows its performance in individual service areas. Scores are on a 1 - 4 basis, with 1 being the lowest and 4 being the highest.

EXHIBIT 2 CPA SCORECARD

Service	Score
Education	3
Social care - children	2
Social care - adults	2
Environment	3
Libraries and leisure	3
Use of resources	4
Overall service performance	3

Lancashire also received a score of 3 out of 4 for the way it is run. The Council generally provides good quality services for local people, it has sound financial management and has achieved improvements in key areas by working with community partners. There is great potential within the organisation and the Council needs to realise the capacity it has in its members, staff and partners.

However it could do more to establish a clear vision for the County that is linked to the delivery of priorities. This would help the Council to better deliver real outcomes for local people.

Following from the CPA process, councils are working on improvement planning, aimed at identifying their top priorities for improvement. This demonstrates they have actions in place to address such priorities. Councils' rankings will influence both the amount of audit and inspection work undertaken in future years and the range of freedoms and flexibilities they will be granted from central government. It is envisaged that priorities identified as part of the improvement planning will feed into each Council's Performance Plan for 2003/2004.

The Council is already well advanced in its work on improvement planning and a meeting has been arranged between auditors, inspectors and the Council to consider priorities further.

Best Value

The Council's 2001/2002 Best Value Performance Plan complies with statutory requirements.

We completed our audit of the Best Value Performance Plan and confirm that it complies with legislation and followed guidance well.

Our statutory report on the BVPP, attached at Appendix 1, was issued in December 2002 and includes an unqualified audit opinion.

Performance information

Systems for producing performance indicators have improved.

Both the impact of the CPA and the implementation of our recommendations from the audit of last year's BVPP, has meant directorates put additional effort into the production of BVPIs than in previous years.

We found that the systems in place for collection and calculation of the BVPIs are much improved. since our audit last year, and can be relied on to provide the information needed for Performance Management. We identified fewer errors - only one indicator was qualified and only three of the 44 BVPIs we examined were amended as a result of the audit.

Use of resources

This year we have reviewed the following:

- *Democratic Renewal*
- *Culture Change Programme*
- *Social Services*
- *Pupil Referral Service*
- *Schools as Purchasers*
- *Special Education Needs*
- *ICT issues.*

Democratic Renewal and the effectiveness of the decision making structures

Last year we examined the Council's progress in responding to the Local Government Act 2000 and found that the Council's preparations, at that time, were progressing well in most areas and that good progress had been made to embrace the modernisation agenda. In common with other authorities, the priority was to ensure that the new arrangements work in practice and the improvements expected of them are delivered.

This year we reviewed how the decision making structures are operating in practice and found that overall, the Council has met the requirements of the Local Government Act 2000 and associated guidance in developing its new constitutional arrangements. We also found much good practice including:

- engaging young people in decision making processes
- investing in member development
- piloting methods of public participation
- ensuring that Cabinet agendas focus on important strategic issues
- new initiatives such as live webcasts of Cabinet meetings.

We are currently discussing with officers some suggestions to improve the process even further. These include:

- member portfolios should include specific responsibilities for corporate objectives
- members should consider whether there should be closer integration between portfolio responsibilities and the Community Strategy key areas
- the impact and effectiveness of scrutiny should be assessed.

Culture Change Programme

The Culture Change Programme was developed in 2001 to underpin the Council's corporate modernisation agenda. The three year programme consists of a number of interrelated activities with the aim of making the Council more accessible and accountable to staff and the general public.

The programme is a wide and complex agenda with fourteen individual projects. These include:

- staff appraisal
- management and member development
- business planning
- internal communication.

Two groups – a management steering group and a working group - have been established to manage the programme and ensure that individual objectives are delivered. There is also very strong leadership and commitment by members and officers who actively champion the change management programme ensuring that it is embraced by all staff. The drive for change has also been further supported by a quarterly publication available to all staff communicating key issues relating to the change programme and the modernisation agenda, and change conferences for managers.

During the last two years significant progress has been made in delivering the objectives of the individual projects. One of the key reasons for its success to date is that the Council have allocated significant resources to ensure delivery of the programme. To ensure that the Council stays on track with its timetable for delivery, this level of resources needs to be maintained, and directed at priority areas.

Social Services

The management and delivery of effective social services is amongst many of the challenges facing local authorities at the present time. These challenges are set within a context of the need to modernise structures and services, manage performance and demonstrate continuous service improvement in line with user and carer expectations.

In recent years the Council has been making progress on a number of fronts against the actions it committed itself to in response to the Joint Review. In May 2002 the Department of Health published the first national "star ratings" for social services which categorised the Council as a one star authority. In recognition of the progress being made on a number of fronts, including improved performance management, the Council was released from "Special Measures". This is a notable achievement. However, the best performing departments were awarded three star status and so the Council still has further and considerable progress to make.

Last year we reported that the Social Services Directorate had introduced a new and comprehensive performance management system which was designed to link corporate and other strategic plans with the delivery of front line services to users. This, in conjunction with the development of a range of strategic, commissioning and business plans is expected to deliver the significant reconfiguration of services required by the Council. The scale and planned speed of change has required extensive staff training and familiarisation with the new arrangements and evolving performance culture.

We have continued to review the progress in developing the performance management system and the infrastructure that is needed to support it following on from our audit last year.

This includes reviews of commissioning and other plans developed in response to the reconfiguration of services for Older People and services for Children and Families, together with an examination of the effectiveness of links between financial and activity data in delivering service strategies.

Our findings so far suggest that:

- The introduction of performance management and its supporting infrastructure has progressed broadly in line with the Directorate's expectations.
- Further work is required by the Council to ensure that there is continuity between the achievement of improved performance and the necessary budget provision to sustain the new and improved levels of service that have been generated.
- Performance management arrangements are further developed in Adult Services than they are in Children's Services and this, in part, reflects structural arrangements which, in turn, affect data collection and monitoring. Children and Families are now using key performance indicators to assist in managing performance at local and county level, and further progress is expected.

As our audit progresses we will share our findings with senior managers and seek to agree a plan to implement any improvement opportunities we agree.

Performance Fund 2002/2003

The Personal Social Services Performance Fund was introduced in the NHS Plan as part of a range of measures to improve joint working between the NHS and social services. The fund is designed to focus on intermediate care services to reduce delayed discharges and prevent unnecessary admissions.

The Council was required to provide additional information relating to their Performance Fund schemes through a Baseline Assessment to be undertaken by appointed auditors.

We found that the Council have encouraged an inclusive process by the involvement of the Primary Care Trusts in the development of Performance Fund schemes. This has made the management of the grant more difficult, but, as a process, is very positive. Consequently there were 18 schemes covering a range of new developments. Our assessment showed that considerable progress had been made in drawing up detailed project specifications but that further work was needed to ensure delivery of targets. We have agreed an action plan with officers to assist in achieving delivery.

Pupil Referral Service (PRS)

The LEA's Behaviour Support Plan states that the PRS '.....provides tuition and other direct services to pupils excluded from schools and assists with the re-integration process of primary pupils into full-time mainstream education and other appropriate full-time provision for older pupils whose needs cannot be met by mainstream education'.

There are 11 Pupil Referral Units (PRUs) and 10 other venues, all of which costs just over £7million.

Ofsted's view of the service in 1999 was that PRU were effectively used to support pupils with Emotional and Behavioural Difficulties (EBD), that they gave good support for schools dealing with exclusions, and that schools were highly satisfied with the LEA's response and support. But Ofsted also concluded that "... neither schools nor the LEA have the means to judge whether its provision represents good value in relation to high costs".

Since that report, much has changed: all in-school support for behaviour has been delegated to schools; the service has experienced significant turnover of staff in both management and frontline positions; as from September 2002, there is effectively a completely new management team; and two PRUs, Preston and Minster Lodge, have gone into Special Measures.

Our review of the PRS found that there is a lack of key information, such as:

- attendance rates
- attainment data for pupils in out-of-school provision
- figures for the re-integration of pupils into mainstream school, college, training or work
- the cost of places at the various PRUs
- comparative data, both internal and external.

There are pockets of data to be found in a number of locations but the Service is not collating data in the systematic way required if it is to be used to inform decision making.

The shortcomings in the area of information management, which is arguably the key support process, impacts on all aspects of the Service. Its core processes of receiving, educating, training, and re-integrating pupils cannot be properly assessed for their effectiveness. A picture of the Service's overall performance cannot be created which, in turn, leads to an inability to review and evaluate policy and strategy, and allocate resources effectively.

Our conclusion is that the PRS has been insufficiently focused on the outcomes it intends to achieve and on the contribution it makes to the wider inclusion agenda. There is no doubt that it faces some significant operational and strategic challenges. To meet these challenges successfully, and to demonstrate the impact of its activities, the service must develop a clear strategic plan with targets, milestones, monitoring strategies and evaluation mechanisms. It requires an up-to-date service plan which includes staff development, costs – including reduction of costs – and investment of resources, for example ICT.

The need for significant improvements in arrangements for pupils out of school has already been recognised by the Director of Education and Cultural Services. New management arrangements have been developed as part of a wider review of Directorate activities, and a robust action plan has been drawn up to address the issues identified in the report.

Schools as purchasers

Schools are facing a growing responsibility for resource management through increasing levels of delegated budgets, and now have a greater range of choice as to where to buy their support services.

Their purchasing decisions can have a significant educational and financial impact. Therefore, schools require access to appropriate support and expertise to make the right choices.

As part of the Best Value requirements on Local Authorities, Education Authorities must explore new ways of delivering services. They are expected to help to promote a more open market in school services and take steps to ensure that all schools have the knowledge and skills they need to be better purchasers of goods and services, in line with the Best Value principles.

The general level of schools' buy-back of the LEA's services is very high, with over 95% of schools buying the key authority services of Finance, Personnel and Payroll.

Our review of the LEA's arrangements found that both schools and the Authority are struggling to understand how the LEA can be both an enabler and a trader at the same time. As it improves its role of enabling schools to become more effective purchasers, so the demands made by schools on the Council's services will grow – expectations will rise for increased competitiveness and cost effectiveness (that is, lower prices), better quality, and a wider range of options.

The Authority has to deal with this dilemma carefully but decisively. It must do more to develop its enabling role by ensuring schools have access to more information about what else is available, and how the LEA's services compare with others. However, it must also determine its role in service delivery to schools - where services are to continue to be delivered in-house, their trading activity must be supported and co-ordinated more effectively by the Authority if they are to prosper in the long term.

We are currently in the process of agreeing our recommendations and action plan with officers.

Special Educational Needs

Over the last year, the Council has made progress in addressing the issues we have raised in previous audit letters. The latest figures show that, although there has been a marginal increase in the number of statements maintained by the Council:

- the percentage of pupils placed in special schools has reduced, and is now more in line with the national average
- there has been a corresponding increase in the proportion of pupils with new SEN statements being placed in maintained mainstream schools
- there has been a reduction in the number of new statements made
- Over half of the budget for provision for pupils with statements has been delegated to schools, with only the resources required to meet low incidence need being retained centrally.

The Council has recently produced a revised policy for Special Educational Needs provision in Lancashire, *An Inclusive Continuum of Special Educational Provision*, together with a strategy for the implementation of the policy, both of which are currently out to consultation. It is intended that an action plan and a timetable for the implementation of the policy will be produced in the summer. The policy and strategy for implementation seek to:

- strengthen the ability of mainstream schools to meet the needs of pupils with SEN
- reduce the reliance on out-county provision
- educate all pupils in appropriate environments
- enhance the quality of provision already available for pupils with SEN in order to raise standards.

This policy is part of the Council's long-term strategy to place a greater emphasis upon provision in mainstream schools and develop a special school sector which is fit for purpose.

We think that successful implementation of the policy should lead to improved use of resources. To achieve this, the Council will need to carefully manage the implementation of the policy and ensure that its impact is thoroughly evaluated.

Information and Communications Technology (ICT)

During 2001-2002 the Council developed its approach to information and ICT through a:

- Best Value review and service improvement plan for ICT
- updated corporate ICT strategy
- corporate information strategy (in draft)
- updated statement on e-Government.

This is a significant advance for the Council since, for the first time for many years, these documents provide the Council with the basis for a corporate approach to information and ICT, and a corporate framework for detailed project plans and policies.

Through the new democratic structures at the Council, members have reviewed these documents (particularly the Best Value improvement plan) and have asked officers to demonstrate the links between ICT developments and corporate priorities more clearly.

E-Government

The Council's updated e-Government document demonstrates continued good control. A key part of the Council's approach is the development of a Contact Centre, jointly with Lancashire district councils. The political sensitivities and the complexities of joint working have necessitated a careful approach to scoping this work, and therefore relatively slow progress. We are pleased to note that the project is now moving into the procurement stage, and we will continue to monitor progress on this project and overall e-Government development.

CLEO

The Council is part of Cumbria-Lancashire Education On-line (CLEO). This national initiative, funded jointly by DFES and the participating Councils, was established to ensure that all children have fast and affordable access to the best multimedia learning materials. Lancaster University is a key partner. Officers recognise that there are weaknesses in the current arrangements:

- the legal status of the consortium, and who owns the assets is unclear
- SLAs are not well defined
- relationships between the parties have recently been poor.

However, improvement actions are in progress - it is planned to establish a company limited by guarantee, in which both Councils and the University of Lancaster will have a stake. We will continue to monitor progress.

Future audit work

To allow for the integration of District Audit and the Audit Commission's inspectorate, the next audit will cover the five month period up to the end of March 2003. We are currently considering the significant operational and financial risks faced by the Council that we will need to address during this period.

From April 2003 we will agree a co-ordinated audit and inspection programme that will reflect the Council's own improvement planning, its CPA score and be proportionate to risk. We will prepare our programme in liaison with the Council and other inspection agencies.

Closing remarks

Finally, due to the Audit Commission's rotation policy this is the final year that Eddie Drozdziaak and I will be involved in the audit.

I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work and over the last seven years. Our aim is to provide a high standard of audit service, which makes a practical and positive contribution to the work of the Council. We recognise the value of your co-operation and support. I am sure you will offer my successor the same level of assistance.



Tim Watkinson
District Auditor
14 February 2003

Reports issued during the audit

Audit Plan and Risk Assessment (March 2002)

Performance Fund Baseline Assessment
(October 2002)

Best Value Performance Indicators
(October 2002)

Issues Arising from Opinion Work
(November 2002)

Issues Arising from Financial Aspects of
Corporate Governance Work (November 2002)

Pupil Referral Service (November 2002)

Schools as Purchasers (Draft - November 2002)

Statutory Report on the Best Value Performance
Plan (December 2002)

Procurement of Economic Development Services
(Draft December 2002).

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 non-Executive Directors/Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director/Member or officer in their individual capacity, or to any third party.