

Annual Audit and Inspection Letter

Lancashire County Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from a wider analysis of the Council's performance and its improvement over the last year to December 2007, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but it is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council reflect on progress made as well as highlighting a number of areas for further development and improvement for the Council to address. The headlines included in this report are as follows.

Council Performance

- The Council continues to achieve a **'four-star'** rating and our direction of travel judgement shows the Council to be **'improving well'**. Outcomes are improving in both local and national priority areas. Addressing variations in access and outcomes across a large and diverse County remains a challenge.
- Services for children and young people are good and improving year on year. Ofsted's Annual Performance Assessment rated the Council's performance as 'good' with 'good' capacity to improve. Educational attainment is improving across most key stages.
- The Council provides good and improving support and care for vulnerable adults. The CSCI annual performance assessment rated the Council as providing 'good' (three-star) social care services with 'excellent' capacity to improve. The strong and effective performance management in adult social care services is identified by CSCI as a key strength.
- Good and improving performance has been sustained in national priority areas such as waste management and transport services have improved substantially.
- Community safety is improving although the Council and its partners did not meet the 2006/07 target for reducing crime as measured by the British Crime Survey. However rates of domestic burglary, theft from cars and theft of cars are decreasing. Violent crime is also decreasing after an increase in the previous year.
- The Council makes a good contribution to economic development for example through key roles in the delivery of the North West Economic Strategy, the Lancashire Economic Strategy, and the Central Lancashire City Region Development Plan.

- The Council has an ongoing programme of adapting structures and procedures to become more customer-focussed and responsive. Progress had been slow in some areas but this year the Council has taken significant steps forward. Access to services and information are improving.
- Partnership working has strengthened this year. The framework for Children's Trust Arrangements is agreed. Delivery of the Elevate programme with district councils in east Lancashire is going well. This year the Council has led a revision of the Lancashire Partnership and Ambition Lancashire plan and is championing greater alignment of plans across the County for the future.

Use of Resources

- The Council has improved its overall performance in respect of Financial Management under the Use of Resources assessment and continues to perform consistently across the other four areas. Its overall score improved to 4 out of 4 this year.
- There is a strong focus on value for money. Improvements in performance are being achieved alongside efficiency savings. The Lancashire Efficiency Initiative (LEI) aimed at protecting front-line services, is at the heart of the Council's approach. There is, however, scope to further strengthen the overall strategic approach to project and programme management and to ensure value for money is consistently challenged across all aspects of performance.

Data Quality

- Corporate management arrangements for data quality are good and above the minimum requirements expected.

Local Area Agreement

- The Council and its partners are making good progress in establishing robust arrangements for governance, and financial and performance management of the Local Area Agreement.

Health Inequalities

- Our initial findings show that health and local government bodies across the county are investing time, effort and money to address the complex challenges in Health Inequalities. However, there is not a consistent model or strategic regional approach to reducing the gap in Health Inequalities. Further work is scheduled to take forward this study during 2008-2009.

Private Finance Initiative Schemes

- The contract for the second phase of the Building Schools for the Future (BSF) project has been signed, but the judgement on whether the project is 'off balance sheet' is extremely finely balanced. Additional work is ongoing to provide greater certainty on the predictions of the demand for school places in the area. In addition the 'affordability gap' for the Waste PFI scheme, although provisional funding sources have been identified for the current comprehensive review period (ie until 2010/11) has not yet been fully addressed for the financial years in the following CSR period.

Action needed by the Council

- 4 We highlight below particular matters arising from our work over the last year that relate to councillor's responsibilities. The key improvement and development areas for attention by the Council are as follows.
 - Address variations in access and outcomes across the County in particular focus on maintaining current performance in areas of higher performance and improving performance in areas of comparative lower performance.
 - Review the revisions to the use of resources key lines of enquiry and ensure that the Council can demonstrate compliance against these new and revised requirements for 2008.
 - Apply data quality processes consistently across all departments for all performance indicators.
 - Work with partners to develop a strategic and operational approach to the reduction of health inequalities in the County area.
 - Review the Building Schools for the Future PFI scheme in the light of revised demand forecasts to assess the likely impact on the proposed accounting treatment of the scheme. Linked to this it is essential that the Council continues to identify and investigate options to address the affordability gap on the Waste PFI project after 2010/11.
 - Ensure that the Council has effective arrangements in place to meet the challenge and requirements of the new performance assessment framework under the Comprehensive Area Assessment.

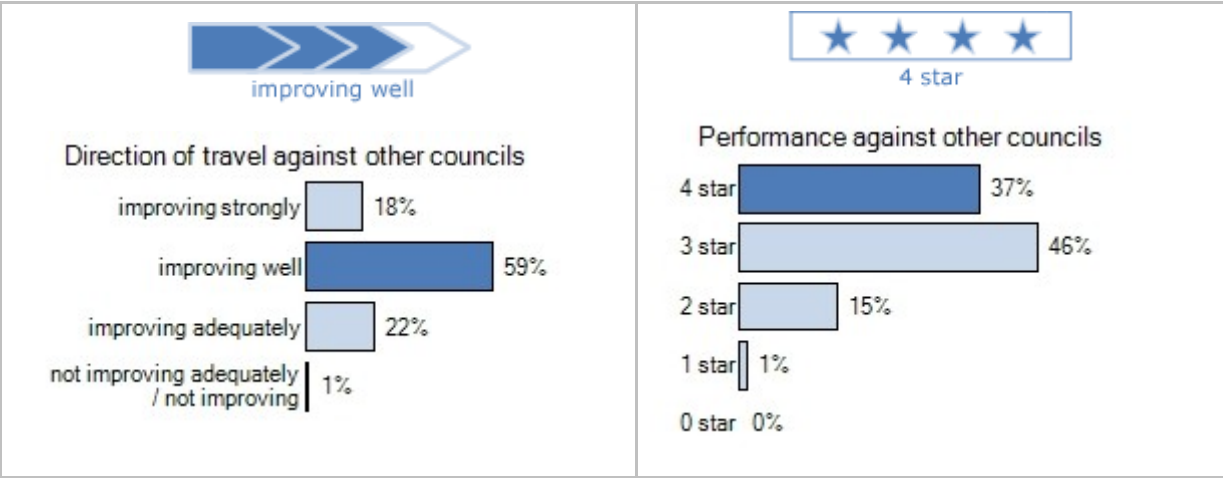
Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 6 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website at www.lancashire.gov.uk
- 8 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Lancashire County Council performing?

- 11 The Audit Commission’s overall judgement is that Lancashire County Council is improving well and we have classified Lancashire County Council as four-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Source: Audit Commission

- 12 The detailed assessment for Lancashire County Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving Well
Overall	Four star
Corporate assessment/capacity to improve	3 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	4 out of 4
Environment	3 out of 4
Culture	3 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 13 Overall, outcomes continue to improve in local and national priority areas. In 2006/07 the Council achieved 74 per cent of local performance indicator targets and 82 per cent of Annual Delivery Plan milestones; 64 per cent of Best Value Performance Indicators improved, 31 per cent deteriorated and 58 per cent met their targets. In relation to the Audit Commission basket of performance indicators improvement was at the high end of the average range for all county councils. However this year 24 per cent were in the best quartile, a drop from 35 per cent last year and below the county council average of 29 per cent.
- 14 The Council consistently delivers good services for children and young people that are improving year on year. The Ofsted Annual Performance Assessment rated the Council's performance as 'good' with 'good' capacity to improve. Outcomes vary across the county reflecting the diversity of social and economic circumstances.

- 15 Educational attainment is improving across most key stages. GCSE results continue to improve although some minority ethnic groups are not achieving their potential. Gaps are narrowing but the Council is aware that it needs to sustain the progress of children of Pakistani heritage. It also recognises the need to address geographical variations in attainment for example the drop in achievement in parts of East Lancashire. School attendance is higher than the national average and increasing. Although numbers of exclusions in secondary schools are above average the number of days is declining and excluded young people receive good, alternative tuition. Safeguarding is good and improving - numbers of initial assessments completed within timescales have risen consistently since 2003 to well above the national average. Looked after children have secure and stable short term placements but long-term placement stability is slightly below average.
- 16 The number of young people not involved in education, employment or training (NEET) is reducing. This is a stretch target in the LAA and performance is ahead of milestone targets. The number of young people successfully completing apprenticeships has increased significantly. In 2006/07 there was a decline in the levels of some vulnerable groups engaged in education, training and employment including young mothers, care leavers and young offenders. The Council and its partners are targeting these groups in 2007/08.
- 17 The Council provides good and improving support and care for vulnerable adults. The CSCI annual performance assessment rated the Council as providing good (three-star) social care services with 'excellent' capacity to improve. Strategies to promote and sustain independence are reducing the number of people admitted to residential care. However the number of older people helped to live at home has decreased in line with a national trend after new criteria were introduced to measuring the indicator. The Council is working to provide additional support for older people by implementing a wellbeing strategy in liaison with the VCFS. The Council is also aware that further provision of extra care housing is needed. Provision of direct payments is increasing with improved take up in BME communities following a targeted campaign. Waiting times for assessments, equipment and minor and major adaptations have all improved. Delayed transfers from care are low and reducing. The Council and health partners are aware that they need to do more to support people with long term conditions.
- 18 The Council provides good support for carers. It has improved accessibility of support for carers from the BME community and has built productive relationships with voluntary, community and faith sectors.
- 19 Good and improving performance has been sustained in national priority areas such as waste management. Transport services have improved substantially. In 2006/07 bus use increased overall by 5.5 per cent with an increase of 4.7 per cent on the commercial network and 8.4 per cent on the supported network. Travel information has improved through new systems.

- 20 The Council promotes healthy lifestyles. With partners it has produced a good range of information and events aimed at improving health and wellbeing. All schools are engaged in the Healthy Schools Programme - a marked improvement on last year. By March 2007, 66 per cent had achieved Healthy Schools Status exceeding the national target. The Council achieved Beacon Status in 2007 for its innovative approach. The number of looked after children that attend their health assessments has increased significantly from last year and is now above average. Teenage conception continues to fall although targets for 2006/07 were not achieved and the rate of reduction varies across the county; however Lancashire's performance is better than regional and national averages.
- 21 Community safety is improving although the Council and its partners did not meet the 2006/07 target for reducing crime as measured by the British Crime Survey. Rates of domestic burglary, theft from cars and theft of cars are decreasing. Violent crime is also decreasing after an increase in the previous year. The Council and the police are working together on initiatives to tackle rogue traders and doorstep crime and have created nine 'no calling zones'. Rates of offending and re-offending by young people have reduced although the percentage of prolific re-offenders is rising.
- 22 Provision of alcohol and drug services is improving. The number of people with a substance misuse problem accessing treatment increased in 2006/07 and the Council and its partners achieved 94 per cent of the target to retain drug misusers in treatment programmes. There has been good progress in achieving the target for the number of young people in treatment (target 337 actual 486).
- 23 Partnership work to reduce road casualties is having mixed impact. In 2006/07 the number of children killed or seriously injured fell but the number of adults killed or seriously injured rose. Numbers of people slightly injured in road incidents fell overall.
- 24 Internally, the Council is developing a more corporate approach to community safety mapping how services contribute to making people feel safe. It has appointed a team of officers dedicated to linking with district Crime and Disorder Reduction Partnerships and is establishing a new Corporate Strategic Framework in 2008.
- 25 The Council makes a good contribution to economic development for example through key roles in the delivery of North West Economic Strategy, the Lancashire Economic Strategy, and the Central Lancashire City Region Development Plan.
- 26 In 2006/07 the Council exceeded its targets for business start ups and job creation but did not reach the target for new apprenticeships in the public sector.

- 27 The Council has an ongoing programme of adapting structures and procedures to become more customer-focussed and responsive. This includes restructuring back office systems to improve efficiency and support more consistent, high quality front line approaches to service users and residents. Progress had been slow in some areas but this year the Council has taken substantial steps forward. Access to services and information are improving. The website has been upgraded and a new e-forms package has increased the number of transactions available on line including on-line payments. The Customer Services Centre is expanding and provides a good quality response to telephone callers. The partnership with six district councils has been reshaped; the contract with Northgate renegotiated delivering substantial savings; new services have been integrated including all social care enquiries which is recognised as highly innovative. The Council is currently consulting on how best to meet customers' needs in relation to face to face contact. It is developing a Customer Access Charter. The Council is introducing performance indicators for access to services which are being incorporated into the corporate scorecard and will be reported bi-annually.
- 28 Lancashire Locals have become more established with increased powers and devolution of decision making. For example they have been empowered to approve and manage several additional grants including small grants to youth groups and grants for highways and climate change projects. This is helping to increase community leadership and community involvement.
- 29 Services users and local people have some good opportunities to influence planning and delivery. Consultation with young people continues to be a strength. There was good involvement of residents and representative groups in the development of the older people's strategy.
- 30 There is a strong focus on value for money. Improvements in performance are achieved alongside efficiency savings. For example the CSCI assessment found that the Council provides good value for money in adult social care services. The Lancashire Efficiency Initiative (LEI) and the business transformation programme, aimed at protecting front-line services, is at the heart of the Council's approach. The Council achieved £37.2m of 'Gershon' efficiency savings (ie cashable and non-cashable savings) against a target of £30m cumulatively for 2005/06 and 2006/07. Budgeted cashable savings of £7m on the LEI were more than achieved in 2006/07 and a further £9.75m cashable savings were included for 2007/08; budget monitoring information indicates that this figure too will be exceeded. The budget for 2008/09 includes targeted efficiency savings of a further £9.5m. Costs are well managed and staff are aware of how performance compares in relation to costs and quality. A new procurement framework targets efficiency gains through the implementation of Lancashire Electronic Ordering (LEO) and e-tendering in 2006/07 and this has been followed up in July 2007 by the implementation of Oracle Financials and internet procurement software. Currently some 840 staff are registered to use the internet procurement software (which incorporates the LEO system) with payment made by virtual purchase cards. From September 2007 to mid March 2008 nearly 6000 orders have been placed via this method at a value of over £4m, producing both direct cost and process savings.

- 31** There is scope to strengthen the overall strategic approach further. Value for money is not consistently challenged across all aspects of performance. Key corporate initiatives included in the LEI such as the Customer Access and Accommodation Strategies are not well integrated with directorate business plans. Some efficiency targets in the LEI programme do not yet have baselines identified. However, project management of the LEI programme is improving.
- 32** Business planning continues to effectively support delivery of priorities. Key plans and strategies links well and it is clear what the Council is trying to achieve. The Annual Delivery Plan launched last year has proved a successful approach to bringing together objectives, priorities and targets and reporting on performance.
- 33** Improvement plans generally drive better outcomes. Examples can be seen in children's services where good progress has been made in addressing issues highlighted in previous annual performance assessments and improved the customer access approach following input from Scrutiny and the Audit Commission.
- 34** Partnership working has strengthened this year. The framework for Children's Trust Arrangements is agreed. Delivery of the Elevate programme with district councils in east Lancashire is going well. This year the Council has led a revision of the Lancashire Partnership and Ambition Lancashire to bring more alignment. The commitment of the Council to the LAA is improving partnership working, in particular building more productive relations with district councils and greater consensus around what is important for the diverse communities that make up the county.
- 35** The Council and its partners are building joint approaches to tackling shared challenges. For example in July 2007 the Lancashire Partnership launched 'Strategy for an Ageing Population' which provides a framework to address the challenges of an ageing population setting a direction to develop services for the next twenty years.
- 36** The Council is strengthening its approach to building community cohesion. It has drafted a community cohesion development plan; launched community cohesion internet and intranet sites; included community cohesion in the corporate impact assessment policy and procedures; and, drafted a communications action plan to raise awareness of cohesion issues.
- 37** Performance management is good and improving. Issues of potential underperformance are tackled at an early stage to ensure that performance is brought back on track. Overview and Scrutiny Committees are using performance information more effectively. The strong and effective performance management in adult social care services is identified by CSCI as a key strength.

- 38** Performance management in partnerships is developing well. For example in relation to the LAA all partners contribute performance data to a common performance monitoring system and have signed up to the LAA data quality protocol. An Information Sharing Charter and supporting guidance has also been agreed. The Council is preparing an integrated LAA Performance Management Framework for the recently restructured Lancashire Partnership which will pull together the arrangements for planning, monitoring and reporting the delivery of the LAA outcomes. The Council is also leading the development of robust risk assessment and management arrangements linked to partnership performance monitoring.
- 39** Other systems have been strengthened this year. Risk assessment and management is more rigorous and consistent. A new framework clarifies roles and responsibilities. Risks are identified, assessed and managed at all levels with regular monitoring and review. A corporate approach to project management is less well established but there are examples of more rigorous approaches to individual projects.
- 40** People management is developing well. Restructuring is making the human resources function more efficient and effective. The 2007 staff survey found that the Council performs better than comparative organisations in areas such as job satisfaction, communication and change management. Responses were better than in the previous 2004 survey in areas such as awareness and understanding of the corporate strategy, appraisals and management of workloads. This year the Council was awarded IIP at its first submission. An impressive achievement for such a large organisation. It is introducing more flexible working arrangements and family friendly contracts and working on basic skills development and career pathways for lower grades of staff. In 2006/07 sickness absence reduced after an upward trend for three years. However levels are still high when compared to similar councils. The Council has an ambitious target to reduce sickness absence by 20 per cent in 2007/08.
- 41** The approach to equality and diversity is improving. Equality impact assessments are carried out for all new policies and strategies. Differential take up of and satisfaction with services is monitored and action taken to encourage engagement by minority groups. The Council is at level 3 of the Local Government Equality Standard and aiming to reach level 5 by 2008/09.
- 42** Reliable workforce analysis is driving a stronger focus on capacity building. Workforce planning is improving. Corporate, directorate and team based workforce plans are either in place or under development. In areas such as social care workforce planning and workforce development are carried out with partners. Succession planning is developing through initiatives such as the Future Executive Officers Development Programme. The Council is improving the diversity of its workforce. All diversity performance indicators improved this year although the workforce is still not representative of the wider community.

Service Inspections

- 43 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Children and Young People

- 44 Children and young people service comprehensive performance assessment score for 2007 is a 3 (performing well). This is the same as in 2006. Ofsted and CSCI, as part of the annual performance assessment, also assessed that the Council's:
- contribution of its children's services in maintaining and improving outcomes for children and young people is 'Good';
 - overall capacity to improve its service for children and young people is 'Good', and
 - contribution of its social care services in maintaining and outcomes for children and young people is 'Good'.
- 45 The assessment concluded that Lancashire County Council consistently delivers services for children and young people that are good and make a difference to the lives of children and young people. The contribution of services to improving outcomes in all areas is good. There is some variation in outcomes across the wide range of social and economic contexts within such a large county, but the council is aware of these issues and is tackling variations rigorously. The council pays good attention to the need to design services to reflect local needs and to involve the local communities and councils in the process. There is effective consultation with young people to ensure that services are designed to meet their needs. Effective partnership working is a strength of the council; there is good capacity for improvement due to an effective senior leadership team with a proven record of responding to challenges to bring about positive change.

Adults Social Care

- 46 The adult social care services comprehensive performance assessment score for 2006 is a '3' (performing well). The same score as 2006. CSCI indicated that the service '*serves most people well*' and the capacity to improve is '*excellent*'. Whilst this is the same as in 2006, of the seven underlying judgements five are assessed as good and two as excellent. This is a better set of scores than any other large/comparator County Council.

Other performance work

Local Area Agreements

- 47 Our review, undertaken in Autumn 2007, concluded that there is a strong, shared commitment to developing targets, systems and structures to make sure that the Local Area Agreement (LAA) delivers good outcomes for local people across the County. Agreeing and delivering an LAA in a county as large, complex and diverse as Lancashire is a huge challenge. The County Council, Lancashire district councils and other partners recognise this and are rising to the challenge. Together they have worked towards producing a new LAA in line with the Government's more streamlined approach to target setting.
- 48 This commitment is bringing some real benefits in terms of improved partnership working, more productive relations between district councils and the County Council and greater consensus around what is important for the diverse communities that make up the county. The LAA has informed and improved community leadership locally and driven greater acceptance of joint working.
- 49 The 'old' LAA focused on increased life expectancy, improving life chances, sustainable Lancashire communities and narrowing the gap between the most and the least disadvantaged. The overarching aims and targets were clear and were agreed following consultation with the wide range of partners involved.
- 50 The partnership is maturing and becoming more established. Leadership is developing well. Arrangements comply with LAA terms and conditions and statutory requirements. The Internal Audit function of the County Council plays a key role in assurance of arrangements.
- 51 The County Council is investing substantial capacity into building good governance and accountability. As a result some important building blocks are in place including good systems for performance monitoring and management. Others such as arrangements for financial management are developing well.
- 52 There has inevitably been a strong focus in the first phase on setting up systems and delivery chains. There is a risk of delivery mechanisms and processes becoming overly complex and bureaucratic so that the capacity of partners to participate in the range of processes, meetings and groups is strained.
- 53 There is the potential to use the expertise and capacity available in district councils more efficiently. For example drawing on their experience of managing Neighbourhood Renewal Funding. This would help to reduce the substantial capacity burden on the County Council.
- 54 Arrangements for decision making have been agreed but in some areas there was a lack of transparency. For example in relation to allocation of funds. The decisions of the steering groups and the performance group need to be more clearly stated and better communicated so that the rationale behind them can be understood. However in the new LAA the funding issues should be less contentious as pooled funding no longer applies.

- 55 Governance arrangements for delivery of county targets at a district level are not yet in place. There has been slow progress in drafting and agreeing suitable service level agreements and contracts. This means that accountabilities, responsibilities and resources are not clearly defined. It currently presents a risk to delivery.
- 56 The County Council and the leadership of the LAA are maintaining momentum around delivery and have gained the commitment of partners despite some of these problems of processes.
- 57 District councils have revised their community strategies and corporate plans to reflect and integrate the LAA. Local community strategies and Ambition Lancashire were not well integrated and the county vision was not well linked into local visions. This has been recognised and the County Council has driven a review of the structure of the county LSP and of Ambition Lancashire in the revision of the LAA under the new arrangements about to commence.

Health inequalities

- 58 In our audit plan for 2007/08 we stated our intention to undertake a study of Health Inequalities (HI) across Lancashire to include councils, primary care trusts and other stakeholders. HI is an issue for the county of Lancashire generally. There is significant variation within the county area on key measures of health such as:
 - average life expectancy;
 - death by suicide and/or by accidents;
 - infant mortality rates; and
 - cancer, heart disease and stroke rates.
- 59 Our initial findings show that health and local government bodies across the county are investing time, effort and money to address the complex challenges in HI. However, there is not a consistent model or strategic regional approach to reducing the gap in HI. Activities suffer from the lack of a robust planning and project management framework and there is limited performance management of HI specific indicators. As a result there is a high risk that the investment will not help reduce the HI gap across the county over the next three years.
- 60 Health partnerships tend to develop individual initiatives but a lack of project management and performance reporting to cabinet/board level is preventing progress. HI information is available and being used to target resources towards deprived communities and groups. Better leadership on public health, and identification of HI champions at local level would facilitate more progress.
- 61 Our second phase of work, to be conducted in 2008/09, will be directed towards assisting organisations to develop co-ordinated strategies in order to ensure their corporate and partnership resources are used more effectively. This work will be aligned with HI developments within individual councils, health bodies and other significant stakeholders such as Government Office North West and the Department of Health.

Private Finance Initiative

- 62 The Council has been in negotiation over two major schemes under the Private Finance Initiative (PFI). The schemes relate to the Lancashire Waste project, a proposed network of waste management facilities covering Lancashire including Blackpool. The second scheme relates to the Government's Building Schools for the Future (BSF) project which is planned for East Lancashire. We have continued to work closely with officers and have monitored progress on both schemes over the past year. We gave the Council our final accounting view on the Waste scheme and Phase I of the BSF scheme during 2005/06 and concluded that there were no issues that we needed to challenge at that stage.
- 63 During 2006/07 we have reviewed the proposed accounting treatment of Phase II of the BSF scheme and following our initial work the Council sought a revised accounting opinion based on up-dated demand forecast figures. Although the revised opinion is still 'off' balance sheet the balance of risk has shifted against the Council making this opinion more marginal. Work is currently being undertaken by officers of the Council to assess the implications of this for future phases of the BSF project. We have not been minded to challenge the accounting opinion on Phase 2 of the BSF project following the revisions to the demand forecasts.
- 64 The Council has incorporated the financial implications of the Lancashire Waste project into its budget forecasts for 2008/09 to 2010/11 (a cumulative budget increase of some £30m) and has identified provisional funding solutions within its draft cash limits. There still remains the residue of the additional costs of the project which will fall in 2011/12 (some £24m) for which a funding solution will need to be identified. However the Council has established a waste smoothing reserve which will assist in spreading the financial burden over a number of years.

The audit of the accounts and value for money

65 As your appointed auditor, I have reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:

- my audit report, providing an unqualified opinion on your accounts on 26 September 2007;
- a conclusion on your vfm arrangements to say that these arrangements are adequate on 26 September 2007; and
- my report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

66 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.

- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
- Financial management (including how the financial management is integrated with strategy to support council priorities).
- Financial standing (including the strength of the Council's financial position).
- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

67 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	3 out of 4
Financial management	4 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	4 out of 4

(Note: 1 = lowest, 4 = highest)

- 68 The Council continues to perform well across all five themes and has secured improvements in the Financial Management assessment through more consistent application of arrangements to manage its asset base. The key findings from the audit are set out below.

Financial reporting

- The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. The opportunity exists to further promote external accountability through the further development of the Annual Report.

Financial management

- The Medium Term Financial Strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.
- Arrangements for the management of the Council's asset base are now being applied more consistently and the Council can demonstrate how its estates strategy contributes to the achievement of strategic priorities

Financial standing

- The Council has a good track record of managing its spending within available resources.

Internal control

- The Council has arrangements in place to maintain a sound system of internal control that are designed to promote and ensure probity and propriety in the conduct of its business
- The Council can demonstrate that risk management is embedded in many of its corporate processes but risk management in relation to partnerships is still developing and is not yet fully embedded.

Value for money

- The Council provides good value for money.
- There is a good track record of addressing areas of high unintended spending as well as emerging budget pressures.
- Service improvements have been achieved over the past few years and high performance is demonstrating across a range of priority services. Although costs are in the upper quartile for core service areas, as is Council Tax, the Council can demonstrate best value compared to other authorities.
- The Council has set ambitious objectives to improve efficiency and value for money. However, targets are not yet being comprehensively used to maximise value for money in all areas and the opportunity exists to develop clear milestones for the Lancashire Efficiency Initiative (LEI).

Data Quality

- 69** Good data quality is the essential ingredient for reliable performance and financial information to support effective and appropriate decision making. The Audit Commission has developed a three stage approach to the review of data quality comprising:
- a review of management arrangements to determine whether proper corporate management arrangements for data quality are in place, and whether these arrangements are being applied in practice;
 - analytical review of 2006/07 BVPI data and selection of a sample for testing based on risk assessment; and
 - in-depth review of a sample of Performance Indicators (PIs) to determine whether they are delivering accurate, timely and accessible information.
- 70** Overall we found the Council's management arrangements for ensuring data quality are well embedded, with robust arrangements in place to promote governance and to monitor and review data quality. However, there is currently no formalised data quality strategy but the key elements of a policy are set out within relevant supporting corporate documents.
- 71** Our analytical review work confirmed that the PI values reviewed fell within expected ranges or were substantiated by evidence.
- 72** Our detailed audit of eight PIs revealed only one PI with some errors. We have agreed with officers, as part of our action plan that they will seek to ensure the consistent application of data quality processes across departments for all performance indicators.

Internal Audit

- 73** Internal Audit meets the requirements of the CIPFA Code of Practice and provides an effective service to management at the Council. We are able to rely on the work of Internal Audit where their work is relevant to our Code of Practice objectives.
- 74** Internal Audit has continued to strengthen its overall arrangements since our last review, three years ago, and has developed further through robust leadership by the management team. The overall resources available appear to be appropriate and broadly in line with similar Councils and we identified examples of notable working practice within internal audit at Lancashire.

Looking ahead

- 75 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 76 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 77 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 78 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Cabinet on 3 April 2008. Copies need to be provided to all Council members.
- 79 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Review of Internal Audit	May 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Data Quality Report	November 2007
Local Area Agreement Report	December 2007
Use of Resources Report (draft)	January 2008
Final accounts memorandum	January 2008
Annual audit and inspection letter	May 2008

- 80 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 81 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Michael Thomas
Relationship Manager and District Auditor

March 2008