

Annual Audit and Inspection Letter

Lancashire County Council

Audit 2004-2005

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Key messages

Council performance

- 1** Under the revised methodology for Comprehensive Performance Assessment 'CPA - the harder test' the Council has been assessed in the 'four-star' category, the highest a council can achieve, and is improving well.
- 2** Outcomes for local people are improving in important areas such as educational attainment, child protection, care services for older people, road safety, youth offending and recycling. In 2004/05, 85 per cent of local performance indicators and 67 per cent of national performance indicators improved.
- 3** The Council has strengthened its performance monitoring and improvement planning. Value for money (VFM) is good and improving through routine challenge.
- 4** The Council has recognised that further improvements are needed in some areas including partnership working, clarification of the longer term goals for customer access and modernisation of the human resources management systems.
- 5** A follow-up inspection of Supporting People concluded that the Council provides a 'fair' one-star service that has promising prospects for improvement. An action plan for further improvement has been agreed.

The accounts

- 6** We issued an unqualified opinion on your accounts and those of the Lancashire County Pension Fund on 28 September 2005. The Council remains well-placed to meet the earlier deadlines for the closure of the accounts and production of financial statements in 2005/06.

Financial position

- 7** The Council's overall financial position remains sound. There are currently financial pressures, particularly with those budgets devolved to the Adult and Community Services and Children and Young People's directorates. The Council needs to maintain its good record of managing its financial budget through strong financial management over the coming months.
- 8** The aggregate level of school balances remains high at £51.7 million. The Council has sought to identify school balances without clear earmarking for specific purposes but initial indications suggest the sums identified will have little impact on the overall level of balances.

Other accounts and governance issues

- 9 The Council has continued to maintain a sound system of internal control. Internal Audit is a key element of the control environment and provides an effective service.
- 10 The Council has effective emergency planning arrangements in place.
- 11 The Council is currently negotiating over two major private finance initiative (PFI) schemes covering the Lancashire Waste Project and Building Schools for the Future. The aim is to ensure contracts are signed for both schemes by the summer of 2006 but there is currently an 'affordability' gap for the Waste scheme that needs to be reduced. However, the Council and its partners are leading the way regionally in developing this scheme.

Best value performance plan

- 12 Your best value performance plan (BVPP) complies in all significant respects with the statutory guidance and an unqualified report was issued on 7 November 2005.

Action needed by the Council

- 13 The Council is urged to take the following actions.
 - Ensure the initiatives underway to strengthen partnership working, clarification of the longer-term goals for customer access and the modernisation of human resources management systems are successfully implemented.
 - Ensure, in the few areas where Council performance is not performing well, such as sickness absence, satisfaction with public transport, cost of residential/nursing care for older people and teenage pregnancy, progress is monitored closely in improvement plans.
 - Continue to build strong relationships through the local area agreement process.
 - Ensure implementation and monitoring of the action plan agreed as part of the supporting people inspection.
 - Continue to adopt a prudent approach to financial management to ensure that overall financial health remains sound.
 - Continue to monitor the financial position of schools and rigorously evaluate the level of balances held to ensure they meet the Council's criteria.

Performance

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Overall	Four stars * * * *
Direction of Travel judgement	Improving well
Current performance	
Children and young people	3 out of 4
Social care (adults)	3 out of 4
Use of resources	3 out of 4
Environment	3 out of 4
Culture	4 out of 4
Corporate assessment/capacity to improve (not reassessed in 2005)	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 14** The CPA judgements this year have been made using the revised methodology: 'CPA - the harder test'. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is four stars.
- 15** Outcomes for local people are improving in important areas such as educational attainment; child protection; care services for older people; road safety; youth offending and recycling. In 2004/05, 85 per cent of local performance indicators and 67 per cent of national performance indicators improved. Excellent work with young people is based on good consultation so that outcomes better meet their needs. Improvements in access to services are underway. A customer contact centre is beginning to deliver a better customer experience and frontline response. Partnership working is contributing to wider community improvements such as economic regeneration and rural transport.

- 16 The Council has strengthened its performance monitoring and improvement planning. Improvements are being made in line with most plans. Value for money is good and improving through routine challenge. Governance and management arrangements support delivery of improvements and the Council continues to increase its ability to deliver its ambitions. The Council has recognised that further improvements are needed in some areas including partnership working, clarification of the longer term goals for customer access and modernisation of human resources management systems.

Direction of Travel report

- 17 The Council is improving outcomes for local people. The Annual Performance Assessment by Ofsted and CSCI confirm that it is improving outcomes for children and young people in important areas such as educational attainment; health; child protection and, youth services. It has strengthened support for vulnerable adults with significantly improved care services for older people. The Council's seven corporate objectives reflect the priorities of local people. Delivery is underpinned by local performance indicators and in 2004/05, 85 per cent of these improved. The majority (67 per cent) of national performance indicators also improved. Improvements included recycling rates; the condition of roads and road safety; youth offending and usage of libraries and museums. The Council is also making good progress against its Rural Recovery action plan. Local people are experiencing improvements in the areas that matter most to them and improvements are reflected in higher levels of public satisfaction in some key areas.
- 18 In the majority of areas that did not show significant improvement in 2004/05 the Council is maintaining average or above performance. The few areas where it is not performing well and not showing signs of improvement include sickness absence; satisfaction with public transport and teenage pregnancy (less than 16 years). These areas are targeted in current improvement plans.
- 19 The Council is contributing to wider community aims through its key role in the LSP. It is leading the development of the local area agreement (LAA) which will support delivery of the aims of the community strategy – Ambition Lancashire. Working with others it is improving rural transport; regenerating derelict land; and improving the local economy. It is developing its partnership work with district councils through projects such as the Shared Customer Service Centre and the implementation of Lancashire Locals, a system of devolved decision-making, which aims to give local councillors and residents a greater influence over provision of services in their area.

- 20** Access to information and services is improving. The Council's approach is based on a good range of survey information and local intelligence about its customers. Its customer contact centre is established and beginning to deliver a better customer experience and front line response in limited areas. It recognises that it has to restructure the systems that underpin frontline delivery to better support a more customer-orientated approach. Plans are emerging but it needs to be clearer about its longer-term goals; how services will integrate; and, how it will achieve a customer focussed culture.
- 21** The Council has a clear commitment to strengthening communities. Working with partners and representatives, it is improving services for people from minority groups. Its excellent work with young people is rooted in good consultation and engagement which enables young people to influence decision-making and strategies so that outcomes better meet their needs. There is more work to be done before it can be confident that the needs of the most vulnerable and easily excluded are fully taken into account in its plans to improve access to services.
- 22** Value for money is good and improving. The Council has a clear picture of its costs and how these compare to others. Councillors and managers routinely use this to challenge value for money aspects of improvement plans. Investments reflect policy decisions and priorities; areas of high spending are known and the reasons understood. The Council could achieve even more through a modernised procurement approach and greater efficiency in corporate systems. It recognises this and its Lancashire Efficiency Initiative is driving directorates to identify areas where greater value for money can be achieved.
- 23** Effective planning processes make sure that partnership and corporate plans are increasingly well integrated and business, service and team plans are linked. High quality plans target Council and community priorities with responsibilities and accountabilities assigned and resources clearly allocated. Councillors are fully involved in the planning process and there is a high degree of understanding and ownership across the organisation.
- 24** Improvement planning is a core activity. The Council successfully targets improvements in areas highlighted for attention by external assessors and regulators as well as those identified through its own continuous improvement review mechanisms and scrutiny activities. Its new performance management and monitoring systems are rigorous and increasingly effective. There is regular reporting of progress against national and local indicators; project plans and improvement plans arising from external assessment and inspection.

- 25** The Council continues to build capacity to deliver its corporate priorities and wider community aims. It uses partnership working to provide a wider resource base through for example pooled budgets with health services and shared staff to deliver community safety. Its approach to joint working is well developed but it would benefit from careful analysis of its various roles in partnerships in order to be certain that it is getting the best return on its investment of people and finances. Internally, the Council retains a traditional approach of managing human resources and there are indications that this restricts its ability to use staff flexibly and impacts in areas such as sickness absence. It has a well-planned and resourced programme of job evaluation to deliver in the next two years. This presents challenges in terms of maintaining staff morale but also opportunities to take a wide ranging look at its HR practices and target improvements towards developing modern systems that are better suited to its organisational goals.
- 26** Leadership is strong with councillors and senior managers giving clear direction to staff and teams. Governance and management systems are sound and strengthening. Decision-making is transparent and lines of accountability and responsibility are clear. The Council is aware of its strengths and the areas that it needs to improve. It is prepared to take tough decisions but there is sometimes a reluctance to reduce efforts in areas of relatively low priority. The Council is leading on a wide ranging ambitious agenda and prioritisation will be crucial if it is to successfully deliver its aims for the people of Lancashire within its current capacity and future resourcing constraints.

Other performance work

- 27** Local Public Service Agreements (LPSAs) are agreements between top tier councils and central government (ODPM) in which councils commit to delivering better outcomes in return for central government departments providing a pump priming grant and a package of agreed freedoms and flexibilities. If enhanced outcomes are delivered, councils receive a performance reward grant.
- 28** Each LPSA focuses on about 12 key service outcomes, reflecting a mix of national and local priorities and involves the council working in partnership with others. The future focus of LPSAs is on priorities for improvement locally rather than national targets. The emphasis is on all major bodies in an area working together to make improvements that really matter to local people. The Council's initial LPSA covers the three years to March 2006. The potential total performance reward grant for the LPSA is over £27 million, although officers believe the Council will achieve somewhere between 50 per cent and 60 per cent of the maximum sum.

- 29** We assessed the extent to which the Council has learnt from the initial phase and whether this learning is being used to the second phase of these LPSAs which will begin next year. We focused on issues of sustainability, partnership working and risk assessments for three of the targets:
- social care/health – improving the quality of life and independence of older people;
 - reducing the under 18 conception rate; and
 - youth participation – increasing access to leisure activities for children and young people with disabilities.
- 30** The Council has learned from its experiences with the first phase of LPSAs and has reflected this learning in its approach going forwards. In particular it is aware of the need to:
- consider performance measurement issues;
 - sustain effective communication, both within the County Council and with key partners including local strategic partnerships; and
 - undertake risk assessments to anticipate the impact of changing priorities over the term of the LPSA.
- 31** The Council is working positively for the second phase of LPSA targets through a transparent approach to identifying local priorities for improvement, initially through a desk top analysis of county/district community strategies, district corporate plans, plans for health, police, fire and rescue to identify key themes and through meetings and consultation with the district local strategic partnerships. Much of the work on LPSAs has now been reflected in developing the local area agreement referred to in paragraph 19.

Performance information

- 32** We have undertaken our statutory audit of your best value performance plan to ensure it complies with legislation and supporting guidance. We issued an unqualified report on 7 November 2005. There are no matters we need to report to the Council.
- 33** We found the performance information included in your performance plan to be well supported and evidenced and concluded that the Council's arrangements for producing and publishing the required performance information are satisfactory.

Other Audit Commission inspections

Supporting People

- 34** Following an inspection of the Council's Supporting People arrangements in February 2004 which concluded that the Council had a poor, no-star service, with promising prospects for improvement a further re-inspection took place in early 2005. This assessed the Council as providing a 'fair', one-star service that has promising prospects for improvement.
- 35** Positive features of the Supporting People programme include:
- overall the inspection found a range of positive outcomes, as a result of the Supporting People programme, for a range of service users;
 - governance has improved, with more streamlined arrangements to effectively involve providers and partners, including probation and primary care trusts, making involvement and decision-making more manageable and timely; and
 - the profile of Supporting People has increased within the Council by having more senior staff at accountable officer and Supporting People management levels.
- 36** However, we found a number of less positive aspects of the programme that need to be delivered. In particular:
- arrangements to involve service users remain poor. There is no inclusive forum, and service users are not involved in the governance structures;
 - although a five-year strategy has been agreed, there is no delivery plan to set out how this will be implemented; and
 - needs assessments to inform future Supporting People services have not been completed for some service users and for others these are unavailable.
- 37** We have judged the Supporting People programme has promising prospects for improvement. Strengths included:
- improvements are evident in some areas of the Supporting People programme, such as provider involvement and contract monitoring and management;
 - priorities for the Supporting People programme have been agreed, in consultation with partners and providers, through the five-year strategy and the annual plan; and
 - the Council has appropriate staff and IT capacity to deliver the Supporting People programme. It has taken advantage of funding opportunities as they arise, for example, for pipeline schemes and review work.
- 38** A number of recommendations have been made as a result of the inspection and these are being addressed by the Council to further improve the Supporting People arrangements.

Working with other inspectorates and regulators

- 39 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. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - DfES; and
 - Local Government Office contact.
- 40 We share information with them and seek to provide 'joined up' regulation to the Council. During the last year, the Council has received a children and young persons service assessment from Ofsted and a scored assessment for social care (adults) from CSCI. The work of Ofsted and CSCI has been reported separately and is not repeated within this report. The CSCI assessment for adult social care in 2005 found that the Council was serving most people well and had excellent prospects for improvement.

Accounts and governance

Audit of 2004/05 accounts

- 41 We gave an unqualified opinion on the Council's accounts on 28 September. We worked closely with the Director of Finance and his staff throughout the closedown process. Members approved the accounts on 25 July 2005 in accordance with the planned timetable and we completed our audit of the accounts to meet the earlier deadline of 31 October. The deadline for the production and audit of the 2005/06 accounts comes forward another month to 30 June and 30 September respectively. We will continue to work closely with officers over the coming months to ensure the earlier deadlines are met.

Pension fund

- 42 In addition to the Council's accounts we audit the Lancashire County Pension fund accounts. We also issued an unqualified opinion on these accounts on 28 September 2005. The Lancashire Fund achieved an overall return of 12.5 per cent compared to the benchmark of 12.1 per cent and the average local authority pension fund return of 11.7 per cent. Although this is a relatively strong performance the overall performance of the Fund needs to be judged over periods of at least three years, rather than a single year snapshot.

Report to those with responsibility for governance in the Council

- 43 The auditing standard which applies to our audit of your accounts, Statement of Auditing Standard (SAS) 610 'Reporting to Those Charged with Governance', requires us to report issues arising from our audit to members.
- 44 Our work in respect of the financial statements has not identified any issues of sufficient significance to require a formal report. I have written to members of the Audit Committee to this effect.

Financial standing

2004/05 outturn

- 45 The Council's good record of monitoring and controlling its expenditure continued in 2004/05. The Council's net expenditure of £1,078 million was around £1 million less than its budget. The overall effect of this was to increase the county fund balance to £14.7 million at 31 March 2005.

- 46 The county fund balance represents around 2.3 per cent of the 2005/06 budget (excluding schools). The level of balances has only increased slightly from last year and appears to continue to be adequate in the context of the Council's overall spending and financial strategy.

School balances

- 47 Last year, we said that total school balances had changed little compared to 2002/03 and whilst balances for individual schools appeared reasonable, the aggregate balance was high as OFSTED had identified in their inspection of the Education Authority (LEA). The position at March 2005 had not changed significantly. Although the total balance had increased to £51.7 million much, if not all, of the increase relates to items such as unspent standards fund monies (which could be spent up to August 2005), interest paid on surplus balances and the full year effect of classroom support staff onto revised grades. The total level of balances now equates to some 10 per cent of the 2004/05 budget plus Standards Grant and is more than double the LEA's guideline total of £23.7 million.
- 48 The Council amended its Scheme for Financing Schools in 2004/05 to prevent the growth and maintenance of school balances in excess of the guidelines without clear earmarking for specific purposes. Action has been taken in the current financial year to identify those schools at risk of claw back. All schools were asked to provide information on their balances. However, initial indications reported to the Cabinet member for Schools in August suggested the potential claw back could be around £45,000. Although the Council intends to claw back funds in 2006/07 from schools that do not achieve the required reduction in general balances the potential sums identified will have little impact on the overall level of balances.
- 49 Whilst the school governing body continues to have responsibility for financial management it is important that officers continue to monitor the financial position of schools and rigorously evaluate the level of balances held against the Council's framework to ensure action can be taken in a timely manner.

Capital programme

- 50 The Council's capital spending in 2004/05 amounted to some £105 million, against its revised programme of £137.6 million, and mainly reflects the Council's investment in assets that will be of long-term benefits to the residents of Lancashire such as schools, roads and social service facilities.
- 51 Although there was some slippage against the revised programme the reasons for this have been identified and, in most instances, the slippage will be financed from resources already earmarked for these schemes and which have been carried forward into the 2005/06 financial year. Some of the most significant slippage related to the Care Homes programme (£1.9 million) and land purchase for the Waste PFI project (£4.5 million) where there have been protracted negotiations and legal issues at two sites. In addition there was some £24 million of unused Government Grant funding, most of which can be applied in the current or future years.

2005/06 financial year

- 52 The Council set a net budget of £644 million (excluding schools) for 2005/06. The latest revenue monitoring report, as at the end of October 2005, (reported to Cabinet in December 2005) indicates that those budgets devolved to directorates will over spend by around £7.9 million (some 1.34 per cent of the total budget) whilst centrally held budgets will under spend by some £1.5 million.
- 53 The bulk of the overspending relates to Adult and Community Services (£4 million) and Children and Young People (£3.6 million). Significant pressures have been identified in the Learning Disability Service, which is forecasting an overspend of £2.8 million, mainly due to an increase in demand for high cost placements and increasing demand for support from carers of adults with learning disabilities. Transport is also forecast to overspend by some £1.6 million. The main projected overspendings for Children and Young People relate to Children's Social Care (£2 million). This is largely related to increased demand and the cost of third party agency placements.
- 54 The County Care Services Direct Service Organisation (DSO) is forecasting a £2.4 million deficit, mainly due to a fall in income because of the residential homes closure programme.
- 55 Overall, the Council is currently facing a difficult in year financial position because of the projected overspendings and the DSO deficit. A range of measures are being implemented to significantly reduce the forecast overspend and officers are closely monitoring the position. The Council has created a corporate reserve of £4.75 million from its uncommitted reserves to mitigate risk against the 2005/06 budget. The Council has a good record of managing its financial budgets over recent years and will need to continue to monitor the position closely for the remainder of the financial year and ensure action continues to be taken to reduce the deficits.

2006/07 and beyond

- 56 The financial settlement for 2006/07 and also for 2007/08 was announced by the Government in early December. Officers have been working through the implications of the figures they have received whilst awaiting the final revenue support grant settlement. Initial indications are that the settlement for Lancashire is above the average for shire counties.

- 57 The 2006/07 budget will see some significant changes with the introduction of a revised system of schools funding with almost all expenditure on schools being funded by specific government grant (called Dedicated Schools Grant) and the implementation of a three-yearly review of the funding formula for distributing resources. These will both impact in future on the Council's net budget, how it is funded and the council tax. The Director of Finance's report to Cabinet on 26 January proposed a cash limited budget that would result in a 4.9 per cent increase in Council Tax for 2006/07. The provisional forecast for 2007/08 indicates an increase over 2006/07 of 8.5 per cent. Given the financial pressures currently faced by the Council members will be faced with difficult choices in setting the budget and council tax in both 2006/07 and 2007/08.

Systems of internal financial control

- 58 We have not identified any significant weaknesses in the overall control framework.

Internal Audit

- 59 We rely, as far as possible on Internal Audit coverage of key controls within the main financial systems. Last year, we undertook a detailed review of Internal Audit's work and concluded Internal Audit delivers a good standard of service to the Council. In 2005, we have undertaken a more limited review of their work and followed up progress on the small number of issues we raised last year. Our assessment is that Internal Audit continues to meet professional standards and provides a good service to the Authority.

Prudential Code

- 60 The Prudential Code, which came into force from April 2004, allows councils to borrow and invest so long as their capital plans are affordable, prudent and sustainable. Last year, we told you that procedures had been put in place to facilitate the implementation of the new framework. In view of the significant changes to the capital financing regime we have continued to work with officers to ensure the arrangements for implementing the Code are appropriate.
- 61 The Council has made significant progress in implementing the new Code during the last year and has already used the new borrowing opportunities for priority projects within the corporate strategy. The Council has sound systems in place to ensure it complies with the Code. However, we identified a few areas where existing arrangements could be strengthened even further, including the need to ensure financial regulations and standing orders cover the requirements of the new Code, and we have agreed an action plan with officers to implement these.

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

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

- 62 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Other governance issues

Emergency planning

- 63 The Civil Contingencies Act 2004 looks at how public bodies can jointly develop a more consistent response to external emergencies while still delivering critical normal services. As community leaders, local authorities have an important role to play in planning for and responding to emergencies, and in supporting a 'return to normal' in the weeks, months, and sometimes years that follow.
- 64 We assessed the Council's arrangements around Emergency Planning early in 2005 to identify strengths and weaknesses. We found effective arrangements are in place. In particular:
- awareness and understanding of the need for Emergency Planning is high within the Council;
 - all senior managers have been briefed on the implications of the Act; and
 - Memorandum of Understanding are in place between the County Council and the district councils in Lancashire to provide the Emergency Planning Service.
- 65 The Lancashire Major Incident Co-ordinating Group is an established group which meets every six to eight weeks and consists of representatives from all of the key agencies. It is an effective group which produces emergency plans and strategies and organises regular test and debriefs.

Private Finance Initiative

- 66** The Council is currently 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 the whole of Lancashire and which includes both Blackpool and Blackburn with Darwin councils. The second scheme relates to the Government's Building Schools for the Future (BSF) initiative which is planned to take place in East Lancashire. We have been working closely with officers and monitoring progress on both of these schemes in the last year. We have given the Council our initial view on the proposed accounting treatment on the schemes, based on the outline business case documentation, and concluded there were no issues that we needed to challenge, at that stage.
- 67** There is currently an 'affordability' gap in the Waste project and officers are working to reduce this gap in the coming weeks. The current aim is to sign contracts for the Waste project by May or June of 2006 and by July 2006 for the BSF project. We will continue to work closely with officers over the coming months on these two major initiatives.

Use of resources judgements

- 68** The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 69** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

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

(Note: 1 = lowest, 4 = highest)

- 70 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry (KLOE). The results compare favourably with other county and unitary councils and confirm Lancashire to be one of the top performing councils in relation to use of resources.
- 71 The findings from this work have been reported to and discussed with senior managers. The key strengths and, where appropriate, the opportunities for even further improvements are set out below.

Financial reporting

- The Council's accounts production process meets statutory requirements and has been in accordance with the timetable agreed with us.
- Working papers supporting the accounts are good.
- The explanatory paper accompanying the 2004/05 accounts to the July 2005 Audit Committee provided a good interpretation of the accounts and highlighted key issues for members. The accounts were subject to a robust discussion by members.
- The Council has been well prepared for the earlier closedown timetable to meet the whole of government accounts deadlines.
- The Council publishes its accounts, annual audit and inspection letter and publicises how local electors can exercise their rights in accordance with the Accounts and Audit Regulations.

Financial management

- The County Finance Strategy (CFS) and revenue and capital budgets are soundly based and designed to deliver the Council's strategic priorities.
- The Council has good overall arrangements in place for planning and managing its finances and the Council can demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives.
- The Council has developed and implemented effective arrangements for monitoring performance against budgets, for taking corrective action where appropriate, and for reporting the results to senior officers and members.
- The Council has put in place much of what is needed to enable it to manage its asset base effectively. There is an approved capital strategy and fixed asset management plan that link to its corporate objectives.

Financial standing

- The Council has a track record of managing its spending within available resources.
- There is evidence that the Council is financially sound.
- The Council has set target levels of reserves and balances based on an understanding of its needs and risks.

Internal control

- The Council has put in place some of the arrangements needed to enable it to identify and manage its corporate business risks and these are linked to corporate objectives and supported by detailed risk assessments.
- A corporate risk management process is in place although officers accept that further development of these arrangements is needed, most notably in relation to partnerships.
- The Council has put in place most of the arrangements needed to enable it to maintain a sound system of internal control.
- There is limited evidence of a process to ensure that all the Council's partnership agreements are regularly reviewed and updated in a co-ordinated and planned way. The Partnership Working Group is taking steps to address this.
- The Council has put in place effective arrangements to support the Statement of Internal Control (SIC).
- The Council has put in place the arrangements needed to ensure probity and propriety and to prevent and detect fraud and corruption.

Value for money

- The Council achieves value for money but there is scope for further development.
- There is clear information on costs and how these compare to others and to the quality of services achieved.
- In overall terms:
 - costs compare well with other councils allowing for external factors;
 - costs are commensurate with service delivery, performance and outcomes achieved; and
 - costs reflect policy decisions and corporate priorities.
- At a corporate level, members and managers routinely use this information to review and challenge value for money particularly in relation to the Council's budgets and capital programme.
- High performance is achieved across a range of priority services and the majority of key BVPIs are improving.
- Sickness absence increased in 2004/05 and the target was missed.
- A blanket efficiency target for 2006/07 has been set across all Directorates as part of an overall budget strategy so that Directorates contain their costs within a 2.5 per cent cash limit increase.
- The Council has developed a local approach for ongoing efficiency initiatives known as the Lancashire Efficiency Initiative (LEI) which has identified a series of cross-cutting options for improving VFM and securing efficiencies in future years.

- The Council is currently developing its e procurement approach. Officers recognise that e procurement approaches are not yet bringing full benefits and there are plans for further development including the ongoing implementation of an integrated financial package Oracle Financials, which will provide electronic procurement facilities.

Other work

Grant claims

- 72** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have continued to work with officers to ensure there are robust arrangements in place for the production and certification of claims. Last year, we reduced the cost of audit certification by some 15 per cent to around £150,000. This year with further improvements in arrangements together with some claims no longer requiring audit certification, current indications are that the cost of audit certification this year may be around £90,000, a further significant reduction on previous years.

National Fraud Initiative

- 73** In 2004/05, the Council again took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.
- 74** Where little or no such fraud is identified then the Council can gain assurance about internal arrangements for preventing and detecting fraud.
- 75** The NFI 2004/05 results were distributed on CD-ROM on 31 January 2005 and participating bodies provide savings returns, reporting progress made as at 31 May 2005, 30 September 2005 and 31 December 2005.
- 76** Internal Audit is currently investigating the matches that have been identified in Lancashire. At this stage, we are not aware of any potential issues arising but we cannot finally conclude on this until all of the significant matches have been checked.

Looking forwards

Future audit and inspection work

- 77** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 78** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 79** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 80** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed with the Audit Committee in July 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 81 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Cabinet on 2 March 2006 and also the Audit Committee on 20 March 2006.
- 82 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 83 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
District Auditor and Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that 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.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 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.
- 6 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 Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Audit Plan	July 2004
Best Value Report	December 2004
Emergency Planning	April 2005
Local Public Service Agreements	July 2005
Implementation of the Prudential Code	August 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	September 2005
Use of Resources	November 2005
Direction of Travel	November 2005
CPA Scorecard	December 2005
Audit and Inspection Letter	January 2006

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	81,500	81,500
Financial aspects of corporate governance	45,000	45,000
Performance	73,000	73,000
Use of Resources	49,800	49,800
Pension fund	38,000	38,000
Total Code of Audit Practice fee	287,300	287,300
Section 35 work	Nil	Nil
Total	£287,300	£287,300