

# Annual Audit Letter

Lancashire County Council

Audit 2008/09

December 2009



**audit**  
commission

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit Opinion and financial statements

- 1 I gave an unqualified opinion on the Council's accounts for 2008/09 on 30 September 2009. The Council's accounts also include the accounts for Lancashire County Pension Fund which is administered by the County Council.
- 2 The statements were presented to a good standard. Amendments have been made to correct one material error relating to the classification between short and long term investments and to a number of other disclosure notes to correct minor errors and to better meet financial reporting requirements. None of these changes impact on the reported revenue out-turn position of the Council or Pension Fund.

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## Value for money

- 3 The Audit Commission has recently undertaken its Use of Resources assessment. The assessment judges how well the Council is managing and using its resources to deliver value for money and better sustainable outcomes for local people. This is the first year of the Audit Commission's new methodology for Use of Resources and is a very different and tougher test than previously. Nevertheless, the Council has been assessed overall as performing well.
- 4 In its use of physical assets the Council has been assessed as performing excellently, demonstrating a range of innovative practices which are leading to improved facilities for the provision of local services and reduced costs of public services. In relation to commissioning and procurement the Council has been assessed as performing adequately. The Council has developed an effective approach to commissioning in some areas, for example in Adult and Community Services where the existing provision of services was fundamentally challenged with partners. New delivery arrangements are now in place providing improved services and delivering improved value for money. The Council recognises the need to develop a strategic approach to commissioning replicating this across the whole organisation although this is not in place yet. In all other areas the Council has been assessed as performing well.
- 5 The Council has investments in Landsbanki Island pf totalling £10m. The latest guidance received in September 2009 indicates that 83 per cent of the £10 million invested is likely to be recovered although this is still subject to confirmation. The Council's Treasury Management arrangements and policies have been reviewed in the light of the economic downturn to further protect the Council from potential future investment losses and risk.

- 6 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the criteria specified by the Audit Commission. I have concluded that your arrangements are adequate and issued an unqualified conclusion on the Council's value for money arrangements.

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### Comprehensive Area Assessment and Organisational Assessment

- 7 The Audit Commission and the other public service inspectorates introduced a new joint assessment framework during 2009, Comprehensive Area Assessment (CAA). CAA is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. Assessments will be made publicly available and will provide an annual snapshot of the quality of life in the area. The first results will appear on a new [Oneplace](#) website which will be launched on 9 December 2009. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL) Tom Keena. Alongside the CAA report, we will issue our organisational assessment which combines our judgements on your use of resources and managing performance assessments. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

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### Actions

- 8 A number of recommendations for improvement have been made within our detailed reports issued to the Council. These have been agreed with officers and are being implemented.

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### Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The County Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 10** I issued an unqualified opinion on the Council's accounts on the 30 September. In my opinion the accounts present fairly Lancashire's financial position and its income and expenditure for the year.
- 11** Before giving my opinion I reported to the Audit Committee on the 28 September 2009, the key issues arising from the 2008/09 final accounts audit.
- 12** The Council prepared working papers to a good standard to support its financial statements. The annual governance statement reflected our understanding of the Council's arrangements to ensure effective stewardship of public monies and the outcome of its review of their effectiveness. A small number of errors were identified in the statements. These included a misclassification of investments between long and short term investments of £40m and the statements have now been adjusted. Other adjustments have been made to correct minor errors and to better meet financial reporting requirements within the disclosure notes.

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## Material weaknesses in internal control

- 13** I did not identify any significant weaknesses in your internal control arrangements.
- 14** National guidance, issued by the Audit Commission, required a detailed review of the arrangements for the investment of Pension Fund cash, and allocation of interest, where held by the administering authority. Most of the Pension Fund's assets are invested by external fund managers but approximately £20m is invested on the pension fund's behalf by the County Council. Audit procedures have been undertaken to assess the methods used to identify the level of cash invested by the County Council on behalf of the Fund. Consideration was also given to the method used to calculate the amount of interest due to the Fund and the legality of transactions. There were no concerns arising from this review.
- 15** We have previously made recommendations about setting up a separate bank account for the Fund's cash balances administered by the County Council and this issue remains a primary concern. An action plan has been agreed to introduce separate banking arrangements for Pension Fund cash, which also requires changes to the financial systems of the Council, by April 2011.

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### Accounting Practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting. On the whole the accounts were presented to a high standard meeting the various requirements of the accounting standards. I did identify some aspects of the Council's accounting for provisions which require improvement to ensure they fully meet the standards and are appropriately supported.

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### International Financial Reporting Standards (IFRS)

- 17** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 18** As part of my audit I have considered the Council's progress in preparing for the implementation of the IFRS. The Council has made a reasonable start in its preparations. Officers have identified the key risk areas for Lancashire, undertaken an initial analysis to assess the work required and are in the process of pulling together all the information which will be needed in order to implement the IFRS requirements. Work around the Council's PFI schemes has been made a priority and is further progressed. There remains a significant amount of work to complete to achieve successful implementation but officers are confident of achieving the required deadlines.

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# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 19** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 20** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 21** The Council's use of resources theme scores are shown in Table 1. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in the following paragraphs.

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**Table 1**      **Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances How effectively does the organisation manage its finances to deliver value for money?	3
Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	3
Managing resources How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?	3

## Managing finances

- 22** The Council has strong financial arrangements in place which effectively support the delivery of strategic objectives and secure sound financial health. Its approach to financial planning in the medium term has enabled the Council to identify and deliver efficiency savings to invest in priority services and respond to increasing demand where appropriate. The Council has been able to demonstrate that whilst making significant savings in 2008/09, service provision has been maintained or improved. Council tax increases have remained relatively low at 2.95 per cent in 2008/09 and 2.9 per cent for 2009/10. A Council Tax freeze for 2010/11 is currently being consulted upon.
- 23** The Council has investments in Landsbanki Island pf totalling £10m. During the year I satisfied myself that the Council had acted in accordance with its agreed policies in making those investments, and that those policies were in accordance with the relevant professional accountancy body's (CIPFA) guidance at the time. I am satisfied that the Council is taking appropriate action in terms of recovery, reassessing its financial position and reviewing its policies. Latest guidance received in September 2009 indicates that 83 per cent of the £10 million invested is likely to be recoverable although this is still subject to confirmation. The Council's Treasury Management arrangements have also been reviewed in the light of the economic downturn to reduce the risk of exposure in relation to investments to protect the Council from potential future investment losses.
- 24** The Council faces a significant series of financial pressures in 2011/12, in particular increased waste disposal costs (£42m), potential reductions in government grant settlement and increasing demand on services. These pressures have been recognised and modelled in early reports to Cabinet. Whilst the detailed strategy to deal with these pressures has not yet been agreed significant reserves have been built up to help the Council. Detailed work has been undertaken in the first half of 2009/10 to help address this and will be reflected in the Council's new medium term financial strategy in the New Year.
- 25** The Authority has a good understanding of service levels provided and costs compared to other authorities, and this is helping to deliver efficiencies. Budget decisions take account of service delivery priorities alongside forecasts of expenditure, while timely prediction of under spends has allowed directorates to pursue 'invest to save' initiatives through redesign of services. Detailed cost analysis occurs as part of decision making at directorate and service level, but understanding of procurement and transaction costs is under-developed.
- 26** Although Lancashire's gross costs per head of population are generally above average, unit costs in most services - including adult social care, waste, libraries and planning - are low in relation to the standards of service achieved. Additional investment is being made in children's social care, reflecting identified weaknesses in performance and a recognition that this area has been under-resourced in the past. Central support costs remain above average but significant efficiencies are being delivered in this area. The Business Improvement Programme continues to expand and has secured efficiencies. A fuller understanding of the scope for value for money improvements in different areas of the Council's business is needed to ensure that review effort is targeted most effectively.



## Value for money and use of resources

- 27** The Council aims to ensure that the information it provides is accessible to those who need it both in terms of how to access it, (for example through its website, webcam recordings of cabinet meetings, audio facilities, information provided in different languages and fonts etc) and in terms of whether the information provided is what people want.

### Governing the business

- 28** The Council has developed an effective approach to commissioning in some areas, for example Adult and Community Services. It now recognises the need to develop an overarching corporate approach to strategic commissioning that reflects local priorities although this is not in place yet.
- 29** Procurement arrangements are delivering efficiency savings – for example through the use of framework agreements and purchasing cards – but there is scope for greater impact on value for money. Specifically, the Council needs to link procurement and commissioning activity to broader reviews of service competitiveness.
- 30** Some parts of the Council are engaging well with suppliers to develop services – for example, in relation to Help Direct – but there is not a systematic approach to understanding and developing supply markets across the authority. More positively, the Council is making it easier for local firms to do business with the council. It also makes use of alternative procurement options, such as the PFI for waste. The Waste PFI includes activity to support community engagement on waste reduction and environmental education.
- 31** The Council has a robust framework to oversee data quality, based on clear accountabilities and checking of data for 'reasonableness' before publication. More detailed testing of data accuracy is undertaken by Internal Audit but is relatively limited. The Council's new data quality strategy envisages a wider testing of data accuracy going forwards. The Council has a good track record of using and sharing information to achieve strategic goals, including examples of innovation such as the online platform for Joint Strategic Needs Assessment. There is clear evidence of information and analysis being used to direct activity for example, analysis of worklessness data at ward level is used to target economic development activity. The Council has adequate arrangements to ensure data security and compliance with statutory requirements. Performance management arrangements are effective and the Council uses information effectively to inform resources decisions and strategic planning.
- 32** Strong governance arrangements exist supported by clear leadership at political and officer level. There is a strong culture around standards of conduct with Lancashire taking a leadership role promoting standards across the Lancashire area with its partners. Members are supported through individual needs analysis and training. Governance arrangements around partnerships have been strengthened but are not yet being applied across all the Council's significant partnerships.
- 33** There are effective risk management procedures in place. There is a clear focus on managing performance and using risk management to improve the way priorities and targets are set both internally and with partners. There are clear examples of where the application of risk management procedures has helped the Council to reduce risks within the year to enable it to continue to provide its desired levels of services.

- 34** Effective anti-fraud and corruption policies and practices are in place including a pro-active program of awareness raising and targeted reviews by Internal Audit. Robust internal control arrangements are underpinned by an effective Audit Committee and internal audit function both of which demonstrate effective challenge and follow up of internal control arrangements within the Council. Whilst Internal Audit have concluded that internal control arrangements are adequate and generally effective it has highlighted some ongoing issues around the consistency of controls and their application across the Council. Effective business continuity arrangements are in place.

### Managing resources

- 35** The County Council understands its use of natural resources and its impact on the environment, and is actively working to reduce both. It can demonstrate success in respect of reducing carbon emissions and, in partnership with others, has developed a firm basis for long-term sustainability improvements.
- 36** The Council has signed up to the Lancashire Climate Change Strategy, in partnership with other public and private sector organisations across the county. The Strategy sets a target of a 30 per cent reduction in CO2 emissions by 2020. The Council's own Carbon Management Programme has established baselines and is targeting areas of highest priority, in particular property and street lighting. The Programme includes a wide array of potential projects, each with quantified expected benefits, but most are at an early stage and outcome data is not yet available. Nevertheless, there is already evidence of progress towards reduced emissions targets. For example, the council's vehicles and boilers have been converted to 5 per cent bio diesel, while the replacement of desk-top printers with multi-functional devices has saved an estimated 105 tonnes of carbon dioxide per year. Water consumption is monitored for all properties and any unusual readings are investigated.
- 37** Environmental impact assessments are carried out on all highways schemes and recycled materials used wherever possible. The 'Local Climate Impacts Profile' (LCLIP) developed by the County Council is now being used by district councils and other partners to help them better understand how council services are affected by extreme weather events.
- 38** The Council has a strong approach to asset management which is helping to deliver strategic priorities and service benefits, including substantial value for money improvements and several aspects of innovative practice.

## Value for money and use of resources

- 39** The Council's excellent property review process is based on comprehensive performance data and challenges whether all assets are required, fit for purpose and providing value for money. Office accommodation reviews have enabled the Council to achieve significant revenue savings and capital receipts. The Preston review has so far generated £2.4m in capital receipts and over £460,000 of annual property related revenue savings, released nine leased and three owned buildings, and reallocated retained workspace at a more efficient 8.5 square metres per work station. The South Area offices review was concluded in the past year, earmarking 13 of 20 offices for closure over the next 18 months, with projected annual revenue savings of £600,000 from the rationalisation of back office functions. Better prioritisation of repair and maintenance expenditure has increased the ratio of planned to reactive spend and effectively eradicated urgent backlog maintenance. Over the past four years, the overall maintenance requirement across the portfolio has reduced by more than a third, from £96m to £59m. The Council's annual property performance report continues to be an example of innovative practice.
- 40** The County Council is leading work to join up asset management with district councils through "aligned asset management plans". It is also expanding partnership working with other public bodies such as the NHS and housing providers.

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### VFM Conclusion

- 41** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission specifies each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 42** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Closing remarks

- 43** I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources. I will present this letter at the Audit Committee on 25 January 2009 and will provide copies to all committee members.
- 44** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 2**

Report	Date issued
Annual Governance Report - County Council	September 2009
Annual Governance Report - Pension Fund	September 2009
Use of Resources Report	October 2009

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- 45** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Clive Portman  
District Auditor  
December 2009

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# Appendix 1 – Audit Fees

**46** We agreed fees for the audit of the County Council's accounts and the Pension Fund in September 2008. The audit has been completed within those agreed fees as shown in Table 3.

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**Table 3      Audit fees**

	<b>Actual £</b>	<b>Proposed £</b>	<b>Variance £</b>
County Council audit	228,205	228,205	0
Pension Fund audit	61,525	61,525	0
Total audit fees	289,730	289,730	0
Non-audit work	0	0	0
<b>Total</b>	<b>289,730</b>	<b>289,730</b>	<b>0</b>

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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