

# Annual Audit Letter

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**Lancashire County Council**

**Audit 2009/10**

**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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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit is made up of two elements: the audit of your financial statements (pages 4 to 5) and my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 11).**

## Audit opinion and financial statements

**1** My 2009/10 audit is now complete and I have concluded the accounts give a true and fair view of the financial position of the Council and its spending and income for 2009/10. I issued an unqualified audit opinion on 30 September 2010.

## Value for money

**2** I am required to assess whether the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. I concluded the Council has adequate arrangements in place and I issued an unqualified VFM conclusion on 30 September 2010.

**3** The Council has continued its good performance and has improved its arrangements in several areas. This includes developing further its approach to financial planning, commissioning and procurement which will be important to help the Council address the financial challenges ahead. It recognises the need to develop in specific areas and has plans in place to do so. These include:

- improving the value for money achieved from the Council's significant purchasing power;
- supporting directorates in reviewing the existing arrangements for providing services;
- strengthening corporate risk management; and
- additional support for officers and members to deliver and monitor the more complex treasury management strategy.

## Current and future challenges

4 Like all councils, Lancashire faces significant financial pressures. The full extent of necessary spending reductions resulting from the Autumn 2010 Comprehensive Spending Review and allocation of grant funding from 2011/12 and beyond needs to be assessed. The Council has already started to address the potential implications of the spending review and will need to continue to review priorities, service standards and how services are delivered as the extent of the spending reductions become clearer.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement demonstrate how the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010 within the statutory target date.**

## Overall conclusion from the audit

**5** The financial statements were prepared to a good standard and supported by comprehensive working papers. This was again a challenging year for preparing the financial statements following the introduction of new accounting requirements. This has included bringing onto the Council's balance sheet the full value of assets it uses under the Private Finance Initiative (PFI) for the first time, totalling £118 million.

**6** While some amendments were needed to the accounts following their submission to the June 2010 Audit Committee, none of these were material. None of the amendments impacted on the financial position of the authority. 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.

**7** Following the completion of my audit I concluded that the amended accounts give a true and fair view of the financial position of the Council and its spending and income for 2009/10. I issued an unqualified audit opinion on 30 September 2010.

## Internal control

**8** The overall control environment is adequate although there are examples of inconsistency between departments in the application of controls. For a Council of this size and diversity, this is not unusual. Internal audit have reported identified weaknesses and action plans have been agreed to improve the consistent application of controls.

**9** I have made recommendations in two areas about internal control of the Pension Fund and an action plan has been agreed. These relate to

- action needed by officers to obtain greater assurance over private equity investment valuations; and
- continued effort by officers to achieve effective implementation of a separate bank account for the pension fund by 1 April 2011.

## **IFRS in local government**

**10** The 2008 Budget included an announcement that all public bodies would follow international financial reporting standards (IFRS). Local authorities will prepare financial statements based on IFRS for 2010/11.

**11** A failure to achieve successful transition to IFRS would cause significant reputational damage to individual local authorities and the local government sector as a whole. Poor preparation will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion or be published late. At a practical level, there is a risk that extra and unnecessary costs will be incurred.

**12** I have liaised with key finance staff on the key changes required and the plans in place to address them. I have also undertaken a number of surveys on the Council's progress towards IFRS. I assessed the Council as making good progress although there remains a significant amount of work. This is being closely monitored and managed by the Council's IFRS project group.

## **Investment in Landsbanki**

**13** As previously reported, the Council has investments in Landsbanki Iceland pf totalling £10 million. (This includes investments on behalf of the Pension Fund and Police and Fire Authorities). Latest guidance received is that councils should recover 95 per cent of these investments. This however assumes that the Council will be classed as a priority creditor, which will be decided by the Icelandic courts with the judgement expected late in 2011. If priority status is not confirmed it is estimated that recovery could fall to 38 per cent.

## **National Fraud Initiative**

**14** The Audit Commission plays an important role in the fight against fraud. It runs a data matching exercise every two years to help detect and prevent fraud: the National Fraud Initiative (NFI). The total fraud, overpayments and errors detected across the country in the latest completed exercise covering 2008/2009 amount to £215 million. Since the exercise began in 1996, cumulative national savings total £614 million.

**15** The NFI is a data matching exercise comparing information held by different organisations, including some from the private sector, to identify potentially fraudulent claims and overpayments. Examples of data matching undertaken include pension payments being checked to records of deceased persons and council tax records being matched to the electoral register. The Council participates in this bi-annual exercise. Savings identified by the Council as part of this latest exercise, including estimated forward savings, amount to £1.096 million. Most of this relates to the identification of pensions being paid to deceased pensioners.



# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## 2009/10 use of resources assessments

**16** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect. As a result the Commission would no longer issue scores for its use of resources assessments.

**17** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May 2010 to inform my 2009/10 conclusion.

**18** I report the significant findings from the work I have carried out to support the vfm conclusion.

## VFM conclusion

**19** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**20** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Workforce	Yes
Strategic asset management	Yes

**21** I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. I reported the findings of my work in relation to the VFM conclusion to members of the Audit Committee in my Annual Governance Report on 28 September 2010 and this is set out below.

## Managing Finances

**22** In previous years we have identified this as an area where the Council performs well. Arrangements in 2009/10 continue to be sound and the Council is responding well to the new financial pressures it is facing.

**23** The Council has robust financial arrangements in place that effectively support the delivery of strategic objectives. It is in sound financial health and has a strong track record of managing spending within budgets. However, like all councils, it currently faces significant financial pressures. The Authority's financial strategy focuses on planning for future reductions in public spending, while continuing to make efficiency savings that will help to protect investment in priority services and meet increased costs in areas such as waste disposal. The Council's approach to Treasury Management has changed in response to the increased risks within global markets. The new strategy plans to reduce the risk to the Council while maintaining returns where possible.

**24** The Authority has a good understanding of its relative costs and performance. During 2009/10 it has used comparative information to identify scope for future efficiencies in areas such as youth services. The streamlined Business Improvement Programme is now more effective for reconfiguring services. Outcomes from the Programme during 2009/10 include an increase of £1.7 million in recovered debt, £430,000 savings from a more efficient approach to internal mail, and improved quality outcomes from a dedicated mobile minute-taking service for adult and children's statutory social care meetings. More significant outcomes are planned for future years. For example, the cost of the Council's Human Resources function is comparatively high and this is a focus for the developing Strategic Partnership.

### **Areas for future focus and development**

**25** The County Council faces an additional £22 million fall in government funding in 2010/11. In addition, it has already programmed over £20 million of efficiency savings from a wide range of sources. Given the scale and scope of the required savings, close monitoring will be important to ensure they are fully delivered. Detailed monitoring and reporting on the delivery of planned efficiency savings during 2010/11 is already planned. The full extent of necessary spending reductions will become clearer after the Comprehensive Spending Review and the settlement of revenue grant funding for 2011/12 and beyond.

**26** The Council's new treasury management strategy introduces more complex decision making and loans and investments. To support its implementation, effective skills development and training for relevant staff and members will be important. Monitoring reports also need to more clearly measure the impact of decisions on the changing risk profile of the Council's loans and investments.

**27** The Authority can improve value for money from its significant purchasing power. To achieve this, it needs to develop a better understanding of procurement and transaction costs. An internal review of procurement is currently underway; we would expect this to create a clear picture of where and how money is spent, and where scope for efficiencies is greatest. Reporting of procurement outcomes, including benefits for service users and compliance with corporate policies, also needs to be strengthened. Some progress has already been made, with improved management information leading to more effective challenge of procurement decisions.

## **Governing the Business**

**28** Over the past year the Council has built on its existing strengths in the areas of governance, performance management, use of information and data quality. Some progress has been made in addressing weaknesses previously identified in commissioning and procurement but it is too soon to discern significant outcomes from this. Corporate risk management arrangements need to be strengthened.

**29** The Council is improving its approach to strategic service commissioning. The recent restructure of the Environment Directorate reflects commissioning principles - for example, integrated working with district councils on streetscene. These changes are expected to deliver both cost reductions and improvements for the public. The Council is also in the process of setting up a strategic partnership with a private sector partner to provide key support services, including human resources and information technology. At the local strategic partnership, (LSP), level, partners are reviewing their activity and impact on the four 'big ticket' issues - economy, health, housing and climate change - to identify scope for reconfiguring resources.

**30** During 2009/10, information management arrangements have been strengthened by officer workshops and the completion of encryption and data security e-learning programmes. The Council has a robust framework to oversee data quality. Performance management is strong, and information is well presented to support decision making. As in previous years, the Council's network has been penetration tested by external specialists

**31** Strong ethical and governance arrangements are in place. Member training and development is good and, in 2009/10, included extensive training for 48 new councillors. The Audit Committee is challenging and effective. Arrangements for monitoring Pension Fund performance by members has also improved. This has enabled members to more effectively challenge performance.

**32** Numerous examples of effective risk management exist across the Council. These include the actions taken to manage the significant in-year spending pressures during 2009/10 and to reduce the risk of the Council's exposure to financial markets.

### **Areas for future focus and development**

**33** The maintenance and use of a corporate risk register has not been effective during 2009/10. Internal Audit has also identified inconsistencies in the effectiveness of risk management across the Council. The need to improve the Council's corporate risk management arrangements has been accepted by the Council and is reflected within its annual governance statement.

**34** Some concerns remain over the security of the Council's network. Penetration testing of key corporate IT systems found several weaknesses, including unauthorised access to payroll data (read-only) and the fact that many networked servers do not have up to date security patches installed, making them more vulnerable to hacking. Steps have subsequently been taken to close off unauthorised access to payroll data, and improved patch management processes/software will be introduced during 2010/11. Arrangements for network access by staff working from home do not meet the security standards currently required by Government Connect. This is

the subject of disagreement and further discussion between the Council and Government Connect.

**35** There remains scope for the Council to more clearly articulate its approach to strategic service commissioning. Directorates are beginning to undertake reviews of their commissioning activity in the light of the new financial position and would benefit from clearer guidance on the key issues to be addressed.

## Managing Resources

**36** During 2009/10, we re-examined the Authority's arrangements for securing value for money from its physical assets and found that these remain effective. We also looked, for the first time, at how the Council is managing its workforce to meet current and future needs.

**37** The Council has a strong approach to asset management that is helping to deliver strategic priorities. Through comprehensive property data and an ongoing process of property review, the Council challenges whether all its assets are required, fit for purpose and providing value for money. The Council continues to enthusiastically pursue office rationalisation, particularly in Preston city centre. The Preston offices review has so far generated £2.4 million in capital receipts, released nine leased and three owned buildings, and reallocated retained workspace at a more efficient 8.5 square metres per work station. County-wide, office rationalisation has realised revenue savings in excess of £50 million over the past five years. The Council continues to promote joined-up asset management with district councils through 'aligned asset management plans', although this has so far produced few tangible outcomes. A joint portfolio review with Central Lancashire Primary Care Trust (PCT) is underway, covering Children's Centres, GP surgeries and the PCT estate.

**38** Workforce planning and people management arrangements support the Council's strategic objectives well. Effective systems are in place to attract, retain and develop the right people. This includes good use of apprenticeships and a strong approach to skills development. The Council can show evidence of improving productivity through service reconfiguration and reducing absence. It has a good track record of involving staff in organisational change. Sickness absence fell by 4 per cent in 2009/10 as a result of improved occupational health and absence intervention, although the ambitious target reduction was not met. Skill shortages exist in some areas – for example, children's social work and some engineering services – and these are being addressed. Workforce planning has been variable in quality across the organisation but should become more robust and consistent as a new corporate template is launched. For example, the Children and Young People's Directorate has a clear workforce strategy, linking challenges to improvement measures, and can demonstrate positive outcomes such as greater success in filling vacancies for primary headships on the first attempt. The Authority has refreshed its approach to promoting equality and diversity. Its new 'Narrowing the Gaps' strategy includes plans

to strengthen partnership working and to support managers in better understanding the profile of their service users.

### **Areas for future focus and development**

**39** Despite the County Council's efforts to co-ordinate asset management with district councils, there remain disappointingly few examples of joint property use that transform access to services for the public. In the context of the financial pressures facing the public sector, the County Council should continue to lead this agenda, seeking more active support from local partners.

**40** The new corporate model for workforce planning needs to be implemented consistently across directorates to ensure that the Authority knows in the medium to longer term what staff it will need, with what skills, and has plans to achieve this.

### **Approach to local value for money work from 2010/11**

**41** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**42** My work will be based on a number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**43** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## Current and future challenges

**44** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. There are implications for treasury management strategies and there are likely to be wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, in particular, pressures on income streams.

**45** The Council faces perhaps its toughest ever period financially. In order to meet increasing demand from the local population, drive up quality and respond to rising expectations the Council will have to do more with its money. It is, therefore, inevitable that the shape of some services will have to change.

**46** As the Council moves forward it will need to continue to develop robust arrangements to:

- ensure resilience in medium term financial strategies;
- deliver efficiencies and future plans;
- update treasury management strategies;
- assess the funding requirements and re-prioritise capital programmes;
- review income streams; and
- identify patterns of changing demand profiles and shift priorities accordingly.

## Closing remarks

**47** I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources. I will present this letter at the Cabinet on 2 December 2010 and will provide copies to all members.

**48** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Opinion Plan	June 2010
Annual Governance Report	September 2010
Opinion on the financial statements	September 2010
Value for Money conclusion	September 2010
Audit Letter	November 2010

**49** The Council has taken a positive and helpful approach to our audit. I wish to thank the Lancashire County Council staff for their support and cooperation during the audit.

Clive Portman  
District Auditor  
November 2010



# Appendix 1 – Glossary

## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

## **Financial statements**

The annual accounts and accompanying notes.

## **Qualified**

The auditor has some reservations or concerns.

## **Unqualified**

The auditor does not have any reservations.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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