



Grant Thornton

Interim Auditor's Annual Report on Lancashire County Council 2021/22

6 April 2023



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Executive summary	03
Opinion on the financial statements and use of auditor's powers	05
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	06
Financial sustainability	07
Improvement recommendations	10
Governance	11
Improvement recommendations	14
Improving economy, efficiency and effectiveness	15
Improvement recommendations	18
Follow-up of previous recommendations	22
Opinion on the financial statements	24
Appendices	
Appendix A – Responsibilities of the Council	26
Appendix B – Risks of significant weaknesses, our procedures and findings	27
Appendix C – An explanatory note on recommendations	28
Appendix D – Sources of evidence	29
Appendix E – Key acronyms and abbreviations	31

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary






Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. As the audit of the financial statements for 2021-22 remains ongoing, this report is issued as an “interim” report. A finalised report will be issued once the audit is completed.

Auditors are required to report their commentary on the Council’s arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but improvement recommendation made	 No significant weaknesses in arrangements identified and one improvement recommendation made.	↔
Governance	One risk of significant weakness identified around the reporting of decisions in relation to key capital projects where the Council is the accountable body.	 No significant weaknesses in arrangements identified, but improvement recommendation made	 No significant weaknesses in arrangements identified and one improvement recommendation made.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	 No significant weaknesses in arrangements identified.	 No significant weaknesses in arrangements identified and four improvement recommendations made.	↓

-  No significant weaknesses in arrangements identified or improvement recommendation made.
-  No significant weaknesses in arrangements identified, but improvement recommendations made.
-  Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

The Council has a strong track record of financial control and updates its Medium Term Financial Strategy (MTFS) regularly. This approach enabled it to act swiftly when the financial report for the first quarter of 2022/23 highlighted the danger that as a result of major inflationary pressures that had arisen since the setting of the budget, the future use of reserves may not be sustainable. Accordingly a programme of savings has been developed which will secure the medium term financial security of the Council despite the inflationary pressures that have occurred in 2022.



Governance

The Council has maintained effective governance arrangements. During 2021/22 there have been positive developments in response to our prior year recommendations surrounding both gifts & hospitality procedures, declarations of interest and review of scrutiny arrangements. Overall, we have concluded that the Council continue to have good procedures around risk monitoring and governance. However, we have raised one improvement recommendation in relation to transparency procedures and would encourage the Council to publish increased public-facing reports to help the public understand decisions undertaken in private.



Improving economy, efficiency and effectiveness

The Council is effective in securing value for money when improving its economy, efficiency and effectiveness. The Council is a prominent figure when it enters into partnerships and should continue to take a proactive approach when using integrated working. Furthermore, it has been noted from our review that when the Council procures its services, and manages its contracts, there is a need for updated framework of policies and procedures, to align with public sector legislation. The Council should focus on revising these as soon as possible. Overall, there have been no areas of significant weakness, however further improvement recommendations have been made regarding its transition to a new system of financial and people management.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

Our Audit Opinion has not yet been issued. The work is almost complete and an updated Audit Findings report was presented at the 30 January 2023 Audit, Risk & Governance Committee. A Final Auditor's Annual Report will be issued once the audit opinion has been issued.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations in the year.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any public interest reports in the year.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make any court applications in the year.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notices in the year.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review in the year.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 23. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial performance 2021/22

The Council has a history of good financial performance. In 2021/22 it reported an underspend of some £29.9million, or 3.4% of budget. This enabled it to increase its Transitional Reserve (which is used to smooth out short term fluctuations) to £215.8million. The largest single contributing factor to the underspend was a surplus of £13.5million generated by Treasury Management through the sale of gilts and bonds. There were some cost pressures, but these were offset by lower-than-expected demand for certain services as the impact of the COVID-19 pandemic continued. It is expected that demand will recover, particularly in adults' and children's services.

The Council maintains a "County Fund" of £23.4million to deal with a serious emergency such as widespread flooding. It has a further £407.9million of earmarked reserves, including the Transitional Reserve referred to above. In the Medium-Term Financial plan presented as part of the budget setting process in February 2022, it was expected that some £23.0million of this would be required in 2022/23. The base case forecast indicated further funding gaps (including values committed to be taken from the Transitional Reserve) of £40.1million in 2023/24 and £44.0million in 2024/25.

However, the financial report for the first quarter of 2022/23 forecast an overspend of £17.7million for the financial year, arising partly from inflationary pressures that have arisen since the budget was set. Such pressures include the higher-than-expected pay award and significantly increased energy costs. Other factors contributing to the overspend include significantly increased costs of agency residential placements for children.

More seriously, the funding gap in 2023/24 was forecast to be £87.1million and if no action were taken, the Transitional Reserve would be exhausted before the end of 2024/25. Accordingly a process was undertaken to identify significant levels of savings. The approach commenced with savings that could be achieved within the Directorates, followed by council-wide initiatives. These were presented to the Council in November 2022. The combined effect of these is sufficient to mean that the Transitional Reserve would remain at a positive level beyond 2026/27. However, the Council remains committed to producing a balance budget and workstreams, including benchmarking the Council's performance against other local authorities, are in progress to identify further savings.

The process to identify savings started to produce benefits in the second quarter of 2022/23, as the full year overspend position improved from the quarter one forecast by £9.7million to £8.0million.

Capital programme

The Council has a 20 year capital strategy that is updated annually and sets the long term strategic framework for capital and investment decisions. It sets out the corporate aims and principles that underpin the production of the rolling three year capital programme which is approved each February. Each capital proposal is required to demonstrate how it supports the aims of the corporate priorities.

Financial Sustainability

The capital programme planned for 2021/22 was £170.6million. Actual expenditure was £164.1million. The net underspend was a combination of overspends against projects completed in the year (£6.0million), projects brought forward from future years (£31.0million) and slippage (£43.4million). The capital programme for 2022/23 is £221.9million.

Financial planning and savings plans

The Medium Term Financial Strategy is under regular review in order to update assumptions where they change. This is demonstrated by the quarter one financial report in 2022/23 where the inflationary pressures that arose after the approved budget was finalised became clearer.

For 2023/24, savings identified by Directorates total £54.5million. The most significant schemes are:

- Income / cost sharing and joint funding with health (£12.6million). This involves a range of measures including the increasing of funds claimed from the NHS for people's Continuing Health Care, for people with learning disabilities and those discharged from mental health services, funding projects through the Better Care Fund and taking a more active role in deciding on where patients discharged from hospital are placed.
- Treasury Management (£9.0million). This is based on the fact that Treasury Management has achieved significant underspends in recent years. There is a volatility reserve of £36million to cover any shortfalls in the achievement of these savings.
- Education and Children's Services high cost placements (£5.0million). This involves improving working practices and undertaking earlier intervention to prevent children having to be placed in high cost homes.
- Adult services budget adjustments (£4.8million). These simply reflect historic underspends against budgets and brings future budgets into line with actual expenditure.

In order to monitor the delivery of savings previously agreed and any new savings newly identified, each Directorate will have a Finance Monitoring Board. These will challenge and monitor the delivery of savings, remove barriers to delivery and escalate any issues to ensure savings are delivered within their profiled timescales and earlier if possible.

The Council is moving towards a more explicit link between its overall business plan, its workforce plan and its financial plan. A Head of Resources has been appointed, who will coordinate this once he takes up the post in March 2023. In addition, a new directorate has been set up in order to co-ordinate efforts for the recruitment and retention of staff across the Council, as well as training and the reduction of sickness absence and the use of agency staff.

Medium term financial planning and risk management

In order to address the uncertainty surrounding future funding, in formalising and updating the MTFS the Council apply scenario analysis to analyse a range of inputs. The most likely scenario in the quarter one update to the MTFS showed a funding gap of nearly £160million by the financial year 2026/27. This resulted in the process to identify long term savings referred to above.

The cash flow forecast for the Council is updated daily. The base model accounts for known and forecast expenditure – for example, it assumes no slippage in the capital programme, although this is highly likely, and gives the council sufficient notice of the need to sell bonds (of which it has approximately £330million) to cover any short term issues.

Uncertainties remain in the financial forecasts relating to demand for services (both quantity and complexity), inflation (including pay settlements), council tax funding and business rates retention. The Council is monitoring these factors. For example, an analysis of demand over recent years has indicated that some budgets are based on higher demand than is necessary and this has led to a reduction in those budgets. Other factors such as the business rates retention policy and the government funding formula remain uncertain and subject to sensitivity analysis.

Financial Sustainability

Conclusion

The Council's original budget for 2022/23 was based on reasonable assumptions at the time. However, early into the financial year it became clear that many of those assumptions were unrealistic and updated assumptions needed to be reflected in the Medium-Term Financial Strategy. The Council did not hesitate in identifying significant savings, some of which could be implemented immediately resulting in a better financial outturn forecast of 2022/23 than was feared at the end of the first quarter. While it will still be necessary to draw down on reserves in the short term, those savings are anticipated to give the Council significantly more time to develop longer term savings and hence deliver a balanced budget without the need for the use of reserves. As at the end of December 2022, management are forecasting an overspend of £2.521m, a significant reduction from that identified during the year as a result of the various demand and inflationary pressures identified. The proactive management and response to the in-year pressures is evidence of the strong financial management arrangements in place at the Council.

Our review found that in managing the financial position for the year, as outlined above, the Council has in place appropriate arrangements to secure financial sustainability in the use of resources.

Improvement recommendations



Governance

Recommendation 1

The Council should ensure regular monitoring and savings delivery is reported as part of quarterly reporting. All savings should be assessed for deliverability and where appropriate contingency made in budgets against non-delivery.

Why/impact

Budget and Council Tax proposals and the updated Medium Term Financial Strategy includes significant savings and cost reductions. Delivering a balanced budget is dependent on delivery of these savings in full, however there is significant risk of both slippage and under delivery. If no provision is made for this in budgets additional savings will need to be found at short notice in order to balance budgets in-year.

Auditor judgement

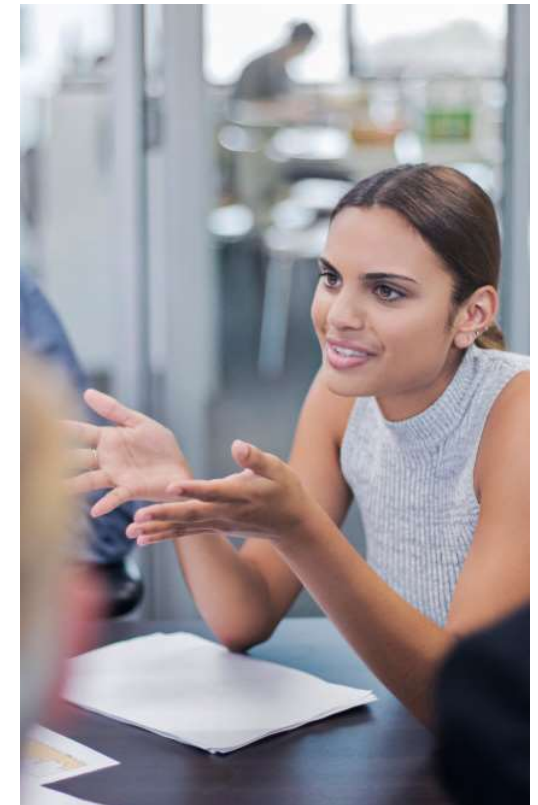
The widening of the Council's financial gap during 2022-23 reinforces the importance of delivering savings plans. The scale and progress of delivering planned saving means the financial sustainability is highly dependent on full delivery of the planning savings.

Without robust modelling and monitoring, savings and cost reduction proposals for later periods will become much more challenging to deliver.

Management Comments

The Council has robust arrangements in place to monitor savings delivery throughout the year, with a strong track record of delivering the majority of previously agreed savings programmes. Quarterly financial reports include details on significant variations against savings plans where appropriate.

The council recognises that the 2023/24 budget includes a significant value of savings and the approach to monitoring delivery, and identifying any mitigating actions required is currently being reviewed, and any changes will be discussed with Cabinet.



The range of recommendations that external auditors can make is explained in Appendix C.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk management

The Council has a Code of Corporate Governance in place which recognises the importance of an embedded risk management approach. To help fulfil this, the Council uses both directorate and corporate risk registers which are updated on a quarterly basis.

The Corporate Risk and Opportunity Register (CRR) was presented to both the Audit, Risk & Governance Committee (ARG) on a quarterly basis and to the Cabinet Committee on Performance Improvement (CCPI) for Quarter 3 and Quarter 4. The CCR is clear and outlines the risks, mitigations, owner and risk score. During the financial year the Council also introduced a summary risk profile which uses a RAG rating to understand risk scoring over time and provide greater accountability for mitigating actions. The Internal Audit Team completed a review risk management during the year, which resulted in a finding of substantial assurance.

Currently the reports are a result of manual changes, the Council is hoping to introduce a risk management system to streamline the risk management process and reporting, with introduction of dashboards. There is a clear risk escalation process in place from directorate level to the executive management team and through to member. The Council's understanding and management of risks appears sound and does not demonstrate a risk of serious weakness.

Internal audit

The Council has a well-established internal audit team in place with a change of Head of Internal Audit taking place during the 2021/22 financial year. The Internal Audit (IA) Plan was approved in April 2021 by the ARG. The focus of IA's work is determined through review of risk registers and discussions with both internal stakeholders and external networks to ensure sufficient coverage of key areas of risk.

The Head of Internal Audit Opinion was one of moderate assurance. During 2021/22, the team completed 31 internal audits, of which 94% provided a finding of substantial or moderate assurance. This was a significant increase on the 7 audits completed in 2020/2021.

However, due to the impact of the pandemic, there were a number of historic management actions outstanding from 2018/19 onwards. Progress updates have been presented to the ARG. In June 2022 of the 554 management actions raised, 356 (64%) of these had been implemented and 83 (15%) superseded. This resulted in 115 outstanding management actions (20%). Internal audits have already been planned to investigate 96 of these in 2022/23 (17%), leaving 19 incomplete. As of 26th September 2022, this number had reduced to 13, with only one high priority recommendation remaining outstanding. Good progress has been made in addressing the outstanding actions to be implemented and agreeing dates with management for actions to be implemented by. There are appropriate arrangements in place for the continuing monitoring and follow-up of Internal Audit actions.

The Council has placed a renewed focus on fraud awareness with a refresh of the requisite policies including a Fraud Response Plan and a new Financial Crime Strategy. However the current team includes just one fraud investigator, therefore in 2022/23 there will be a focus on raising fraud awareness throughout the organisation and working better with the police and agencies.

Governance

Budget setting processes and budgetary control

The Council has in place adequate processes surrounding budget setting and budgetary control.

For the 2021/22 financial year, these have mainly focussed on the building and monitoring of savings. These are covered in more detail in the 'Financial Sustainability' element of our report. The Council currently report financial performance separately from the wider operational and strategic performance reporting for the Council. We have raised an improvement recommendation in the 'Improving the Economy, Efficiency and Effectiveness' element of our report to consider combining these in future.

Committee effectiveness and scrutiny

In our 2020/21 value for money report, we recommended the Council ensure all agenda items are subject to sufficient challenge and scrutiny. A similar recommendation was made in the Council's most recent Local Government Association (LGA) Corporate Peer Challenge feedback, received in October 2021, which suggested a review of the overview and scrutiny function.

In response the Council has made a number of key changes, which received Full Council approval in May 2022. These included the introduction of four service area base committees and the creation of a new Scrutiny Management Board, in place of the Budget Scrutiny Review Panel and the Member Development Board. The Council has also sought the support of the LGA in developing a bespoke training programme for both councillors and officers to support this new way of working. Additionally the Council has produced a Cabinet/Scrutiny protocol which outlines how the committees should engage with each other and Cabinet. This allows for greater clarity and understanding of the role of scrutiny within the organisation.

There were a number of other changes also made to the Council's committee arrangements including the abolition of the Cabinet Committee on Performance Improvement. The functions of this Committee have been returned to Cabinet. Whilst this is a relatively recent change, our discussions with officers have highlighted that this has been welcomed and raised the profile of performance reporting across the organisation. The update to the committee arrangements is welcome and should help to improve both scrutiny and accountability throughout the organisation.

Transparency

The Council use the Modern Gov governance system for committee agendas, reports and meetings, of which many of these are accessible to the public. Our review of committee agendas noted numerous 'Part 2' reports which were restricted, with a notice of intention to conduct business in private. Of the 10 Cabinet meetings that took place in 2021/22, there was at least one restricted item on every agenda, with an average of four restricted reports per meeting. Whilst a number of these had a public-facing narrative, our review of a sample of the restricted reports found that many did not, despite there being a wealth of information which would not be particularly sensitive, if released into the public domain.

Transparency is an essential tool of local government which can increase democratic accountability and makes it easier for local people and businesses to contribute to local decision-making processes. We would encourage the Council to ensure to always publish a public version of reports, unless by exceptions and to only exempt necessary information [Improvement Recommendation 2].

Preston, South Ribble & Lancashire City Deal

The Preston, South Ribble and Lancashire City Deal was agreed in 2013 and is a 10 year programme to deliver £334million of infrastructure improvements to create new homes and jobs and drive economic growth in the region. Alongside several smaller scheme it consists of four major road schemes. The City Deal is due to end in 2023/24 however primarily due to an increase in costs there is a pause on progressing any projects until additional funding is identified. The City Deal is governed by the City Deal Executive and Stewardship Board chaired by the LEP and comprising the three local authority partner Leaders and Homes England.

Due to a number of issues and risks including rising costs, a mid-term review was undertaken during 2018/19 which identified significant financial pressures to deliver the original scope. Options were to be drawn up and a review of the Heads of Terms was proposed.

Subsequently it was reported to the LEP in September 2020 that the City Deal Executive Board had put in place a spending freeze due to the funding position of the programme. In the latest update to the LEP Board in March 2022, it was noted the revised Heads of Terms were still yet to be agreed and the spending freeze remained in place. An options paper was recently circulated to partners in November 2022.

Governance

Preston, South Ribble & Lancashire City Deal (cont.)

The original Heads of Terms indicate that, subject to certain terms, any deficit on the fund is the responsibility of Lancashire County Council to resolve, given the potential size of the current forecast deficit this remains a significant financial risk to the Council's financial sustainability. However as demonstrated by the current spending freeze, there are governance arrangements in place to manage the deficit and not commit additional expenditure without confirmed availability of funding.

A considerable amount of time has passed since the initial mid-term review in 2018, delays resulting from COVID-19 notwithstanding, these issues remain outstanding. This prolonged pause on a major infrastructure investment scheme can only exacerbate cost inflation pressures and the Council should focus resource to resolve this as a matter of urgency and be reported regularly.

The Council provides financing to cash flow the projects due to phasing of required working capital to deliver the schemes. The requirement was to fund any actual deficit which incurred in the financial year. The initial forecast was a peak requirement of £106.7 million in 2018/19 which would be recovered by the end of the deal.

Due to a combination of factors, including some income streams being available earlier than initially modelled and delay in some expenditure, to date there hasn't been a deficit which required funding. However due to the escalation in costs and current increases in borrowing costs it is likely the peak requirement and cost to the Council for providing this cashflow will be greater than in the original agreement.

Also as noted above the majority of information relating to progress and the financial position of the City Deal is contained with reports exempt from the public. The Council should regularly report publicly on progress, risk and financial position of the overall programme [Improvement Recommendation 2].

Gifts and hospitality

The Council has in place a Gifts & Hospitality policy as an appendix to the Constitution. In our 2020/2021 value for money findings, we noted a few improvements, which have been addressed.

In 2020/21, we stated that whilst the gifts & Hospitality policy is in place and appears to have been observed, there is no requirement to register gifts or hospitality which have been declined. This would be helpful to report to other members as a matter of course, so they can be alert in case they are also approached and offered something which ought to be declined. The Constitution as of 15 December 2022 states "It is also good practice to notify the Monitoring Officer of offers of gifts or hospitality which have been offered by refused."

We suggested that improvements could also be made to the level of detail captured on the councillor gifts/hospitality register such as date, value, whether it was accepted or declined. The Council has now updated the gifts and hospitality register, so that from June 2022 the information captured includes type, name, date, title, comment, provider, value and description. Both the current register is available, along with a complete register of all gifts & hospitality provided prior to June 2022.

In the prior year we found that whilst the Constitution states that the gifts and hospitality register will be published online, we could not identify it as part of our review so would recommend it was ensured that it can be easily located online. The Gifts & hospitality register is under the Councillors section of the website and clearly signposts how to both search for gifts provided to individual councillors and how to access the full register.

Pension fund

We have additionally reviewed the governance processes in place for the Pension fund. We are satisfied that they are appropriate, with the Pension Board taking and acting upon professional advice and services where required.

Conclusion

The Council continue to have good processes in place for risk management, budget management and effective decision-making. The Council has responded to the improvement recommendations made in the prior year in relation to gifts & hospitality and scrutiny functions. The only improvement recommendation we have raised in the current year is to review the decision-making around conducting business in private. We would encourage the Council to ensure there is always a public-facing document for all Cabinet decisions.

Improvement recommendations



Governance

Recommendation 2

The Council should endeavour to increase transparency by reducing the number of Cabinet reports discussed in private. The Council should ensure to always publish a public version of reports, unless by exception and to only exempt necessary information. The Council should regularly report on the overall financial position of the City Deal and other major capital investment programmes publicly, including detailed financial risks and issues. The reports should clearly set out what spend is committed to schemes and what represent risks but are as yet agreed to be spent.

Why/impact

Transparency is an essential tool of local government which can increase democratic accountability and makes it easier for local people and businesses to contribute to local decision-making processes. It is important progress and risks to major infrastructure schemes are reported publicly for transparency and to support scrutiny and accountability for public spending.

Auditor judgement

Our review of committee agendas noted numerous 'Part 2' reports which were restricted, with a notice of intention to conduct business in private. Of the 10 Cabinet meetings that took place in 2021/22, there was at least one restricted item on every agenda, with an average of four restricted reports per meeting. Whilst a number of these had a public-facing narrative, our review of a sample of the restricted reports found that many did not, despite there being a wealth of information which would not be particularly sensitive, if released into the public domain.

Limited information is reported publicly with regard to the financial position of the City Deal. No specific information is contained within the Council's finance report and the most recent report to Cabinet in October 2019 was exempt from public session. Reporting to the LEP board is infrequent and doesn't contain information regarding the overall programme's financial position.

Management Comments

Lancashire is relatively unusual for a large authority in that we take all our executive decisions at meetings of Cabinet. Other similar authorities take many decisions in individual Cabinet Member Decision Making sessions, and this can mean that more Part II decisions are taken in private sessions.

This is an issue that has already been addressed, and in fact it began to be addressed during the period analysed by GT. Our approach since that point has led to very few reports being considered in Part II. Since February 2022 to March 2023 (13 Cabinet meetings), there have been a total of just 8 reports entirely in Part II. To maintain transparency (in the vast majority of cases), the bulk of the information has been put in Part I, with the confidential information only being extracted and placed into Part II appendices.

The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance and financial reporting

Performance and financial information is reported to Cabinet in a timely manner. During the financial year, the Council disbanded the Cabinet Committee on Performance Improvement, with performance reporting now being directly presented to Cabinet. It was noted within our interviews that moving performance management reports to Cabinet has highlighted the importance of corporate performance reporting to members. This process requires further input from senior officers in order to prepare for Cabinet member scrutiny, and allows for greater understanding of the holistic picture at different levels of the organisation. Each directorate will have briefings with the requisite portfolio holders in advance of Cabinet meetings.

Additionally, the Cabinet performance reports have been added to the agenda alongside the Money Matters report, which illustrates the financial monitoring of the Council. In year, there has been a move to align reporting cycles, so that both financial and performance is discussed cross sectionally. This will help to aid decision-making, as all areas of performance can be aligned.

Data accuracy

The Council has a Business Intelligence team in place who work closely with directorates and complete a quality assurance process over any information, which is fed into the corporate performance reporting process.

There is a currently a drive to improve the level of data accuracy across the organisation at the directorate level. This has been recognised by investment in the Level 3 Data Literacy apprenticeship, which has been offered to all staff.

The Data Services Team are also conducting work in this area to allow for more focussed use of Power BI dashboards across the organisation.

Systems management

It was raised in our discussions with the Chief Executive, Director of Resources and Director of Finance that the Council is currently transitioning to the use of a new financial and people management programme, which will first affect the Payroll system. The Council should continuously monitor the shift to the finance application, continue with its 'End User engagement' sessions and report issues timely to build shared understanding and aid smooth implementation throughout the Council. This will be key in alleviating potential bottlenecks to the transition, aid organisation understanding and make the Council wide role out more efficient [Recommendation 4].

Savings identification

The Council have produced a savings tracker, which identifies the relevant service, option, progress update and RAG rating for each savings opportunity. This model has been extended into 2023/24 and shows the Council takes a proactive and forward-looking approach to both its savings identification and the progress and reporting of its savings. It was noted from our discussion with the Director of Finance that the Council has 'no red lines' in terms of savings and has developed a culture of sustainable saving, rather than purely 'salami slicing'. This proactive approach allows for more consideration of impact on objectives and performance, rather than top slicing budgets.

Improving economy, efficiency and effectiveness

Partnership working

It is clear that the Council is able to articulate who its partners are, and utilises its relationships to improve service delivery for its members. Within the annual governance statement and accounts, the Council clearly identifies its working relationships partners, the main being; Safer Lancashire, Lancashire Enterprise Partnership, City Deal, Lancashire SEND Partnership, Lancashire County Developments Limited and the Lancashire and South Cumbria Integrated Care Partnership.

The Integrated Care System (ICS) Board is a partnership board, constituted of a range of NHS, local government, voluntary and community sector organisations working together across Lancashire and South Cumbria. The role of the ICS Board is to provide leadership and development of the overarching Lancashire and South Cumbria ICS strategy, oversight and facilitation of delivery of sustainability, transformation and design of the future state of health and care.

It has been noted from interviews, that the Council take a very proactive approach in the ICB partnership. The Chief Executive sits as a Local Government representative within the ICS Development Oversight Group. The Director for Adult Social Service at the Council is also the Integrated Care Lead. This ensures that the Council's context and opportunity is understood and reflected in its plans and priorities. The Council should continue to take a proactive approach and continue to pursue strong relations in the implementation of the new service delivery model. From reflection with key stakeholders, the Council needs to further develop these relationships as the group matures, and engage in an activity to align group priorities (e.g. investment into community support to alleviate pressure on acute services) [Improvement Recommendation 3].

Lancashire Better Care Fund 2022/23 is an NHS and Lancashire County Council pooled fund in excess of £174million. Arrangements are in place for oversight of key partnerships and partnered working, and the Council is provided with evidence and information to assess the success of these arrangements. From Internal Audit review of the Council's Committees, the work regarding the Better Care Fund has been given Moderate assurance, with high priority in one area. The Council should continue to focus on its development to improve integrated working, as mentioned above [Improvement Recommendation 3].

This is to include roles and responsibilities for budget monitoring and identifying scheme areas where funding could be reallocated to improve Better Care Fund metrics. The Council must also have oversight of effectiveness of individual schemes funded by the Better Care Fund, enhancing more efficient and effective achievement of Better Care Fund performance metrics [Improvement Recommendation 3].

Procurement management

Procurement is the vehicle local authorities use to spend taxpayer's money to achieve its priorities, centred around services; people; community; growth and efficiency; and environment. It was noted from our interviews that the current procurement strategy at the Council is outdated, and must be refreshed. The new strategy should be in line with the most recent change to public sector procurement legislation, and should emphasise the importance of social value [Improvement Recommendation 5].

The Council should aim to update policies and have a clear timetable for policy updates moving forward, ensuring there is appropriate capacity and skills made available. Furthermore, the procurement team should take ownership of this refresh to ensure regular training is provided to staff, ensure roles and responsibilities of individuals involved are clear, and that the developed policies are fully embedded [Improvement Recommendation 5].

Improving economy, efficiency and effectiveness

Contract management

Both procurement and contract management rules are covered within an appendix of the Constitution, which were last updated to include revised EU Thresholds as from 1 January 2022. From our discovery interviews, it has been noted that within the Council, there is a varied approach to contract management. The Council currently has a major projects steering group, which has oversight of all major construction contracts. Furthermore, the Council has separate contract and procurement boards for areas such as Public Health and Adult's Social Services, which is attended by a member of the procurement team. These boards help to aid oversight and spark deliberation at a directorate level.

However, it was noted that this good practice is not Council wide, and improvements should be made for a more formal approach to be rolled out across the organisation, allowing for reporting to be presented to its respective Directorate Leadership Teams (DLT'S) . This will provide strong levels of information to the Executive and DLTS, aiding oversight and ability to track contract performance on a directorate level [Improvement Recommendation 6].

Conclusion

The Council has in place appropriate arrangements in securing value for money when improving its economy, efficiency and effectiveness. The Council is a prominent figure when it enters into partnerships and should continue to take a proactive approach when using integrated working, to ensure priorities between working partners are aligned. It has been noted from our review that when the Council procures its services, and manages its contracts, there is a need for updated framework of policies and procedures, to align with public sector legislation. The Council should focus on revising these as soon as possible.

Overall, there have been no areas of significant weakness, however further improvement recommendations have been made regarding its transition to a new system of financial and people management.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 3

In relation to the ICS, the Council has taken a progressive approach to forming relationships, and has good representations at these groups. The Council should now focus on aligning priorities and agendas to maximise its outputs from this operating model and ensure this informs operational decision making.

Secondly, the Council should take a more foresighted approach of its management of its Better Care Fund, ensuring it is reviewing the effectiveness of current schemes and has supervision of its metrics of the BCF.

Why/impact

Integrated working with partners can improve outcomes across the area however it is important integrated working is aligned to common objectives and priorities across all partners. The Council should continue to take a proactive approach in building its relationships when engaged in integrated working groups, to maximise outputs and effectiveness aligned to the Council's priorities.

Auditor judgement

From our documentation review and interviews with key stakeholders, it is clear where the Council is engaged in integrated working groups, there is improvements to be made to maximise the operational effectiveness of these partnerships.

Summary findings

The Council must pursue to align its priorities with partners, and review effectiveness of its partnership working groups going forward, to assess impact and performance.

Management Comments

The Council's statutory Director of Adult Social Care currently occupies a joint role with the local ICS, and through this role aims to align priorities between the organisations where relevant and take a strategic approach to system wide financial collaboration. The governance arrangements covering the Better Care Fund are in the process of being reviewed and plans in place for a strategic review of all schemes funded by the pooled arrangement



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 4

The Council should monitor the transition to its new financial and people resource management system and ensure a smooth implementation of its financial models.

Why/impact

The Council is currently going through a phase of transition to the system. By closely monitoring this, the Council will be able to tackle issues in a timely manner, and create an environment of shared learning for its Council wider role out during the year, saving both time and resource.

Auditor judgement

Within the Council, there was a shared sense of uncertainty of how this role out was to develop. By providing the right level of oversight and scrutiny regarding the transition, the Council will be able to relieve bottlenecks which may occur quickly.

Summary findings

The Council is changing its financial system to Oracle Fusion to manage both its finances and people resources. The Council must ensure implementation of the systems is managed effectively, with little error.

Management Comments

The Council went live with Oracle Fusion in January 2023, and the operation of the system has been closely monitored with direct dialogue with Oracle as appropriate. More routine arrangements for governance have now commenced as the system moves to 'business as usual' operations.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 5

The Council should focus on the developing an updated Procurement strategy, which will align to relevant legislation and place more emphasis on the need for a stronger social value policy. This refresh of policies should be supplemented by relevant training for staff within the Council.

Why/impact

With Procurement and Social Value agendas changing within the Public Sector space, the Council should take a proactive approach to aligning its policy to mirror this.

Auditor judgement

The Council would benefit from a refresh of its Procurement strategy, which was echoed by the Procurement lead at the Council.

Summary findings

It was noted that the Council's Procurement strategy is outdated, and the Council should look to develop and adapt this policy to enable the organisation to operate in the turbulent external environment.

Management Comments

The Council is intending to review and refresh its Procurement Strategy and this work will be supported and informed by the outcome of a review commissioned from KPMG, and currently underway, to support the contracts review savings target.

The Council is also working with the social value portal, who have undertaken a diagnostic exercise, which has identified some areas of opportunity to strengthen the approach to social value and which will be considered as part of the overall review of the Procurement Strategy and approach to procurement activity going forward.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 6

The Council should focus on developing a centralised contract management policy agenda. Contract management information should then be filtered through to the relevant Executive and Directorate Leadership Team's.

Why/impact

The Council will benefit from having a more formalised contract management policy. A greater level of information reported through to relevant executives and Directorate Leadership Team's will aid challenge, performance management and decision making.

Auditor judgement

There is a need for the Council to have a more formal approach to contract management, and ensure that this information is reported through to the relevant Directorate Leadership Team.

Summary findings

Our findings showed the Council has good pockets of understanding and process in regards to contract management. These learnings should be rolled out on a Council wide initiative, through a new contract management policy agenda.

Management Comments

The Council's approach to contract management is also being supported and informed by the outcome of the review commissioned from KPMG, and currently underway, to support the contracts review savings target



The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	A clearer distinction could be made between statutory and discretionary spending in the budgetary information provided to members and published on the web.	Improvement	February 2022	The Council considered this recommendation and felt that in some areas the distinction was not clear cut. It therefore felt that resources were better deployed on establishing where savings could be made by, for example, benchmarking costs against other councils.	No	Yes - We would encourage the Council to make clearer distinctions between discretionary and statutory spending.
2	Stakeholders should be consulted on all significant savings schemes/plans identified by the Council.	Improvement	February 2022	The Scrutiny Management Board assessed the savings plans proposed in September 2022 and draft budgets are the subject of very wide consultation with stakeholders including other local government organisations, the NHS, trade unions and business.	Yes	No
3	Whilst gifts and hospitality received are declared, as with members interests there is not a central register of all gifts and hospitality received. Improvements could also be made to the level of detail captured on the councillors gifts/hospitality register such as date, value, whether it was accepted or declined.	Improvement	February 2022	The Council has updated the councillor gifts and hospitality register so that there is a new version from June 2022 which is available online and captures the following areas: Name Date Title Comment – accepted or declined Provided by Value Description	Yes	No

Opinion on the financial statements

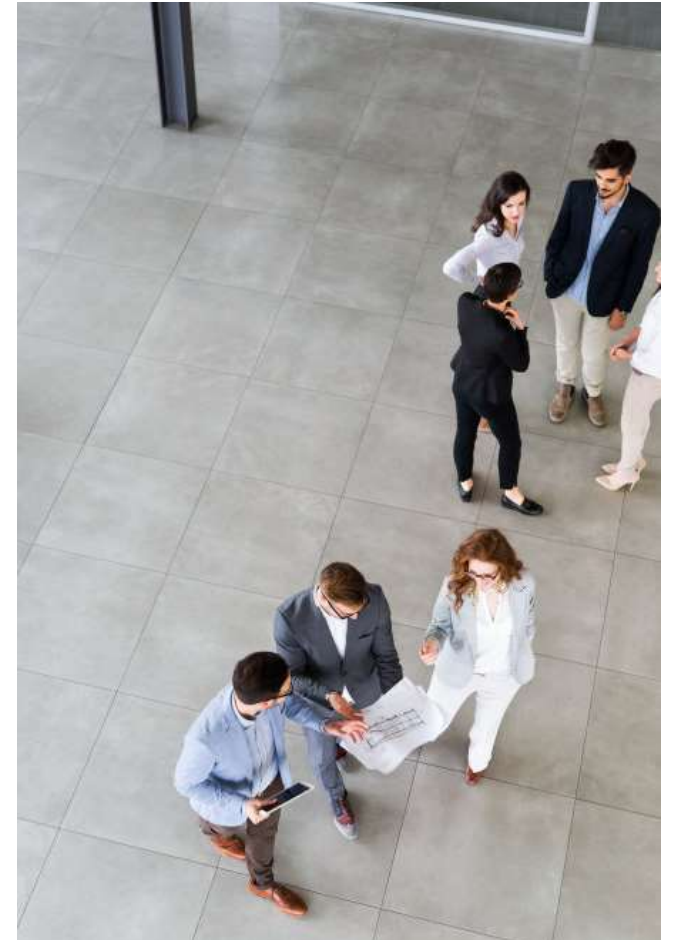


Audit opinion on the financial statements

Our Audit Opinion has not yet been issued. The work is almost complete and an updated Audit Findings report was presented at the 30 January 2023 Audit, Risk & Governance Committee. A Final Auditor's Annual Report will be issued once the audit opinion has been issued.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Governance was identified as a potential significant weakness, around the management of key capital projects with partners, where the Council was the Accountable Body. The main project being the Preston, South Ribble & Lancashire City Deal. See Page 12 for more details.	Reviewed public and private Cabinet papers in relation to Preston City Deal and other capital projects. Interviewed key staff members to understand decisions around capital projects. Interviewed democratic services staff to understand the processes in relation to transparency and publication of commercially sensitive information in the public sphere.	<p>The Council actively monitors the financial position of the Preston City Deal programme and has reporting process in place. A clear governance structure is in place however it has been noted several planned meetings have been cancelled over the last twelve months.</p> <p>Whilst arrangements are in place there have been significant delays since the mid-term review was undertaken in 2018. It is essential the Council, working with partners, resolve outstanding issues, particularly with regard to funding, to be able to progress delivery following the current spending freeze.</p> <p>It is also noted limited financial detail is included within public reports so limited information or updates have been provided to the public to allow public scrutiny and questions regarding the programme. Further detail is provided on pages 12 – 13.</p>	Appropriate arrangements are in place, with one improvement recommendation raised on improving transparency through use of public facing documents for decisions made in private.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	10,14, 18-21

Appendix D – Sources of evidence



Documents Reviewed

- Annual Governance Statement
- Anti-Fraud, Bribery and Corruption Policy
- Anti-Money Laundering Policy
- Capital Delivery Programme 21/22
- Capital Delivery Programme 22/23
- Capital Strategy
- Cashflow forecast May 2022
- Childcare Sufficiency Assessment 2021
- Code of Conduct
- Code of Corporate Governance
- Committee meeting report packs and minutes
- Constitution
- Corporate Parenting Strategy
- Corporate Risk and Opportunity Registers
- Corporate Strategy 2022
- Corporate Strategy Monitoring Reports 2021-22
- Declarations of Interest
- Digital Strategy
- Economic Development Investment
- Financial regulations
- Financial Statements 2021/22
- Fraud Sanction and Prosecution Policy
- Gifts & Hospitality registers
- Head of Internal Audit Opinion 2021/22
- Internal Audit Plan 2021/22
- Internal Audit Progress Reports
- Internal Audit Reports 2021/22
- Investment Strategy
- Lancashire Strategic Assessment 2022-2025
- Lancashire Community Safety Agreement
- LGA Peer Review 2021
- Local Government procurement and contract management
- Management Structure
- Medium Term Financial Strategy 21/22-24/25
- Medium Term Financial Strategy 22/23-25/26
- Money Matters Reports 2021/22
- MRP Statement
- Outturn Report 2021/22
- Pension Fund Annual Reports
- Pension Fund Budget 22/23
- Pension Fund progress reports
- Pension Fund Risk Management Framework
- Pension Fund Strategic Plan
- Performance Reports 2021/22
- Private Cabinet papers
- Procurement pipeline
- Procurement Reports 2021/22
- Revenue Budget 21/22
- Revenue Budget 22/23
- Risk Profiles
- Savings templates
- Savings trackers
- Scrutiny refresh documentation
- Social Value Policy and Framework
- Transforming Cities Programme Documents
- Treasury Management Strategy
- Whistleblowing Policy

Appendix D – Sources of evidence



Staff involved

- Paul Bond – Head of Legal and Democratic Services
- Rachel Tanner – Head of Procurement
- Andrew Dalecki – Head of Internal Audit
- Josh Mynott – Democratic and Member Services Manager
- Mark Wynn – Executive Director of Resources
- Angie Ridgwell - Chief Executive & Director of Resources (s151)
- Neil Kissock – Director of Finance
- Khadija Saeed – Head of Corporate Finance
- Kate Lee – Head of Financial Management
- Donna Talbot – Head of Business Intelligence
- Mike Kirby – Director of Strategy and Performance

Appendix E - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

AGN – Auditor Guidance Notes

AGS – Annual Governance Statement

ARG – Audit, Risk & Governance Committee

BCF – Better Care Fund

CCPI – Cabinet Committee on Performance Improvement

CE – Chief Executive

CIPFA – Chartered Institute of Public Finance and Accountancy

CRR – Corporate Risk and Opportunity Register

DLT – Directorate Leadership Team

GTIL – Grant Thornton International Ltd

HoIA – Head of Internal Audit

IA – Internal Audit

ICB – Integrated Care Board

ICP – Integrated Care Partnership

ICS – Integrated Care System

KPI – Key Performance Indicator

LASAAC – Local Authority (Scotland) Accounts Advisory Committee

LGA – Local Government Association

LLP – Limited Liability Partnership

NAO – National Audit Office

NHS – National Health Service

RAG – Red, Amber, Green

SEND – Special Education Needs and Disabilities

VfM – Value for Money

