

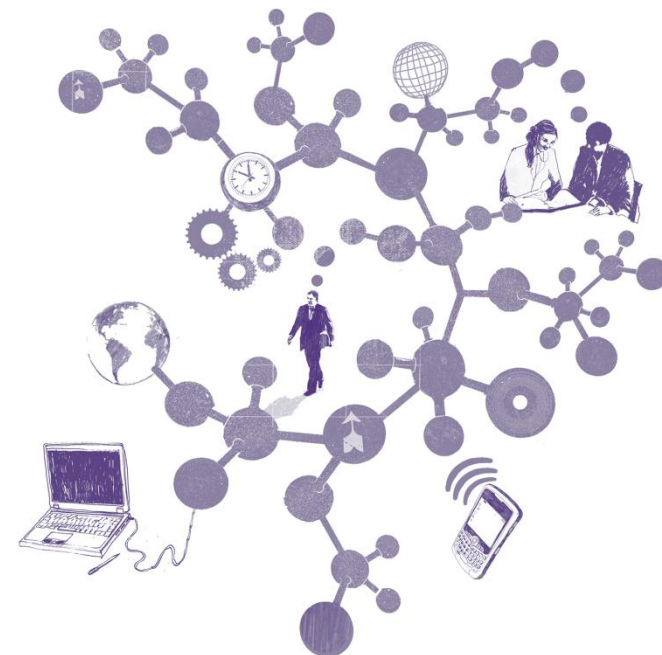
The Annual Audit Letter for Lancashire County Council

Year ended 31 March 2013

October 2013

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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Lancashire County Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts for the County Council and the Lancashire County Pension Fund and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in our Audit Findings Reports on 30 September 2013

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plans that we issued in March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year.
- an unqualified opinion on the accounts of the Lancashire County Pension Fund for the financial year ended 31 March 2013
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission.

We are unable to issue our certificate to formally close the audit for the 2012/13 financial year as we are waiting for the Council to complete the work it is undertaking around governance and procurement.

Executive summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council has faced significant reductions in its funding from central government over the lifetime of its current three year budget. To address this, it has taken a long term view at a strategic level to ensure the savings needed were secured on a sustainable and recurrent basis.

Work is now underway to develop the strategy and budget for the period to March 2017 in line with the Council's priorities. However, the estimated savings of £300m by March 2017 which equates to 38% of current spending, presents a significant challenge.

In 2012/13, the Head of Internal Audit concluded the Council has a generally sound system of internal control in place. However, she provided no or limited assurance about operation of controls in 48% of the reviews she undertook. Whilst we acknowledge that the audit plan, and therefore the focus of internal audit work, is on those areas management consider to be high risk, we are pleased to see that management team has recognised the need for further and faster improvement in the application of controls.

The Council continues to provide a key role in working with partner bodies, including central government and other councils, to promote and facilitate economic regeneration and job creation in the county area. The Council's role in managing funding streams will be pivotal to delivery of the recently announced Preston City Deal. This provides investment of £400m for a mix of infrastructure and new road projects and the construction of some 17,000 new homes.

We issued an unqualified conclusion in respect of the Council's arrangements for securing value for money. However, in doing so, we recognised that weaknesses in the overall framework have recently been identified by the Council in relation to procurement and some aspects of good governance. The Council is now investigating these issues.

Pending the conclusion of this work we are unable to issue our certificate for 2012/13 confirming completion of our audit in accordance with the Code of Practice and Audit Commission Act 2013.

Acknowledgements

This Letter has been agreed with the County Treasurer and will be presented to Audit and Governance Committee in November 2013 and to the County Council's Cabinet in December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013 in accordance with the national deadline.

Issues arising from the audit of the accounts

The draft accounts were, prepared to a good standard and were supported by good quality working papers.

A number of material amendments were agreed to the Statement of accounts, mostly in relation to grant income, financial instruments and the Cash flow statement. However, these did not affect the overall reported financial position of the Council or the pension fund.

Our detailed findings are set out in our Audit Findings Reports presented to the Audit & Governance Committee on 30 September 2013.

Weaknesses in control

The Council has addressed the control weakness reported by the previous auditor that lead to a potential misclassification of monies between the Council's accounts and those of the Pension Fund. The issue has now been resolved and appropriate journal transfers were made in 2012/13 to correct the position.

Annual governance statement

The annual Governance Statement (AGS) was amended during the audit to better reflect the way in which management team will address control deficiencies identified through Internal Audit reports.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit & Governance Committee at the Council). We presented our reports to the Audit Committee on 30 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

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Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

The Council has taken a sensible, long term view at a strategic level to help ensure that savings made over recent years are secured on a sustainable and recurrent basis. It has successfully delivered its savings plans and has taken some £217m out of the Council's cost base over the course of the current three year budget. The Council is on track to deliver its financial plan for 2013/14.

Work is now underway to develop the budget for the period to 31 March 2017 in line with the Council's priorities. In doing, so the Council recognises that it must deliver savings of £300m over the life of the budget. This equates to 38% of current spending and therefore presents a significant financial challenge.

In 2012/13, the Head of Internal Audit concluded the Council has a generally sound system of internal control. However, she provided no or limited assurance about operation of controls in 48% of the review she undertook. Whilst we acknowledge that the audit plan, and therefore the focus of internal audit work, is on those areas management consider to be high risk, we are pleased to see that management team has recognised the need for further and faster improvement in the application of controls.

The Council has recently identified some weaknesses in its overall arrangements relating to procurement and good governance. Work is now underway to investigate these issues.

Value for Money

In our Financial Resilience report presented to members we also highlighted scope to further improve the:

- treasury management function's controls framework, in particular developing and maintaining treasury management documentation which clearly define processes and responsibilities;
- risk management arrangements the Council has in place to obtain positive assurances that all significant risks are being properly identified, evaluated and managed and the basis for more effective member challenge on the adequacy of arrangements for managing risk

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

The Council has successfully achieved savings of £217m over the last three years through a mix of efficiency and policy measures. In delivering these savings, the Council has looked to protect the level and quality of services provided to residents and has managed the additional pressures faced by some demand-led services.

However, the Council anticipates the need to make further savings of £300m over the life of its next three year budget. Recognising the scale of this challenge, the Council has set aside earmarked reserves to support:

- strategic investment;
- service transformation; and
- downsizing.

These reserves will assist the Council in making the changes necessary to deliver the financial plan.

The Council continues to provide a key role in working with partner bodies, including central government and other councils, to promote and facilitate economic regeneration and job creation in the county area. The Council's role in managing funding streams will be pivotal to delivery of the recently announced £400m Preston City Deal, involving a mix of infrastructure and new road projects and the construction of some 17,000 new homes

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certificate

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Certificate

Certificate

We are required to issue a certificate each year to confirm that we have completed our audit in accordance with Audit Commission Act 1998 and the Code of Audit Practice.

We normally do this, to formally "close" the audit, as we issue our opinion on the statement of accounts and the value for money conclusion. However, we are unable to issue our certificate for 2012/13. This is because we are waiting for the Council to complete the work it is undertaking around governance and procurement. We will then decide whether we need to take any formal audit action in light of the outcome of the Council's review.

Section 5: Certification of grant claims and returns

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Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

For 2012/13 the Council has only one grant claim or return that is subject to the Audit Commission's certification regime. This is the Teacher's Pension Return. We are currently in the process of completing our certification work on this return and will report the outcome as appropriate in due course.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of non audit services.

The fee for the pension fund reflects the final scale fee determined by the Audit Commission.

The final fee for the audit of grant claims will be determined by the Audit Commission as the work is completed.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	150,660	150,660
Audit Fee – Pension Fund	41,505	41,194
Grant certification fee	3,700	TBC – work in progress
Total fees	195,865	TBA

Fees for other services

Service	Fees £
There were no fees for the provision of non audit services	Nil

Reports issued

Report	Date issued
Audit Plan	March 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013



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