

Interim Auditor's Annual Report on Lancashire County Council

2022/23

April 2024



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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.



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.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. This report is interim until our financial statements audit is complete.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	One risk of significant weakness identified surrounding the budget gap at the Council.	A No significant weaknesses in arrangements identified and two improvement recommendations made.	A No significant weaknesses in arrangements identified and one improvement recommendation made.	↔
Governance	One risk of significant weakness identified surrounding the governance arrangements in relation to major projects (e.g. the Oracle Fusion implementation).	R Significant weaknesses in arrangements identified for governance arrangements over the implementation of Oracle Fusion, with a key recommendation made. Two improvement recommendations made regarding other governance arrangements.	A No significant weaknesses in arrangements identified and one improvement recommendation made.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	A No significant weaknesses in arrangements identified and two improvement recommendations made.	A No significant weaknesses in arrangements identified and four improvement recommendations made.	↔

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

Executive summary (continued)



Financial sustainability

The Council has a strong track record of financial control and updates its Medium-Term Financial Strategy (MTFS) regularly. During 2022/23 the Council was able to close an initially large forecasted overspend at Quarter 1 to a more manageable overspend of £0.750 million. The actual overspend in 2022/23 was funded by the Council using its transitional reserve. The Council has in place a significant suite of savings plans across its directorates which will seek to close the budget gap identified in the Council's MTFS. The Council holds a transitional reserve which can cover the budget gap for the MTFS period until 2026/27, however the delivery of savings will be paramount to ensure the financial sustainability of the Council moving forward. In our report we have not noted any significant weaknesses, however we have made some improvement recommendations for the Council to consider that will help to ensure its financial sustainability in future years.



Governance

During 2022/23, the Council implemented its new Oracle Fusion system used for procurement, payroll and finance procedures. The implementation gave rise to several issues, both technical and relating to governance arrangements, these issues have impacted on the running of the Council, payment of suppliers, the preparation of the 2022/23 Statement of Accounts and the timeliness of the completion of both the 2021/22 and 2022/23 External Audits.

Due to the significance of the matters identified, we have raised a key recommendation which has been accepted by management. See page 17 for more detail. We do recognise that the Council has already made good progress in addressing a number of the risks identified during 2023/24 and have engaged CIPFA to complete a lessons' learnt assessment to ensure that the Council can avoid the issues encountered in any future digital implementation programmes.

Aside from the new ledger implementation, we have concluded that the Council continues to have good procedures around risk monitoring and governance. In our report we have not noted any other significant weaknesses, however we have made some improvement recommendations for the Council to use to ensure its governance arrangements are robust and fit for purpose.



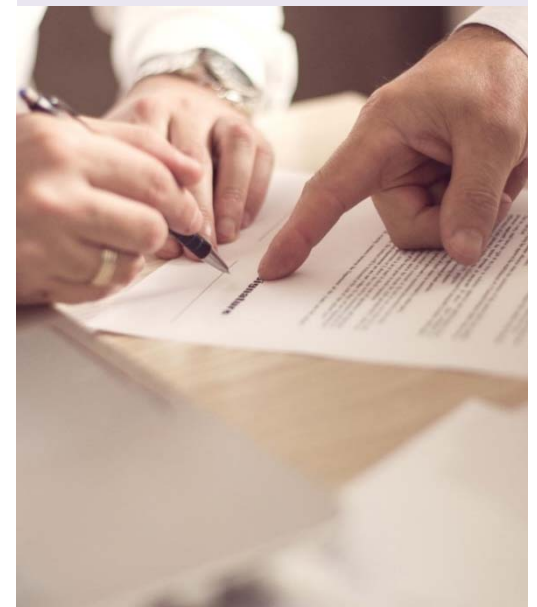
Improving economy, efficiency and effectiveness

The Council seeks to improve economy, efficiency and effectiveness and has broadly strong arrangements for doing so. The Council reports thoroughly on its performance and works well in partnership with organisations such as the Integrated Care Board. The Council is currently undergoing several reviews of its procedures, including reviews of the constitution and a report from KPMG regarding its contract management and procurement. We are satisfied that no significant weaknesses exist regarding the Council's improvement of its economy, efficiency and effectiveness, however improvement recommendations have been made within this section of this report.



Financial Statements opinion

Our audit of your financial statements is in progress and we intend to issue our audit opinion in April 2024, following the Audit, Risk and Governance Committee meeting in April 2024. The delay reflects the impact of the upgrade of the financial ledger on both the finance team and impact on the progress of the audit.



Use of auditor's powers

We bring the following matters to your attention:

2022/23

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 make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

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 a public interest report.

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 an application to the Court.

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.

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 make an application for judicial review.

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.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit, Risk and Governance Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 9 to 24.

The current LG landscape



National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current LG landscape (continued)



Local context

Lancashire County Council (the Council) was created on 1 April 1889 as a result of the Local Government Act 1888. On 1 April 1974, the Local Government Act 1972 transferred southern parts of Lancashire to the two newly established metropolitan counties of Merseyside and Greater Manchester. The Council is a non-metropolitan county council in the north-west of England, with its administrative centre being based in the city of Preston. As a county council, the Council is a tier one English local authority and sits above 12 district councils. The county of Lancashire also has two separate unitary authorities in Blackpool Council and Blackburn with Darwen Council, sitting in the west and south of the county respectively. In November 2023, Central Government announced it would be willing to enter into a devolution deal with Lancashire County Council, Blackburn with Darwin Council and Blackpool Council. This devolution deal is currently subject to consultation, but if successful, it would create a Combined County Authority, allowing the constituent councils to tackle key local priorities.

The Council is elected every four years, with currently 84 councillors being elected at each election. The Council is currently governed by a Conservative Party majority (48 councillors), with Labour being the primary opposition (32 councillors). The most recent election was in May 2021 where there was little movement in the Council's political composition. The Conservative party has governed the Council since 2017, with the last Labour Party administration being a minority government after the 2013 election. The next election is scheduled for May 2025.

The county of Lancashire covers an area of approximately 3,000 square kilometres and is home to approximately 1.5 million people. The county's two largest settlements are Blackpool and Blackburn, which are home to approximately 150,000 and 125,000 people respectively. Preston is the third largest settlement and is home to county hall and approximately 95,000 people. Historically, Lancashire was a major centre of economic activity, including the industries of coal mining, textile production and fishing. Much of this industry has ceased to exist, with the county's largest industry now being that of the defence industry, with BAE Systems Military Air Solutions having a base in the county.

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 2022/23

Outturn

The Council has a history of good financial management and performed reasonably in 2022/23, overspending by £0.750 million. This overspend equated to 0.08% of the total budget for the year.

The Council's budget was approved by Cabinet and by the Full Council in February 2022, with the total revenue budget totalling £948.107 million. This was later revised to £948.110 million. At the end of quarter 1 of 2022/23, the Council was reporting a forecast overspend of £17.740 million, however the Council was able to bring this overspend down throughout the year, resulting in the final overspend of just £0.750 million. The Council recognises that the reduction of the initial forecasted overspend was mainly due to over-prudence within some of its forecasting in certain directorates.

Reserves

The Council has a strong reserve position, holding usable reserves (excluding capital and schools reserves) of £409.4 million. The Council's General Fund (also known as the County Fund) is a reserve that the Council uses for serious emergencies, and has remained stable during 2022/23, starting and ending the year totalling £23.4 million. The remainder is that of the Council's earmarked reserves. This contains the Council's Transitional Reserve which is used for transformational change at the Council, including actions to deliver future savings. The Transitional Reserve was used to fund the £0.750 million overspend in year and has fallen from £215.7 million to £166.7 million from 31 March 2022 to 31 March 2023. Despite this fall however, the Transitional Reserve is still able to fund the Council's budget gap until the end of the current MTFs period in 2026/27. The Council recognises that in reality the Transitional Reserve is used as the Council's buffer for emergencies, as the General Fund is currently too low to be used for this purpose. The Council has considered a transfer between these reserves to balance them and allow for them to be used for their intended purposes.

We note that the Council's reserves position is relatively strong when compared to the sector, however it is important that the Council

considers its reserves as a safety net. The Council must continue to seek to deliver a balanced budget without reliance on the reserve to fill budget gaps. The Transitional Reserve could then be used to invest in the Council's services and help make the necessary changes for the Council to adapt to future challenges.

Delivery of Savings

The Council had ambitious savings targets for the 2022/23 financial year, with a suite of savings planned across multiple directorates. Planned savings totalled £29.6 million for the year and of these savings, £11.2 million was brought forward from 2021/22. The most significant of savings planned for the year fell within Adult Services and Health & Wellbeing, where £22 million of savings was planned, including those brought forward from 2021/22.

We note that the Council's 2023/24 savings tracker shows £16.2 million of savings brought forward from 2022/23. The 2023/24 savings tracker also shows that the planned savings for the year total £80.3 million, which is very large compared to previous years and there is a clear risk as to whether this level of savings is deliverable. The Council recognises that savings are being routinely brought forward where they have not been delivered and that improvements must be made in respect of this.

In response to the non-delivery of savings and other financial management issues, the Council has established directorate finance boards which aim to further scrutinise the finances of the directorates, including that of the savings plans. The directorate finance boards are overseen by the Strategic Finance Board, which tracks financial management at the Council as a whole and will seek to ensure the delivery of future savings. As well as the development of these finance boards, the Council has recognised that some of its planned savings are not realistically deliverable. To maximise efficiency, the Council has brought in more stringent protocols surrounding the scrutiny of savings, and from 2024/25, all legacy savings that are deemed undeliverable will be removed from the Council's savings plans, with efforts being made elsewhere.

We recommend that the Council ensures that future savings plans are realistic and that reporting against the savings plans is clear and transparent.

Financial sustainability (continued)

Budget for 2023/24 and performance thus far

The Council's budget for 2023/24 was approved by Cabinet and Full Council in February 2023, with the Council budgeting for revenue spend of £1,035.977 million. At the time of budget approval by Full Council, the Council had calculated an estimated budget gap of £9.162 million. The Council has opted to use the Transitional Reserve to cover this budget gap, however it is recognised that the Transitional Reserve should be used as a safety net for future budgets or an instrument to manage timing differences between budget deficits and the delivery of savings. As noted previously, the Council has put together a suite of savings plans that will help them to manage future budget gaps. They have also taken steps to monitor finances more effectively by setting up directorate finance boards and the Strategic Finance Board. These are positive changes to their financial management environment that should help the Council deliver more of their savings during the medium and long term.

At the end of quarter 1 of 2023/24, the Council was reporting an overall revenue overspend of £7.629 million, which equated to 0.73% of the revenue budget. The primary causes of this forecast overspend are as follows:

- Adult Services (£3.463 million): recruitment and retention issues and increased reliance on agency workers.
- Children's Social Care (£5.092 million): cost of agency residential placements has increased significantly since September 2021 and costs of social work and other teams have increased due to increased use of agency staff.

The Council has recognised these overspends and the other smaller variances within its financial reporting to Cabinet. These reports demonstrate that the Council has a firm understanding of the cost drivers that influence their expenditure. The Council reported a bigger overspend after the first quarter of 2022/23 and managed to reduce the overspend position in the remainder of that year. The officers we spoke to indicated that they are confident of doing so again in 2023/24.

Delivery of savings will no doubt be key for the Council in the delivery its budget and its medium-term financial plan. As stated, the Council's relatively strong reserve position and the relatively low value of the overspend as at the first quarter of 2023/24 provides assurance that no significant weakness in relation to financial sustainability exists at the Council. However, the Council is advised to continue to look for savings and plan for future budgets to be balanced without the use of the transitional reserve to be truly financially sustainable.

Capital programme

Alongside the revenue budget, the Council brought the 2023/24 capital delivery programme to Cabinet in February 2023. This report set out planned capital expenditure of £239.859 million in the year. However, the capital delivery programme was updated after the first quarter of 2023/24, with expenditure for the financial year forecasted to be £153.796 million, a reduction of £86.063 million from the initial plan. The Council has seen this significant drop in expected capital expenditure for the year due to increased uncertainty around the delivery of several projects. This position is consistent with the 2022/23 financial year where capital delivery was £138.585 million against a budgeted spend of £223.115 million.

The Council is comfortable with the way that it manages its large capital projects and that projects are usually delivered broadly within budget. However, it is also recognised that the Council is often optimistic regarding the timing of its capital delivery, even when specific risks to delivery are known. The Council often overestimates their and their supply chain's capacity to deliver capital projects and underestimates time required for procurement and planning phases to be completed. The Council has recognised that under delivery of capital projects year-to-year is an issue which needs to be resolved.

We recognise that slippage of capital budgets is an issue across local government and is not unique to the Council. Whilst reprofiling and delaying capital isn't necessarily an issue with respect to the financial sustainability of the Council, there is potential that it can have a significant impact on the borrowing profile of the Council and could therefore lead to higher borrowing costs and financial sustainability issues down the line. There is also an opportunity cost of allocating capital to schemes that are delayed which can impact on the Council's wider capital programme and therefore the delivery of its strategic objectives.

We recommend the Council would benefit from more scrutiny of the capital programme, with a particular focus on the profiling and deliverability of planned expenditure. The Council has already taken steps towards this through the creation of directorate finance boards and the Strategic Finance Board.

As noted throughout this report, the Council's reserve position is strong and in the case of capital, there are not any fundamental issues with the Council's financial processes.

Financial sustainability (continued)

Adult's social care

For councils across the sector, adult's social care is one of the highest risk areas with respect to financial sustainability. This risk has only increased since 2021/22 and it will continue to risk in the medium and long term. The key challenges councils face include:

- Lack of transparency in future funding
- Increasing complexity of cases and overall demand
- Increasing prices charged by care providers due to both inflationary pressures and difficulties recruiting care staff
- Lack of capacity to transform services to meet the increasing challenges ahead

Within the Council's 2022/23 financial outturn report, the Council reported an underspend of £7.6 million for Adult Services and Health & Wellbeing, with £7.4 million of this underspend falling within Adult Services and the remaining underspend within Public Health. The Adult Services underspend is composed of an overspend of £2.8m within Adult Care and Provider Services, an underspend of £10.4 million within Adult Community Social Care and an overspend of £0.2 million in Safeguarding and Quality Improvement.

Within the report however, it has been recognised that this was largely due to one-off forms of income and that without the benefit of these, the directorate would have been overspent against budget. To stay within its budget in future years, the Council recognises the need to deliver significant savings across Adult Services.

The Council has recognised that budgeted savings of approximately £13.5 million in Adult Services were not delivered in 2022/23. This resulted in these savings being rolled forward into the 2023/24 revenue budget. In addition to current year savings, this means that the savings planned within Adult Services for 2023/24 are approximately £37 million. To monitor delivery of these significant savings, the Council has developed a new governance structure which includes the Adult Finance Board.

We note that the level of savings planned by the Council within Adult Services is significant, especially given the scale of savings rolled forward from the 2021/22. Delivery of these savings will be challenging for the Council given the demand pressure in Adults that is replicated across the sector. Given the size of the Council's transitional reserve, alongside its other reserves, we have not deemed adult's social care to be a significant weakness, however, as noted in previous pages, we do recommend that the Council ensures the effective monitoring of its savings plans, being sure to update them as regularly as possible to ensure that reporting is transparent and that issues relating to the delivery of savings are dealt with as quickly and effectively as possible.

Children's social care

As with adult's social care, children's social care is also one of the highest risk areas with respect to financial sustainability for councils across the sector. This risk has once again increased since 2021/22 and is set to continue to increase in the medium and longer term. The key challenges councils face include:

- Increased complexity of residential placements and increased associated costs
- Staff retention issues resulting in increased reliance on higher cost agency staff
- Wider societal issues including increased deprivation, mental health issues and substance misuse etc.

The Council's 2022/23 financial outturn reported an £11.9 million overspend within the Education and Children's Services directorate. The outturn included an overspend of £13.7 million within children's social care, netted against smaller underspends within Education & Skills and Policy Commissioning and Children's Health.

Of the £13.7 million overspend, £6.6 million related to residential and fostering placements and £3.6 million related to social work. Smaller variances in other areas made up the balance.

Overspend within residential and fostering placements was not due to demand, which has been falling, but was instead due to the complexity of cases and rises in the associated costs of providing this care. The Council is undertaking a range of activities to aim to ensure more children are cared for within families, whilst also reducing the need for agency foster carers. In addition, the Council is looking to increase its own residential capacity by 10 beds within the next financial year, amounting to an approximate 15% increase.

The overspend within social work was largely due to use of agency staff, which is consistent with what has been seen at other councils. The Council has launched an updated recruitment and retention strategy to fill vacancies and reduce turnover by at least 4%.

As was the case with adult's social care, children's social care is not a significant weakness for the Council at this juncture (largely due to its reserves position), however the Council will need to make sure that planned savings are monitored and delivered to ensure that the Council remains financially stable moving forward.

Improvement recommendations

Improvement Recommendation 1

The Council must ensure that savings plans are realistic and deliverable and ensure that planned savings are fully scrutinised throughout the year, identifying areas of slippage and mitigations which need to be put in place. Savings delivery should be monitored and regularly reported transparently to Members and taxpayers.

Improvement opportunity identified

We have noted that the Council rolls forward significant undelivered savings each year, with the total savings to be delivered in 2023/24 being £80.3 million, which contains £16.2 million of savings rolled forwards from 2022/23. The Council could improve its processes around determining the deliverability of savings and ensure that it has a more realistic view of its potential savings in the medium term.

Summary findings

There is room for improvement for the Council with respect to the assessment of the deliverability of savings given the extent of savings which are rolled forward each year without delivery. We recognise that the Council has already begun making strides towards a more deliverable suite of savings, however we still recommend that more work is done to ensure that savings are more realistic. The Council needs to ensure that an appropriate level of savings are identified and deliverable to ensure that there is not an overreliance on using reserves to balance the budget.

Criteria impacted



Financial sustainability

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

Management comments

Savings plans form a key part of the monthly budget monitoring process and are reviewed in detail at the monthly Directorate Finance Boards, with the overall position then presented and discussed at the Strategic Finance Board. Where there have been delays in delivery of some agreed savings plans, Directorates have found in-year offsetting mitigations to address those pressures. We have a strong track record of delivering the vast majority of agreed savings and the quarterly money matters reports considered by Cabinet include a narrative on any variances in planned savings delivery. We will review the format of the money matters report going forward in light of the recommendation.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 2

The Council must further scrutinise the capital delivery plan to ensure that it is realistic and deliverable.

Improvement opportunity identified

The Council has seen a trend of capital delivery plans being approved by the Cabinet and then being significantly underspent come year-end. The 2023/24 capital programme was also approved by Cabinet before being significantly reduced after the first quarter. The Council has the opportunity to improve its planning and reporting by further scrutinising the delivery plan and ensuring it is realistic and deliverable.

Summary findings

There is room for improvement for the Council with respect to the assessment of the deliverability of the capital delivery plan given the tendency for the Council to slip significant amounts of spend into future years. Regular slipping of capital projects has the potential to increase the overall cost to the Council (through increased borrowing, increased consultancy fees etc.), whilst delays can also limit the Council's ability to refresh its estate effectively and in turn deliver its strategic objectives.

We recognise that the Council has already begun making strides towards more robust management of capital deliver, but there is still room for improvement for the Council to ensure that it delivers effectively.

Criteria impacted



Financial sustainability

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

Management comments

The capital delivery programme for the following financial year agreed at February Full Council is always presented as indicative, reflecting that it is a multi-year programme and is directly impacted by outturn position at the end of march and the need to reflect any further slippage and advanced delivery, changes due to confirmation of capital grant funding levels and updated information on capacity and project delivery timelines into the revised capital delivery plan agreed by Cabinet in the first money matters report of the financial year. The latest reported position for 2023/24 is a 3.75% under-delivery against the in-year plan. The capital delivery plan is overseen and scrutinised by the newly created Strategic Finance Board.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management & internal control

The Council has several procedures in place to assist in the management of the risks that it faces.

Within the Council's budget and financial reports, risks are clearly documented alongside sensitivity analyses where appropriate. It is clear within the Council's financial reporting that the consideration of risk is seen as a core part of the Council's processes.

Within the Council's Annual Governance Statement (AGS), the Council has provided a concise, high-level summary of the risks identified in the 2022/23 financial year and the governance actions that have been taken to mitigate these risks. Steps taken by the Council with regards to its governance arrangements are reasonable and thorough, showing a good attitude towards risk management.

One key element of the Council's risk management framework is the maintenance of a corporate risk and opportunity register, which is updated and presented to the Audit, Risk and Governance Committee (ARG Committee) on a quarterly basis. Within the register, the Council scores risks based on likelihood and impact. Both metrics range from 1-5, with these being 'insignificant' to 'catastrophic' for impact and 'rare' to 'certain' for likelihood. Scores for each metric are then multiplied to give an overall risk score, which is RAG rated. Target scores are applied to each risk, along with the current score, and each risk is given a risk owner, who is a senior officer or the Corporate Management Team as a whole. We have found that the council's risk register is thorough and includes detailed descriptions of risks along with potential mitigations. The register also contains several opportunities that the Council feels are available to improve service provision and internal functions moving forward.

Despite this, however, we do note that there is currently no direction of travel shown within the corporate risk register. This means that it is not clear for the reader to determine how a risk has developed since the previous iteration of the risk and opportunity register. We recommend that a direction of travel is added for each risk, be this an arrow, a previous score or a written explanation.

Internal audit opinion

Whilst the Council's attitude to risk management is positive, the Head of Internal Audit at the Council was only able to provide limited assurance regarding the adequacy of design and effectiveness in operation of the Council's frameworks of governance, risk management and control for the 2022/23 financial year. This opinion has been formed based upon the delivery of 88 internal audit assignments during the 2022/23 financial year, of which assurance was substantial for 32 (36%), moderate for 24 (27%), and limited for 8 (9%). The remaining 24 (27%) weren't assignments for which an assurance opinion was required.

The primary cause of this opinion given by internal audit is due to the implementation of the Council's new finance and HR system, Oracle Fusion. The Council implemented the new system towards the end of the 2022/23 financial year and experienced significant issues with the functionality of the new system. This included issues which led to the Council being unable to pay suppliers for a short period of time. Internal audit has recognised that the Council was swift in combatting these issues, and through our audit we have noted that suitable workarounds have been put in place to allow the system to function to the level required for the Council to deliver its services. However, work is still to be done to fully unlock the benefits promised by the new system and we recommend the Council continues to work to fix the Oracle Fusion system.

Internal audit performance

The Council's internal audit function has five key performance indicators (KPIs), and these are reported within the internal audit annual report. The internal audit function's performance against these KPIs in 2022/23 is as follows:

1. Percentage of planned audits completed to draft report stage, target: 80%, performance: 75%
2. Percentage of draft reports issued on or before the target deadline, target: 80%, performance: 63%
3. Percentage of final reports issued within five weeks of draft report, target: 80%, performance: 83%

Governance (continued)

Internal audit performance (continued)

4. Percentage of audit feedback questionnaire provide positive feedback, target: 80%, performance: 96%
5. Percentage of required management actions are agreed to be implemented, target: 90%, performance: 100%.

As noted, internal audit has surpassed its target in three of five indicators, falling short on audit completion and draft report submitted by the target deadline. This represents a reasonable performance from the internal audit function.

Investigation of fraud and corruption

The Council takes the issue of fraud and corruption seriously, holding and implementing the following policies:

- Anti-Fraud, Bribery and Corruption Policy
- Fraud Sanction and Prosecution Policy
- Whistleblowing Policy
- Anti-Money Laundering Policy Statement and Strategy

The Council's internal audit function reviews these documents regularly and ensures that they are being updated where required and implemented effectively. Each of these documents were most recently refreshed by internal audit in September 2022 and brought to the Audit, Risk and Governance (ARG) Committee in October 2022.

No issues have been noted with any of the policy documents in question and we have not identified any instances of fraud, corruption or money laundering during our audit.

Code of conduct

The Council has processes and procedures in place surrounding its code of conduct, the management of which sits within the remit of the Monitoring Officer. The Council's constitution has a code of conduct for both members and officers found within Appendices E and F to the constitution. The Council's constitution also sets out the terms for the Conduct Committee. This committee does not sit at regular intervals but is called by the Monitoring Officer as and when complaints are made regarding member conduct. The Committee sat once during 2022/23 in relation to an allegation of a breach of the code of conduct for

members in relation to one councillor. The Committee heard the views of the assigned independent person and dealt with the matter effectively.

The ARG Committee receives an annual report of complaints made to the Council from external parties. The most recent annual report was received by the Committee in January 2023 and contained four complaints, with one still being under investigation by the Council as at the report date. The Council appears to take complaints seriously and none of these complaints impact our value-for-money audit.

Audit, Risk and Governance Committee

The Council's ARG Committee serves as Those Charged With Governance for our audit purposes and its primary function is to manage risk and ensure the effectiveness of audit processes at the Council. The Committee is currently composed of eight members with five members representing the Conservative Party, and three representing the Labour Party. The Committee is appropriate in both size and composition.

During the 2022/23 financial year, the Committee sat four times, with those meetings being held in April 2022, July 2022, October 2022 and January 2023. Attendance for each of these meetings was seven out of eight members, plus one substitute used for one meeting. We note that one councillor did not attend any committee meetings during the year.

During the year, the ARG Committee received several reports and updates from both internal and external audit, alongside several other reports relating to risk management and governance issues. From our review of minutes, the Committee appears to carry out its function effectively and we have not noted any deviations from the Council's constitution.

Preston, South Ribble and Lancashire City Deal

The Preston, South Ribble and Lancashire City Deal was agreed in 2013 and is a 10-year programme to deliver £334 million of infrastructure improvements to create new homes and jobs and drive economic growth in the region. Alongside several smaller schemes it consists of four major road schemes. The City Deal was 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.

Governance (continued)

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.

The Delivery and Performance Update Report for March 2023 was brought to the City Deal Executive and Stewardship Board in March 2023, with a further report being brought to the December 2023 meeting. These reports expressed the need for an extension of the planned timeframe and a revised deal.

We understand that these discussions are still ongoing regarding the revised deal, and we recommend that the Council ensures clear and transparent reporting to both members and the public regarding any potential financial implications for the Council.

Oracle Fusion implementation

During the year, the Council implemented a new finance, people and procurement system named Oracle Fusion. This was completed with the help of a private sector delivery partner, with the new system going live in the final quarter of 2022/23. The system had been brought in to modernise the Council's processes and help further integrate finance, payroll and procurement into the new system.

However, it became apparent that there were issues with the system, which had a significant impact on the system's ability to deliver the expected functionality. The Council has acknowledged that there were several issues with the system implementation, including issues which impacted payment to suppliers, with regular payments being suspended for 6 weeks and emergency payment arrangements being brought in where immediate payment required.

The Council responded quickly to the issues and at the time of writing, has been able to identify effective alternatives for all key processes where the underlying system issue has not been resolved. The system now works with respect to payments and all other key processes. The remaining issues are now limited to some of the reporting elements of the system. The Council should maintain focus on resolving the remaining issues as quickly as possible to remove the inefficiencies and additional workload that is being created by the alternative processes that are in place. In discussion with the Section 151 Officer, he indicated that the Council was actively working with their delivery partner to resolve the remaining issues and that there are agreed plans in place to action the required fixes in this financial year.

In the process of implementing Oracle Fusion, the Council noted that a data breach had occurred and correctly referred the breach to the Information Commissioner's Office (ICO).

Upon further investigation, it transpired that the data breach was not as widespread as first thought and the ICO were comfortable that no further action was required. The Council handled this data breach appropriately and we have no recommendations in this regard.

Regarding the implementation itself, we understand that the Council has taken several steps to mitigate and resolve the issues with the new system, whilst also looking to learn from the implementation. At the time of writing, the Council has had technical work performed by both the Council's internal audit function and by Salford Council to ensure that the system was compliant and worked to the correct minimum standard. The Council has also brought in the help of CIPFA's consultancy arm to look at the governance arrangements surrounding the implementation of the system and the identification of lessons learned.

The implementation of Oracle Fusion during December 2022 and January 2023 impacted upon the timeliness of the completion of the 2021/22 audit of the Council's accounts. Due to limited staff available the audit was not completed before 31 March 2023 and as a result further audit work was then required to respond to the triennial valuation of the pension fund, which was published on that date. The 2021/22 audit was signed off on 29 September 2023.

As part of our audit of the Council's Statement of Accounts, our internal IT Team performed a review of the IT General Controls within the new system alongside a review of the implementation of the system. The results of this work were that 9 significant deficiencies in controls were identified. These 9 deficiencies have been identified as high-risk audit recommendations within our Audit Findings Report which was presented to the April 2024 Audit, Risk and Governance Committee.

Ongoing issues with the new system relating to the running of appropriate reports to perform the required reconciliations also meant that 2022/23 draft Statement of Accounts were not published in line with the national deadline of 31 May 2023. The accounts were delayed until September 2023. As such, our final accounts audit visit was also delayed and took place during October 2023 to March 2024. The audit took longer than would usually be the case due to ongoing implications of the implementation of the new system, limiting capacity at the Council to respond to audit queries.

Whilst we recognise the progress taken by the Council during 2023-24 to address the issues encountered, it is our view that the governance arrangements in place for the 22/23 period in relation to the implementation of Oracle Fusion were not sufficient and represent a significant weakness in securing value for money. Our key recommendation is set out on page 17, we recommend that the Council takes forward all CIPFA's suggested lessons learned and carries out internal training to ensure that future software implementations do not have a significant negative impact on the Council's ability to deliver its services.

Key recommendation

Key Recommendation 1

The Council must ensure that all outstanding issues with the Oracle Fusion system are rectified in line with its current timescale. The Council must also ensure that it engages with all lessons learned activities regarding the Oracle Fusion implementation with a focus on the root causes of issues felt during the process. The Council must also ensure that causes of the issues and the lessons learned from the implementation are appropriately reported to members.

Identified significant weakness in arrangements

As at the end of the 2022/23 financial year significant issues existed with the implementation of Oracle Fusion. There was a significantly longer than expected “black-out” period where emergency payment mechanisms had to be put in place to ensure vital payments were made, the new system was not performing all the required capabilities such as reconciliations and reports, there were delays to the preparation of the 2022-23 financial statements and delays to both the 2021/22 and 2022/23 external audits. Our 2022/23 external audit also identified several significant deficiencies in the design of the IT general controls for the new system.

Summary findings

The Council has recognised that issues existed and still exist with the implementation of the Oracle Fusion system. Additional issues were identified during the 2022/23 External Audit regarding the control environment of the new system and the new system has had a significant impact on the timeliness of the publication of the 2022/23 draft accounts as well as the completion of the 2021/22 and 2022/23 external audits. We recognise that the council has already made significant progress in addressing the underlying issues with the system during 2023/24.

Criteria impacted by the significant weakness



Governance

Auditor judgement

Based on the work undertaken, we are not satisfied that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. We recognise that the council has already made significant progress in addressing the underlying issues with the system during 2023/24.

Management comments

Council officers have commissioned and received external assurance reports on the technical aspects of the implementation and also the governance and assurance processes throughout the programme. The findings from these have been factored into the planning for future significant ICT programmes.
At the time of 'go-live' for the system there were a number of 'fixes' still needed on the Fusion system and a number were discovered soon after. Officers from within digital services and across the organisation have overseen the completion of these in line with a defined prioritised list with support from external advisors and the majority of these are now complete. The remaining outstanding areas have agreed implementation dates.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 3

The Council should include the direction of travel for risks within the corporate risk register.

Improvement opportunity identified

We have noted an opportunity to improve transparency by allowing readers of the register to understand whether a risk is becoming more or less likely or impactful.

Summary findings

The Council's corporate risk register is RAG rated and contains a reasonable number of well determined risks. However, on a single iteration of the register, it is not clear to the reader whether the risk has become more or less likely or impactful. Direction of travel either as an arrow, a previous score, or in prose would allow for further transparency in the Council's presentation of risks.

Criteria impacted



Governance

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

Management comments

This has been included in the report for the first quarter of 2024/25.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 4

The Council should ensure that the outcome of any revised Preston, South Ribble and Lancashire City Deal is transparently reported to members and taxpayers.

Improvement opportunity identified

We have noted an opportunity to improve transparency by ensuring an appropriate level of reporting surrounding the Preston, South Ribble and Lancashire City Deal.

Summary findings

We understand that the settling of the Preston, South Ribble and Lancashire City Deal is still ongoing at the time of this report, however we recommend that the Council must ensure transparent reporting of the outcome to both members and more widely via published committee minutes.

Criteria impacted



Governance

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

Management comments

A report will be provided for elected members at the point of any revised arrangements.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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.

Assessing performance and identifying improvement

Performance information is provided to Cabinet by the Business Intelligence Team on a quarterly basis through the 'Report on Corporate Performance Management'.

This report presents an overview of the key performance indicators used to monitor progress against the four priorities of the corporate strategy:

- Delivering better services
- Protecting our environment
- Supporting economic growth
- Caring for the vulnerable

Previously, quarterly monitoring reports were submitted to the Cabinet Committee on Performance Improvement. However, this committee was dissolved by Cabinet on 5 May 2022.

2022-23 performance had a revised set of performance indicators put in place compared to 2021-22 and corporate risks and opportunities were also updated. The report is broken down into the following main areas of analysis:

Executive Summary - where each Executive Director has summarised the key performance issues within their directorate

Data Tables - each of the four priority areas has their KPIs broken down by frequency of reporting, the directorate it sits in, previous performance and current performance and how that measures against the target. A RAG rating is also provided.

KPI Commentary - detailed commentary is provided for the KPIs listed in Appendix B and provides analysis and insight into performance and, where appropriate, describes the action being taken to improve.

Risks and Opportunities - collated using information provided through directorate risk registers and by individual directors

An online PowerBI corporate performance dashboard is maintained where progress against KPIs is reported against the four priority areas stated above.

Partnership working

The Council can 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. Work with Partnerships is overseen by the relevant board and presented to the Cabinet.

Healthcare

The Lancashire Health and Wellbeing Board has significant arrangements in place to oversee key partnerships such as the Better Care Fund (BCF).

Recent NHS reforms and the Health and Care Bill have led to changes in the healthcare and social care system in Lancashire and South Cumbria. The Integrated Care System (ICS) in the region now comprises an Integrated Care Board (ICB) and a health and care partnership. The NHS Lancashire and South Cumbria ICB was established in July 2022 to replace the eight clinical commissioning groups (CCGs) in the region.

The Lancashire and South Cumbria Integrated Care Partnership and Integrated Care Strategy and the Lancashire Place Integration Deal were presented to the Cabinet in May and July 2023, respectively.

Improving economy, efficiency and effectiveness (continued)

Internal Audit gave a moderate assurance rating to the Council's Committees regarding work related to the BCF, with a high-priority recommendation to develop a case for integrated working, clarify roles and responsibilities for budget monitoring, and oversee individual schemes and activities funded by the BCF.

Discussion with key stakeholders has identified that post-Covid, partnership working has improved significantly, particularly with the ICB, and the appointment of LCC's Director of Adult Services (DAS) into the ICB on secondment which has further strengthened this partnership. The DAS is fulfilling this new role; however, it is only on the condition that they meet the responsibilities of this position alongside their current role with the county council. The role will be divided so that 80% of the DAS's time is dedicated to the Integrated Care Board, and 20% is used to fulfil their duties as the Executive Director of Adult Services and Health and Wellbeing for the county council.

Other partnerships

The Council has partnerships with the other councils within Lancashire, which are working well. All 15 leaders have endorsed the Lancashire 2050 Plan.

Lancashire County Developments Limited is the Council's company for carrying out economic development activity, and reporting has noted that the Cabinet was informed of key decisions with its partners.

The Cabinet received comprehensive information, including background and advice, development proposals, potential investment returns, market assessment, financial implications, legal implications, and a list of background papers when making key decisions, such as the £7m investment in a new industrial building at Lancashire Business Park.

The Council is also a member of the Lancashire Enterprise Partnership (LEP). The LEP is a strategic collaboration between business, universities and local councils, which direct economic growth and drives job creation.

The Cabinet Member for Economic Development and Growth sits on the Board of the LEP which oversees the delivery of its key initiatives.

The Council, Lancashire Enterprise Partnership, Preston City Council, South Ribble Borough Council and Homes England are working together to deliver the City Deal programme, discussed in the governance section of this report.

Procurement review

The procurement function underwent an internal review in March and April 2023 alongside a wider review of the Council's processes currently being performed by KPMG. The internal review had three core elements:

1. Third party spend
2. Contract management
3. Procurement

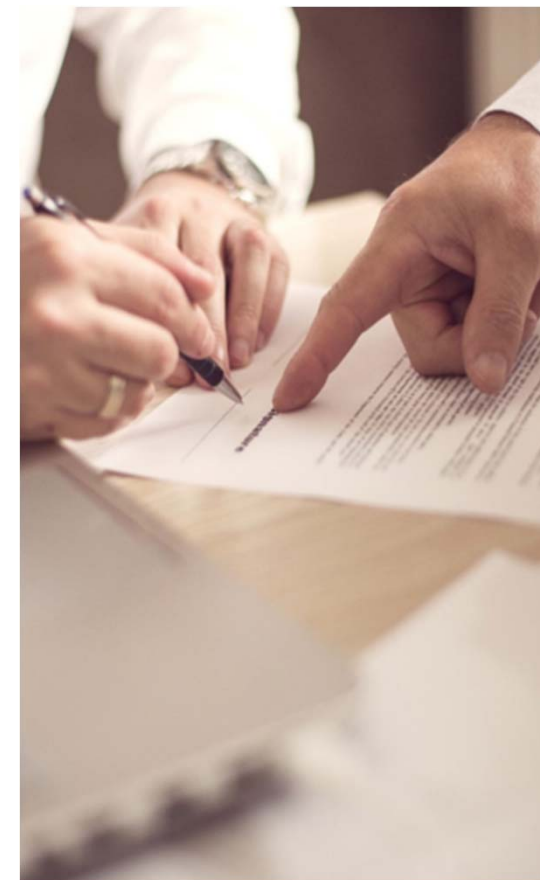
The resulting report has identified substantial opportunities to deliver benefits in high spend categories through the development and implementation of category strategies and/or reviewing existing high-value contracts.

As noted earlier in this report, the Council should look to develop a centralised contract management policy agenda, alongside changes being made to procurement, considering the work done by KPMG when completed. Detail regarding digital procurement has been provided under its own heading at the end of this section.

Procurement management

Procurement will be presenting a revised policy and strategy document to the January 2024 Cabinet. Procurement managers have led the policy revision and conducted workshops with stakeholders.

The Council is working towards a more robust contract management approach to demonstrate added value. It is preparing for national procurement transformation and will be linking with Cabinet for training and guidance.



Improving economy, efficiency and effectiveness (continued)

Procurement management (continued)

The Council is aware of the challenges that change will bring and is working with its lawyers to ensure compliance with new regulations.

While the Council is considered a trusted source for procurement, with good governance and compliance, there is room for improvement in the procurement function's ability to provide added value. The Council is investing in its procurement service, which is a skilled team.

However, the focus is currently on re-tendering contracts, and there is a need for the procurement function to be more involved in the full life cycle of contracts to deliver better outcomes. This includes engaging with stakeholders from the outset to develop procurement strategies that align with the Council's objectives, conducting market research, and identifying opportunities for innovation and value creation.

The Council is working to ensure that its procurement processes align with its medium-term strategic goals. The Council is taking instructions from service areas to procure goods and services that align with their objectives. The ongoing review will help to demonstrate the connection between strategic goals and procurements. However, the Council needs to improve its documentation to demonstrate this link. The Council must ensure that it is realising and monitoring the benefits of procurement after the process is complete.

The review of the procurement process highlights the significance of clearly defining roles and responsibilities in relation to the procurement process. By ensuring that every department understands how to work effectively with the procurement team, the Council can ensure that the procurement process adds the most value to the delivery of its services. Additionally, it is crucial to ensure that the procurement team has a clear understanding of the demands and needs of other departments to achieve optimal results. It is essential to have clear communication, collaboration, and strong relationships between departments and the procurement team to maximise this opportunity.

Contract management

Contract management and monitoring of benefits are the responsibility of the service areas within the Council. However, there are gaps in contract management and monitoring of benefits across the organisation, indicating a need for a more consistent approach.

Service areas may approach the procurement team for assistance with issues related to service providers. In some cases, there are dedicated contract management teams in certain service areas that liaise directly with the legal team to address significant issues that arise.

The procurement review suggests that the Council should implement standardised structures, roles and responsibilities, governance, processes, and controls in relation to contract management.

This approach will ensure that the Council can deliver optimised contract management. Standardising processes and controls will ensure that the Council can maintain consistency in its approach to contract management, leading to greater efficiency and effectiveness.

In addition, the review of procurement has outlined steps that can be taken to deliver savings opportunities of c.£5m over the medium term. These include improving contract compliance and leveraging Oracle to ensure the contract management module is correctly implemented.

Digital services

In 2022/23, issues were raised by the internal audit team regarding digital procurement and compliance with the Council's procurement rules. The audit identified that Digital Services procurement activity was not in compliance with the Council's procurement rules. A disciplinary investigation identified concerns of conflict of interest and inappropriate influence in procurement exercises undertaken by Digital Services for contracts valued at over £7m.

Additionally, the report identified concerns raised by the Head of Procurement in March 2023 regarding the operation of procurement within Digital Services. In particular, the use of the existing Softcat framework to re-procure incumbent systems and suppliers rather than going out for quotations or tenders as per the procurement rules.

The audit report identified key areas of concern, including the need for improved governance and transparency. The report recommends that declaration of interest forms should be signed by anyone involved in tender activity or direct awards in digital services. The report also suggests that there is a need to introduce improved governance and transparency, with a particular focus on the use of Softcat.

It became apparent that the Council should take steps to improve its procurement processes in Digital Services to ensure compliance with procurement rules. This includes introducing improved governance and transparency, signing declaration of interest forms, and ensuring that procurement exercises are conducted in accordance with the procurement rules.

It is noted that upon discussion into this issue, the above steps have been considered by the Council, with procurement activities in Digital being moved over to the procurement team and more robust processes being put in place regarding declaration of interests.

Improvement recommendations

Improvement Recommendation 5

The Council should ensure that the declaration and management of potential conflicts of interest are made key parts of its procurement of all goods and services.

Improvement opportunity identified

Through the issues raised by the Council regarding the digital procurement, it has been noted that some conflicts of interests were not correctly managed within the digital team when it came to the procurement of contracts. This has now been rectified within digital, however there is an opportunity for the Council to also make this amendment for other areas to ensure best practice when procuring contracts.

Summary findings

We have found that the Council did not adequately manage conflicts of interest within the digital team with regards to contract procurement. It has since become clear that the Council could improve conflict of interest management across all teams with respect to contract procurement to ensure no future non-delivery of value-for-money through supplier choices.

Criteria impacted



Improving economy, efficiency and effectiveness

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

Management comments

Conflict of interest forms have been introduced by the Procurement Service in relation to any contracts awarded directly to suppliers/contractors. The procurement arrangements already provided a conflict-of-interest form to be signed by stakeholders involved in tender activity.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 6

The Council should focus on developing a centralised contract management policy agenda and make full use of the KPMG report currently being produced surrounding the Council's internal procedures in doing so.

Improvement opportunity identified

We note that the Council hasn't yet developed a centralised contract management policy agenda, however we do respect that KPMG has been commissioned to help the Council improve its internal processes. The Council could improve by developing an agenda and also making best use of the KPMG report when complete.

Summary findings

We recognise that the Council has taken steps to improve its contract management processes through the commissioning of external consultants, however the Council has not yet delivered on developing a contract management policy agenda and we recommend that KPMG's work is used to assist in developing this.

Criteria impacted



Improving economy, efficiency and effectiveness

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

Management comments

The future Target Operating Model for Procurement and Contract Management is progressing with investment in the service to focus on strengthening category management activity across council services and provide a consistent approach to contract management across the council. It is planned that this will be in operation in the second half of the year.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit, Risk and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
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.	Improvement	April 2023	The Council reports savings progress at a high level within its quarterly financial reporting to Cabinet. The Council also maintains a RAG rated saving tracker internally, however it doesn't report savings progress in detail.	No	A new improvement recommendation has been raised regarding the deliverability and reporting of the Council's savings plans.
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 to be spent.	Improvement	April 2023	All executive decisions are made 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. 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 most 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.	Yes	The Council should continue ensuring that committee meetings are as transparent as possible, with as few part II meetings as possible. The Council should also ensure transparent reporting of the City Deal, which has been raised as a new improvement recommendation.

Follow-up of previous recommendations (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>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.</p> <p>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.</p>	Improvement	April 2023	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.	Yes	The Council must ensure that the new governance arrangements surrounding the BCF are appropriate and are appropriately reported to members.
<p>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.</p>	Improvement	April 2023	The Council has seen the implementation of its new system, however with this there were some issues, including issues paying suppliers as a result of the system. The system is now usable, but still isn't operating as intended, and further work is needed to improve the system.	Yes	The Council must ensure that lessons are learned from the implementation process and that further work is performed to ensure that the system can perform as was expected moving forward. A further improvement recommendation has been raised.

Follow-up of previous recommendations (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5 The Council should focus on the developing an updated procurement strategy, which will align to relevant legalisation 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.	Improvement	April 2023	The Council has developed a procurement strategy and also made changes within digital procurement. 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. We do however note that there are still improvements to be made, which have been made within this report.	Yes	A further improvement recommendation regarding the Council's procurement has been made earlier in this report.
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.	Improvement	April 2023	We understand that the Council is currently undertaking several reviews. 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 contract review savings target.	No	The Council should develop a centralised contract management policy and ensure that the report commissioned by KPMG is used effectively to assist in development.

Opinion on the financial statements



Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

Our audit of the accounts remains ongoing. We intend to have the audit completed by the end of April 2024. We currently anticipate issuing an unqualified opinion on the Council's financial statements, subject to the satisfactory completion of the remaining audit work.

The full opinion will be included in the Council's Annual Report for 2022/23, which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.



Opinion on the financial statements



Timescale for the audit of the financial statements

The External Audit Plan was presented to the Audit, Risk & Governance Committee on

The planning and interim audit visits took place during March and April 2023.

The national deadline for publication of draft accounts was 31 May 2023. Due to the implementation of the new financial system at the Council, the publication of the draft statement of accounts was delayed until early September 2023.

As such, our final accounts audit visit was also delayed and took place during October 2023 to March 2024. The audit took longer than would usually be the case due to ongoing implications of the implementation of the new system, limiting capacity at the Council to respond to audit queries.

Findings from the audit of the financial statements

Our audit of the accounts remains ongoing. We intend to have the audit completed by the end of April 2024. We currently anticipate issuing an unqualified opinion on the Council's financial statements, subject to the satisfactory completion of the remaining audit work.

More detailed findings are set out in our Audit Findings Report, which was presented to the Council's Audit, Risk and Governance Committee on 22 April 2024. Requests for this Audit Findings Report should be directed to the Council.



Other reporting requirements



Other opinion/key findings

We did not identify any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement and Pension Fund Financial Statements.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

This work has not yet been started – it will commence on completion of the audit.



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.

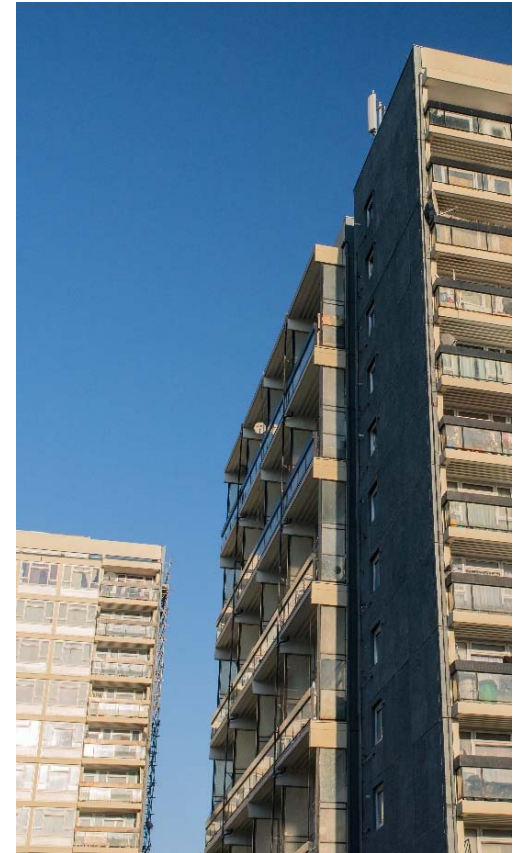
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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(s)
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 the Council's 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'.	Yes	17
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	12-13, 18-19, 23-24

Appendix C:

Sources of evidence



Staff involved

- Angie Ridgwell, Chief Executive (S151 Officer during 2022/23)
- Mark Wynn, Executive Director of Resources and Section 151 Officer (appointed April 2023)
- Neil Kissock, Director of Finance
- Heloise MacAndrew, Director of Law and Governance
- Louise Taylor, Executive Director of Adult Services and Health & Wellbeing
- Elaina Quesada, Deputy Executive Director of Adult Services
- Jacqui Old CBE, Executive Director of Education & Children's Services
- Andrew Dalecki, Head of Internal Audit
- Rachel Tanner, Head of Procurement



Documents Reviewed

- Medium-term financial plan, 2022/23 and 2023/24
- Budget documents, 2022/23 and 2023/24
- Annual Governance Statement
- Code of Corporate Governance
- Minutes of committee meetings for the Cabinet, Full Council and Audit, Risk and Governance Committee
- Constitution
- Corporate Risk and Opportunity Registers
- Internal Audit Annual Report
- Anti-Fraud, Bribery and Corruption Policy
- Fraud Sanction and Prosecution Policy
- Whistleblowing Policy
- Anti-Money Laundering Policy Statement and Strategy
- Financial Statements, 2021/22 and 2022/23
- Corporate Strategy
- Corporate Performance Reports
- Lancashire inspection of local authority Children's Services
- Lancashire Place Integration Deal
- Treasury Management Strategy
- VEAT Report
- Lancashire and South Cumbria Integrated Care Partnership and Integrated Care Strategy



Meetings Observed

- Audit, Risk & Governance Committee Meetings
- Pension Fund Committee Meetings



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