



PUBLIC SECTOR

## **Annual Audit Letter 2008/09**

Lancaster City Council  
December 2009

AUDIT

# Content

The contacts at KPMG in connection with this report are:

**Kevin Wharton**

Director  
KPMG LLP (UK)

Tel: 0161 246 4281  
kevin.wharton@kpmg.co.uk

**Jillian Burrows**

Senior Manager  
KPMG LLP (UK)

Tel: 0161 246 4705  
jillian.burrows@kpmg.co.uk

**Heather Garrett**

Manager  
KPMG LLP (UK)

Tel: 0161 246 4294  
heather.garrett@kpmg.co.uk

**Karl Ballard**

Assistant Manager  
KPMG LLP (UK)

Tel: 0161 246 4134  
karl.ballard@kpmg.co.uk

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1. Audit reports issued

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Kevin Wharton, who is the engagement director to the Council, telephone 0161 246 4281, email kevin.wharton@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e-mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive Summary

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### Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Lancaster City Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on its website. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 1.

### Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources (UoR). Our work in this area is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

### Key Messages

The key areas which we draw to your attention are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has got sound processes in place in two of the three themes (managing finances, governing the business and managing resources). The Council's arrangements in relation to the managing resources theme and, in particular, the workforce planning key line of enquiry (KLOE) were assessed as inadequate. The Council has been assessed as level 2 (performing adequately) overall.
- We identified no significant issues during the course of the financial statements audit and we issued an unqualified audit opinion on the Council's financial statements in 2008/09. Our value for money conclusion was not qualified but on the basis of the weaknesses identified in relation to workforce planning we issued an 'except for' opinion.

### Comprehensive Area Assessment Framework

The Audit Commission and the other public service inspectorates introduced a new assessment framework during 2009, Comprehensive Area Assessment (CAA). This is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It's a joint assessment made by a group of six independent watchdogs. Assessments will be made publicly available every year and will provide an annual snapshot of quality of life in the area. The results will appear on a new 'Oneplace' website.

Work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report, the organisational assessment will be issued which combines the judgements on your use of resources and managing performance assessments.

Any issues arising will be discussed with you and planned into future years audit and assessment activity.

### Financial Standing

The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

## Executive Summary (continued)

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### Financial standing (continued)

The Council has recognised that it has significant financial pressures for the next three years and is required to identify and achieve significant savings targets to ensure a balanced budget can be achieved. Recent reports to the Budget and Performance Panel indicate that the Council has allocated significant sums of resource to non-priority areas in 2009/10. This underlines the importance of the work that is underway to review these allocated commitments. The completion of this exercise is critical if the Council is to achieve the budget realignment which is required to secure financial balance in 2009/10 onwards, as well as to redirect resource to strategic priorities.

### Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council need to be preparing for this transition.
- Those Local Authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more and more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst your corporate priorities.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act now to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a track record in delivering its efficiency targets but it will be necessary to revisit and update the Council's plans to ensure that these can deliver the levels of savings required for the future.

### Fees

Our fee for the audit is £124,000 which is in line with our audit plan. In addition, the fees for the certification of grant claims will be in line with our audit plan.

### Acknowledgement

This has been KPMG's second year as the Council's external auditor following our appointment by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

## Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. The UoR assessment comprises three themes which consider:
  - Managing finances: focusing on sound and strategic financial management;
  - Governing the business: focusing on strategic commissioning and good governance; and
  - Managing resources: focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based work* – we carry out specific reviews of issues facing you, based on a risk assessment and from risks raised with us from various sources. This year we undertook a review of the Council's Value for Money arrangements.

The findings from this work are summarised below.

Element of work	Key findings								
<b>Use of Resources</b>	<p>Our assessment of Lancaster City Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #d9e1f2;">Managing finances</td> <td style="background-color: #d9e1f2;">2</td> </tr> <tr> <td style="background-color: #d9e1f2;">Governing the business</td> <td style="background-color: #d9e1f2;">2</td> </tr> <tr> <td style="background-color: #d9e1f2;">Managing resources</td> <td style="background-color: #d9e1f2;">1</td> </tr> </tbody> </table> <p>Last year's UoR assessment the Council scored level 3 (performing well) overall. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p> <p>In achieving level 2 for managing finances and governing the business the Council has been able to demonstrate that overall it has adequate arrangements in place. Arrangements in relation to workforce planning (the only KLOE to be assessed in the area of managing resources for 2008/09) were found to be underdeveloped.</p> <p>We have held a meeting with the Chief Executive and the Leader of the Council to discuss our findings from the 2008/09 assessment and to discuss possible actions for the Council to undertake to improve performance. We will maintain a regular dialogue with officers to understand the Council's progress in the UoR themes. We will keep the Audit Committee updated on the Council's progress in these areas.</p>	Area	Score	Managing finances	2	Governing the business	2	Managing resources	1
Area	Score								
Managing finances	2								
Governing the business	2								
Managing resources	1								
<b>Value for money conclusion</b>	<p>We issued an 'except for' value for money conclusion for 2008/09. This means that we concluded that the Council had appropriate arrangements in place to ensure the effective use of its resources, except for specific weaknesses that were identified during our audit which impacted on our assessment of the Council's arrangements for workforce planning.</p>								
<b>Specific risk based work</b>	<p>As part of this year's audit we undertook a specific review of the Council's arrangements for securing value for money. The Council's plans for developing its value for money arrangements had been delayed due to the job evaluation exercise and the changes in political leadership during the year. The Council needs to embed a process for reviewing and addressing value for money issues in services. From this, the Council should have greater opportunity to demonstrate outcomes and how they are linked to processes. Our report shares examples of best practice for doing this and an examples review framework.</p> <p>This report was initially issued to officers on 10 September 2009. We discussed the findings on 23 September 2009 but we still await management responses to the recommendations within this report.</p>								

## Financial statements

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### Audit opinion

We issued an unqualified opinion on your accounts on 29 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on the 23 September 2009 and the key issues are summarised here.

### Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30<sup>th</sup> June deadline supported by good quality working papers.
- There were only a small number of presentational adjustments required to the financial statements.
- We raised one recommendation for the Council in relation to the Building (Local Authority Charges) Regulations 1998. The detail of these was set out in our ISA260 report presented to the Audit Committee on 23 September 2009.

There were no other issues raised for the attention of the Audit Committee.

### International Financial Reporting Standards

From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of prior year financial statements in order to comply with the new standards. Councils will need to effectively manage this transition, ensuring that financial systems and procedures have been reviewed and updated as necessary and that finance staff receive necessary training in order to continue its good track record of producing timely, complete and materially accurate financial statements.

Areas where particular focus will be required include:

- Leases – Collation of records for all current lease contracts and establishing whether these should be classified as operating or finance leases.
- Property Plant and Equipment – Ensuring procedures are in place to revalue assets as and when required. The Council will need to agree whether valuations for component assets will be provided through the formal valuation process or by using internal information as and when valuations are completed.
- Employee benefits – Establishing an acceptable methodology which is agreed with the Councils auditors for calculating employee benefit accruals in relation to untaken annual leave, flexi-time and time off in lieu. This should be applied to calculate an opening accrual as at April 2009.

The Council's preparations for these areas are well underway. There is a project plan in place and the Council has already assessed the impact in the lesser complex areas of the standards. We will continue to liaise with the Council, ensuring that its plans are sufficiently progressed to meet the expected reporting requirements.

## Appendix 1: Audit reports issued

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A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Annual Audit Fee letter 2009/10	April 2009
Report to those charged with governance 2008/09	September 2009
Value for Money review (Draft to officers)	September 2009
Actions arising from the KPMG report on Use of Resources 2008/09	November 2009