



PUBLIC SECTOR

Lancaster City Council

Annual Audit Letter 2009/10

December 2010

AUDIT

The contacts at KPMG in connection with this report are:

Stephen Clark
Director
KPMG LLP (UK)

Tel: 0113 254 2910
stephen.clark@kpmg.co.uk

Heather Garrett
Manager
KPMG LLP (UK)

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

Background

This Annual Audit Letter summarises the key issues arising from our 2009/10 audit of 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's website. It is the responsibility of the Council to publish the letter on the Council's website at www.lancaster.gov.uk. In the letter we highlight areas of good performance and also areas where further work is required to achieve best practice. We have reported all of the issues in this letter to you throughout the year. A list of all reports that we have issued is provided in Appendix A.

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 report on:

Use of Resources (UoR)

We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.

Financial Statements

We provide an opinion on your accounts.

Fees

Our fee for 2009/10 was £120,000 excluding VAT (2008/09: £124,000). Although our work on the certification of grants and returns is ongoing, our fee is estimated to be £38,000 excluding VAT, (2008/09: £38,000).

This report is addressed to Lancaster City Council (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 Stephen Clark, stephen.clark@kpmg.co.uk who was the engagement lead to the Council for 2009/10 or Trevor Rees, on 0161 246 4063, 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 still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Use of Resources

Use of Resources assessment

- In May 2010 the government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This included work for UoR scored assessments at local authorities. Despite this, there has been no change to the requirement in the statutory Code of Audit Practice for auditors to issue a Value for Money (VFM) conclusion.
- At the time of the announcement, the vast majority of our UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.
- Key messages from our work are that the Council's arrangements in relation to workforce planning had improved, following the appointment of the new Human Resources (HR) Manager. However, there is still work to be done in fully developing and implementing new HR strategies.
- The Council also demonstrated best practice in relation to its strategy for its use of natural resources.

Our conclusion

- We issued an unqualified value for money conclusion for 2009/10. This means that we are satisfied that you have put into place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Headlines

Financial Statements	Annual accounts	<ul style="list-style-type: none">● Our audit of the financial statements resulted in only minor presentational amendments being made to the financial statements. Other errors identified were clearly trivial in nature.● The Council continued to produce high quality and clear working papers to support the entries in the financial statements. Officers dealt with our audit queries efficiently and as a result, the audit process was completed within the planned timescales.
	Annual Governance Statement	<ul style="list-style-type: none">● No significant adjustments were required to the Annual Governance Statement.
	Our conclusion	<ul style="list-style-type: none">● We issued an unqualified opinion on your accounts on 27 September 2010. 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.● We were unable to certify the completion of our audit on 27 September 2010, as at that date we had one electoral issue which remained unresolved. This issue has now been resolved. The audit certificate was issued on 10 November 2010.
Recommendations	High risk recommendations	<ul style="list-style-type: none">● We are pleased to report that there are no new recommendations arising from our 2009/10 audit work.● All prior year recommendations have either been addressed by management or are in the process of being implemented.

High profile issues

Economic Downturn and pressure on the public sector

- Following the Comprehensive Spending Review announcement in October 2010, there is now greater clarity on the spending cuts that will affect local government. Local authorities will face 7.1% annual cuts representing 26% reductions over the next four years. Although this is less than many commentators had predicted, this still represents one of the biggest cuts for any part of the public sector. Detailed analysis will be required as further details of these funding cuts are clarified. The real impact will not be known until the government departments produce their business plans in November and organisations have a chance to digest the Chancellor's messages.
- The Council has been preparing for cuts of this magnitude for some time. Facing up to these challenges will require revolutionary transformation of public sector services, rather than small changes around the edges. Strong leadership from Members and senior management will be essential for this programme of change.
- Recent years have seen the Council place increased emphasis on its priorities and statutory responsibilities within the budget setting process. This has ensured resources are channelled to these areas before more discretionary areas of spend. This approach will be even more crucial in identifying cuts and efficiencies in services going forward.
- The Council has already undertaken a restructure of its management team and has embarked on shared services for its Revenues and Benefits service in anticipation of the lean times ahead. Options and opportunities are being considered across the organisation in order to secure further efficiencies and savings.

Headlines

High profile issues

Treasury management

- In 2008/09 we identified four recommendations for the Council to address, following the collapse of the Icelandic Banks.
- Of the four recommendations, two have been fully implemented. One further recommendation, in relation to Internal Audit's review of treasury management activities, has been partially implemented. The final recommendation regarding the training of officers and members involved in treasury management activities has been progressed. Training took place in November, however the Council is continually reviewing its training needs in this area.

International Financial Reporting Standards (IFRS)

- All local authorities are required to report under IFRS for the first time in 2010/11. This process will require the 2009/10 financial statements to be converted to IFRS to form the comparative period.
- The Council is making good progress against its plan for IFRS conversion. We anticipate carrying out an audit of the restated balances in late November/early December.
- One area where the Council could improve in relation to its transition to IFRS is to better prepare members for the change. IFRS can have large impacts on the balance sheets of councils due to the differing accounting policies and presentation requirements. Members need to be aware of the impact of IFRS, so that they are able to properly discharge their responsibilities in June 2011, when approving the financial statements.

Future audit work

Changes to next year's value for work programme

- Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. We will keep you informed about the future audit programme and any changes to audit arrangements.

