

Annual Audit and Inspection Letter

March 2008



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Leicestershire County Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 Leicestershire County Council is performing well and improving strongly. With its partners it has developed clear and challenging ambitions that reflect the needs and diversity of its communities. The Council is forward looking, has a strong understanding with partners of the key challenges facing Leicestershire and the surrounding sub-region.
- 2 It is successfully implementing plans and improving outcomes in line with its ambitions and is working hard to translate this into improved public satisfaction. The Council consistently delivers services for children and young people at a good level with improved education results at all ages. Progress has been good in improving the quality of life of adults and older people, for example by increasing the take-up of direct payments and providing support to older people to live independently in their own homes. The Council performs strongly in its use of resources and in achieving value for money, but efforts made to develop shared services with District Councils have yet to produce tangible outcomes. It effectively engages with local people, including groups at risk of disadvantage. Communities now have better access to services through improved libraries and greater availability of public transport. Waste recycling continues to be top performing, while waste minimisation is improving from a low base. Some community safety goals including reducing road accident casualties remain challenging. Overall the Council is well placed to achieve further improvement.
- 3 Looking to the future, Comprehensive Area Assessment will recognise the importance of councils in leading and shaping the communities they serve.

Action needed by the Council

- 4 The council should:
 - continue to ensure it has the capacity to maintain its value for money, the quality of services and continued improvement in its priority areas; and
 - continue with efforts to strengthen the approach to joint working with other Leicestershire councils.

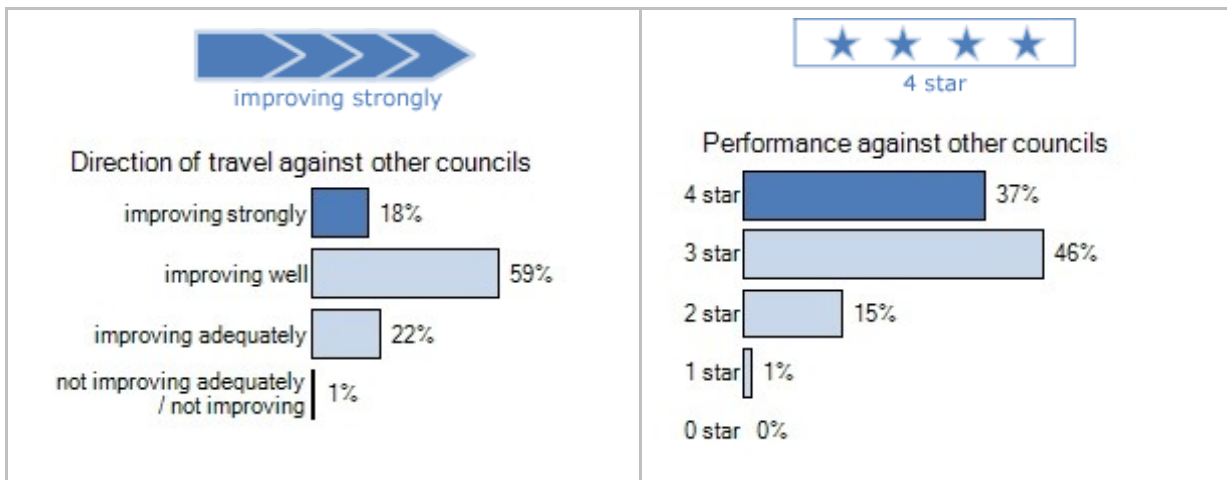
Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter. [It also includes the results of the most recent corporate assessment.]
- 6 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. [In addition the Council is planning to publish it on its website].
- 8 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Leicestershire County Council performing?

- 11 The Audit Commission’s overall judgement is that Leicestershire County Council is improving strongly and we have classified Leicestershire County Council as four star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Source: Audit Commission

12 The detailed assessment for Leicestershire County Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	4 star
Corporate assessment/capacity to improve	3 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	4 out of 4
Environment	3 out of 4
Culture	4 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

What evidence is there of the council improving outcomes?

- 13 The Council is improving strongly in relation to implementing its plans and improving outcomes for local people in line with its ambitions, which are to:
- improve the quality of life for people, with priority areas of children and young people, older people and vulnerable adults and carers;
 - improve the quality of life in communities, with priority areas of culture and leisure, transport, environment and waste management, and safer communities; and
 - improve services so that they are high quality and value for money, with priority areas of quality, customers and diversity.

8 Annual Audit and Inspection Letter | How is Leicestershire County Council performing?

- 14 Good progress has been maintained in improving young people's quality of life in the county. There is an improving trend in attainment at all key stages and standards are mostly above those of similar authorities and national averages and this is despite low levels of funding. The most vulnerable children and young people, for example those with learning difficulties and/or disabilities, are making good progress. There is an improving trend in the attainment of children who are looked after so that their attainment of GCSE A*-G grades is above the national average.
- 15 Progress has also been good in improving the quality of life of adults and older people, for example by increasing the take-up of direct payments, and in providing support to older people to live independently in their own homes such as through increasing the use of Telecare services. Better pathways to employment for people with mental health problems, or physical or sensory disabilities have also been established. For example, as part of the modernisation of a day centre, a recycling scheme was started that assisted in getting 63 people into work. The Council is also now providing additional services for carers such as the 'Take a Break' and 'End of Your Tether' schemes. These services promote independent living and choice in line with the Government white paper 'Our health our care, our say'.
- 16 The Council is improving the quality of life of communities effectively. Following recent investment, the county libraries service met most of its 2006/07 use and availability targets and is on track to meet its targets for 2007/08. There has been an expansion of the community transport network and greater use of bus services, and more school travel plans, although reducing road accident casualties remains a significant challenge. Waste management continues to perform well in relation to recycling and the level of waste minimisation is improving, albeit from a low base. Partnership performance in crime reduction is variable, with deterioration in some categories of crime in 2006/07 compared to other counties. As at September 2007, partnership performance is not on target to meet the very challenging overall crime reduction target in the LAA, and theft and robbery reduction targets. However, measures to reduce anti-social behaviour and fear of crime are succeeding and work on reducing re-offending and tackling drug abuse is progressing well. In this way the Council and its partners are achieving successful outcomes for nearly all aspects of building safer, stronger and sustainable communities.
- 17 Quality of service relating to effective community engagement, diversity and access to services continues to make progress as planned in most areas. The Council effectively engages with most people, including groups at risk of disadvantage, using a range of innovative as well as traditional methods. The Council's workforce is representative of the community it serves, and has achieved further improvement in this respect during 2006/07 compared to other councils. The Council continues to make progress towards its goal of level 3 of the equalities standard for local government. Customers' access to services continues to improve, although achievement of some goals have slipped ahead of agreeing the five-year £2.7m customer first programme.

- 18 The Council performs strongly in its use of resources and in achieving and improving value for money. It has delivered savings and efficiency gains in excess of targets, achieving its three-year Gershon targets a year early and is making significant gains in procuring passenger transport and in waste and recycling. This ensures the Council's resources are used cost effectively.
- 19 The Council's BVPIs show a strong rate of improvement compared to other county councils in 2006/07. Over a three-year period the rate of improvement has been average, with the Council standing at 18th out of the 34 county councils. However the Council is ranked equal fourth for improvement during 2006/07. This shows the Council is improving across a wide range of services and that the pace of improvement has increased in the past twelve months.
- 20 The Council is working hard to improve the public's satisfaction with services and is having some success. High satisfaction levels have been maintained or improved in areas such as waste disposal and highways. Where levels of satisfaction are low or have fallen, the Council has responded positively in order to understand areas of poor public perception and take remedial action, for example by commissioning further work with MORI, particularly around public transport.

How much progress is being made to implement improvement plans to sustain future improvement?

- 21 The Council has robust plans for improving, and its implementation of plans is effective. With its partners the Council has developed clear and challenging ambitions, and the Council's medium term corporate strategy and business plans translate its ambitions into clear priorities with ambitious targets. According to the Council's own monitoring reports at the mid point of 2007/08, over 95 per cent of its annual plan actions are on target to be achieved by the year end. Its performance 'dashboard' shows less than 10 per cent of PIs as significantly off target. At the end of 2006/07, the Council reported that 85 per cent of its annual plan PIs were close to or on target. This means that the Council is making good progress in delivering what it has set out to achieve in 2007.
- 22 Local area agreement (LAA) performance at the end of 2006/07 and during 2007/08 is on track to achieve most targets, and external assessments recognise good progress is being made. In building healthier communities, the Council is contributing by helping target smoking cessation services, and through effective promotion of healthy lifestyles for children and young people. The Council is also contributing strongly to local economic development, for example, through its skills work and through enhancing town centres and the Council continues to focus on improving community safety through its section 17 work.

- 23 Working in partnership through the LAA, the Council is focusing on vulnerable people and communities. This is being achieved by developing arrangements targeted at particular geographical areas through a new neighbourhood management approach. During 2007 a number of priority neighbourhoods have been identified and management arrangements developed. Social capital surveys in 20 communities have identified improvements to address isolation and social tensions. A further 27 community forums are also currently being rolled out across the county. These will ensure more effective consultation and engagement with local communities on local issues.
- 24 The latest CSCI and OFSTED annual assessments rate the Council's capacity to improve as excellent in the major spending areas of children and young people's, and adult and older people's services. Corporate capacity to improve has been identified as good in the recent corporate assessment, with strengths in improving sickness absence management, procurement, and the Council's financial standing. In addition, areas for improvement have been identified and these are; workforce planning, the member scrutiny function and developing shared services. Although the council has sought to engage with District Councils on shared services progress has been limited. Overall the Council is performing well in providing the capacity to deliver what it is currently trying to achieve.

Inspections

- 25 The Audit Commission's Corporate Assessment found that the Council is a strong community leader and services for local people are generally high quality. The Council and its partner organisations are clear about what needs to happen to improve the county's social, economic and environmental prospects. It is delivering a better quality of life for county residents through services that provide both quality and value for money.
- 26 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Children and Young people - OFSTED

- 27 The Annual Performance Assessment of services for children and young people found that the council consistently delivers services for children and young people at a good level. Children's services are making significant contributions to improving the achievement and well-being of children and young people so that these become better than good. The contribution to children and young people being healthy and to staying safe is good. The council's contribution to young people achieving economic well-being has been strengthened through a well targeted 13-19 strategy and outcomes are good. The contribution to children and young people's enjoying and achieving is good. The council's impact on children and young people making a positive contribution and its capacity to improve are outstanding. The table below outlines the specific judgements.

Areas for judgement	Grade awarded
Overall effectiveness of children's services	Grade 3
Being healthy	Grade 3
Staying safe	Grade 3
Enjoying and achieving	Grade 3
Making a positive contribution	Grade 4
Achieving economic well-being	Grade 3
Capacity to improve, including the management of services for children and young people	Grade 4

Adult social care - Commission for Social care Inspection

- 28 The Commission for Social Care Inspection's Annual Performance Assessment judged that the Council provides **Good** services and has **Excellent** capacity to improve. It was awarded three stars. The table below outlines the specific judgements.

Areas for judgement	Grade awarded
Delivering Outcomes	Good
Improved health and emotional well-being	Good
Improved quality of life	Good
Making a positive contribution	Good
Increased choice and control	Good
Freedom from discrimination or harassment	Good
Economic well-being	Good
Maintaining personal dignity and respect	Good
Capacity to Improve (Combined judgement)	Excellent
Leadership	
Commissioning and use of resources	
Star rating	Three stars

Financial management and value for money

- 29 Your appointed auditor has reported separately to the Corporate Governance Committee on 17th September 2007 the issues arising from the 2006/07 audit and has provided:
- an unqualified opinion on your accounts;
 - an unqualified use of resources conclusion; and
 - an unqualified opinion on the 2006/07 Best Value Performance Plan.

Financial Accounts

- 30 In respect of the 2006/07 financial accounts, your appointed auditor has reported that:
- there were no significant unadjusted misstatements that needed to be brought to the attention of members;
 - there were no material weaknesses noted in the Council's accounting and internal control systems during the 2006/07 audit;
 - the presentation of the 2006/07 final accounts and standard of working papers to support underlying transactions incorporated within the 2006/07 accounts were of a good standard; and
 - there were no matters of irregular expenditure, fraud or misconduct, or poor standards of financial integrity that we need to bring to your attention.
- 31 For 2006/07 a revised Statement of Recommended Practice (SORP) was introduced which specifies the principles and practices to be adhered to when preparing the Statement of Accounts. One requirement of the new SORP is to prepare a Statement of Recognised Gains and Losses (STRGL), which reconciles from the surplus in the Income and Expenditure Account to the movement in the Council's net assets on its Balance Sheet.
- 32 The Council was unable to fully reconcile this statement by the time the accounts were signed, differences of £2.0m remained on the 2006/07 statement. It is important that work continues to ensure that a fully reconciled STRGL can be presented for audit in the 2007/08 financial statements.

Use of Resources

- 33** The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support Council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 34** The table below illustrates the results of the auditors assessment of the Council's arrangements for Use of Resources in 2006/07, along with comparative scores from the prior year.

Element	2007 Assessment	2006 Assessment
Financial reporting	3 out of 4	3 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	4 out of 4	4 out of 4
Internal control	3 out of 4	3 out of 4
Value for money	4 out of 4	3 out of 4
Overall assessment of the Audit Commission	4 out of 4	3 out of 4

(Note: 1 being minimum requirements, 4 being well above minimum requirements)

- 35** Your appointed auditor has recently (January 2008) issued his detailed report on the results of the latest assessment. In summary the auditor has reported that:
- in overall terms, the Council's arrangements for the use of resources in 2006/07 are considered to be well above minimum requirements;
 - the Council had demonstrated the improvements in value for money required to move this particular score from a 3 to a 4, and as a result the overall score has moved to the highest rating; and

- there is scope within the Council's financial management and internal control arrangements to make and embed further improvements if the Council's arrangements are to be distinguished from other high performing authorities in these areas.

36 Members should also be aware however that the proposed Comprehensive Area Assessment (CAA) and the changes to the Use of Resources (UoR) for 2009 will pose a significant challenge as the bar is raised and a broader and harder UoR test is introduced.

Financial position

37 The Cabinet received a monitoring report on the 2007/08 revenue budget at its meeting on the 15 January 2008. This indicated that the final outturn is expected to be £5.2 million under budget. It also sought approval for new financial arrangements with Leicestershire and Rutland Primary Care Trust to re-phase contributions to the pooled budget. When confirmed by the Trust these arrangements could increase the underspend by up to £7 million. This anticipated underspend in the current year is welcomed given the challenging financial position faced by the Council in the medium term.

38 The Cabinet has recently received reports on the latest Local Government finance settlement and a proposed update to the medium term financial strategy. The update identified a budget requirement of £314 million for 2008/09 based on savings of £7.0 million (including efficiencies of £5.6 million) and a provisional council tax increase of 3.9 per cent.

39 For future years the main risk items in terms of growth are identified as being demand and cost pressures in budgets such as adult social care and waste management. If council tax increases are to be held steady at 3.5 per cent, further savings of £9 million and £8 million are required in 2009/10 and 2010/11 respectively.

40 Delivering the MTFS will be very challenging and dependent upon the Council delivering on:

- continuing control of demand led budgets to avoid overspending, mainly those relating to waste and adults' and children's social care;
- achievement of efficiency and other savings included in the budget. These total nearly £48 million over the three year planning period and a total of £16m have not yet been identified for 2009/10 and 2010/11; and
- achievement of capital receipts that are factored into the capital programme.

In our view, the Council continues to pursue a prudent financial strategy and the overall financial position of the Council remains sound.

Additional services

- 41 In addition to those services required under the responsibilities required by the Audit Commission the Council also subscribed to the VAT helpline, received VAT advice on Sparkenhoe Business Centre and subscribed to the PI benchmarking service during the year.

Looking ahead

- 42 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 43 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 44 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 45 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at a meeting of members to be arranged. Copies need to be provided to all Council members.
- 46 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Interim audit memorandum	April 2007
Annual report to those charged with governance	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Corporate Assessment report	February 2008
Annual audit and inspection letter	March 2008

- 47 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 48 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Nigel Toms
Relationship Manager

31 March 2008