

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL AUDIT LETTER & COMPREHENSIVE AREA ASSESSMENT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To report on the council's Annual Audit Letter and Comprehensive Area Assessment (Organisational Assessment) report, to consider the assurance that has been given or can be implied from their conclusions and to agree and monitor the implementation of the recommendations made

2. BACKGROUND INFORMATION

- 2.1 Each year the council's auditors provide the council with an annual audit letter. This gives an overall summary of the Audit Commission's assessment of the council, drawing on final accounts, value for money and Use of Resources work. The annual audit letter for 2008/09 is attached as appendix A.
- 2.2. Key Messages are:
- An unqualified audit opinion was issued on the 2008/09 accounting statements on 30th September 2009.
 - Accounting statements were much improved in 2008/09 compared to prior years with fewer errors and better working papers. Scope to improve some important controls over the general ledger was identified and these issues are now being addressed.
 - Overall there are adequate arrangements in place in each of the main Use of Resources Themes (managing money, governance and managing resources). Some good arrangements were identified but not at a consistent level across all areas of the key lines of enquiry.
 - Many of the issues identified in last year's letter have been addressed but reducing the level of overall staff absence continues to be a problem.
 - An unqualified value for money conclusion was issued on 30th September 2009.

- 2.3 The following have been highlighted as actions that need to be taken in response and Members should ensure that::
- The shortfalls in efficiency targets are addressed and ensure fully financial and performance reporting is fully integrated to further drive the improvement agenda;
 - The Audit Committee receives information to enable it to provide robust scrutiny of data quality and Internal Audit work and continue to develop the assurance framework,
 - The carbon action plan and environmental policy are encompassed into an overarching strategy to drive forward the reduction in natural resources.
- 2.4 The Audit Commission also assess the organisation's performance. This year their overall judgment was that the council's performance was adequate. They identified that the council has a clear vision of what it needs to deliver, based on an assessment of local need. They felt that the council's services were variable with a mix of some good performance and some that could be improved. They also identified that service performance is not sufficiently focused on priorities and could be better focused on outcomes for local people. In addition they identified a number of areas where service performance could be improved. Corporate areas for improvement are being linked into the council's transformation plan. Service issues that have not already been identified as a performance exception have been asked to complete an exception report by 25th January. A summary of the assessment can be found in appendix B.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee should consider the external auditor's reports and the assurance that has been given or can be implied from their conclusions. The Committee should seek clarification from the Audit Commission or council officers as necessary. In addition, to maintain or improve its assessment in future years the council will implement an action plan in order to address the improvements raised by the auditors.
- 3.2 To take no action would invite adverse judgments in future.

4. OPTIONS FOR CONSIDERATION

- 4.1 The council should ensure it adopts the actions recommended.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 There are no staffing, property or IT implications.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)

6.1 External Audit and inspection duties are statutory requirements under the provisions of the Audit Commission Act 1998, the Code of Audit Practice and the Local Government Act 1999. The Committee should note that external audit work is carried out to fulfill these requirements and does not provide specific assurance to the Committee other than in particular instances such as the Opinion given on the final accounts. However the Committee may imply assurance from its conclusions and the implementation of recommendations made.

The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs and under the Accounts and Audit Regulations 2003. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

6.2 Proper consideration and implementation of recommendations made by external audit promotes good internal control and corporate governance arrangements. These are an integral part of the council's improvement process.

7. OUTCOMES OF CONSULTATION

7.1 This report is the result of inspections where appropriate members and officers are consulted.

8. RECOMMENDATION

8.1 That the Committee consider the Annual Audit Letter and Comprehensive Area Assessment (Organisational Assessment) Report, the assurance that has been given or can be implied from their conclusions, and agrees that the improvement actions recommended be implemented and monitored.

CHIEF EXECUTIVE
AND SERVICE DIRECTOR FINANCE

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Date: 08 January 2010

Background Papers used in the preparation of this report :

Audit Commission - Annual Audit Letter – 2008/09

Comprehensive Area Assessment – Organisational Assessment (summary version)
– 03 December 2009

Annual Audit Letter

North Lincolnshire Council

Audit 2008/09

November 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion and financial statements

- 1 I issued an unqualified audit opinion on your 2008/09 accounting statements on 30 September 2009. Your accounting statements were much improved in 2008/09 compared to prior years, I found fewer errors and better working papers. There was still scope to improve some important controls over the general ledger and these issues are now being addressed.
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Use of Resources and Value for money

- 2 Overall you have adequate arrangements in place in each of the main Use of Resources Themes (managing money, governance and managing resources). I identified some good arrangements but not at a consistent level across all areas of the key lines of enquiry.
 - 3 The key improvement areas which have been agreed with officers were to:
 - address the shortfalls in efficiency targets and fully integrate financial and performance reporting to further drive the improvement agenda;
 - ensure your Audit Committee receives information to enable it to provide robust scrutiny of data quality and Internal Audit work and continue to develop the assurance framework; and
 - encompass the carbon action plan and environmental policy into an overarching strategy to drive forward the reduction in natural resources.
 - 4 You have addressed many of the issues identified in last year's letter but reducing the level of overall staff absence continues to be a problem.
 - 5 I issued an unqualified value for money conclusion on 30 September 2009.
-

Audit fees

- 6 Table 1 below shows the analysis of total fee and the increase of £3,298 compared to the initial estimated fee. I needed to carry out additional work because control failures were identified in a number of your financial systems.
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Table 1 **Audit fees**

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	125,094	121,796	3,298
Value for money	94,287	94,287	-
Total audit fees	219,381	216,083	3,298
Non-audit work			
• Inspection	22,395	22,395	-
• Grants Certification	55,000 (Estimate)	55,000	-
Total	296,776	293,478	3,298

Actions

7 I have agreed recommendations within the body of this report with officers.

Independence

8 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

Your financial statements and annual governance statement are an important means by which you account for stewardship of public funds.

Errors in the financial statements

9 You drafted and approved the accounts by the 30 June 2009 deadline. Overall the quality of your accounts improved and we reported a small number of errors reported to the Audit Committee. The most significant was £0.9 million relating to the Rope Walk in Barton. This asset had been transferred to the private sector so should not have been shown as a Council asset. Other amendments were largely re-classifications within the Income and Expenditure Account and Balance Sheet or changes required to ensure the accounts fully complied with professional guidance. The amendments did not adjust the overall financial position of the Council reported in the draft accounts.

Material weaknesses in internal control

10 You responded well to the recommendations made last year and improved control over creditor payments. In my 2008/09 audit I identified a number of further weaknesses which include:

- some journals were not authorised in accordance with your current policies. Further, your policies needed to be amended to better reflect the risk of incorrect transfers, the need for authorisation for inexperienced or junior staff and a lower level of supervision needed for experienced or senior officers;
- deferred government grants totalling £56.7 million representing grant received on fixed assets had not been fully reconciled to the asset register and as a consequence was over-stated in the draft accounts by £1.5 million; and
- whilst your overall bank/ledger reconciliation is in place, there were difficulties in fully reconciling two school bank account balances to the relevant ledger balance.

11 I have agreed an action plan with officers to address the issues and improve arrangements for 2009/10.

Use of resources and value for money

I considered how well you are managing and using resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether you have put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements & value for money

- 12** In 2008/09 I used the Audit Commission's new use of resources criteria in three areas: managing finances; governing the business; and managing resources. Judgements were made for each key line of enquiry (KLOE) using the four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements.
- 13** I also assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources using criteria specified by the Audit Commission.
- 14** Overall I assessed your arrangements as Level 2, ie, adequate in all three areas, whilst I found evidence of good arrangements these were not consistently in place across all areas of the assessment. I also concluded you have adequate arrangements for securing economy, efficiency and effectiveness. The detailed scores and VFM conclusions are set out in Table 2 below.

Use of resources and value for money

Table 2 Use of resources scores

Use of resources theme	VFM Criteria Met	Sub-theme Score	Overall Scored judgement
<p>Managing finances</p> <p>How effectively does the organisation manage its finances to deliver value for money?</p> <ul style="list-style-type: none"> Financial Planning Understanding costs Financial Reporting 	<p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>3</p> <p>2</p> <p>2</p>	2
<p>Governing the business</p> <p>How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?</p> <ul style="list-style-type: none"> Commissioning and Procurement Data Quality and the Use of information Good Governance Risk Management and Internal Control 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>3</p> <p>2</p> <p>2</p> <p>2</p>	2
<p>Managing resources</p> <p>How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?</p> <ul style="list-style-type: none"> Natural Resources Asset Management 	<p>Yes</p> <p>Yes</p>	<p>2</p> <p>3</p>	2

15 The detailed findings from my Use of Resources work are set out below.

Managing finances

16 You have a clear embedded financial management culture, evidence of impact of consultation and a stable financial position. I found examples of you shifting resources into priority areas such as investing in outdated primary school accommodation, the secondary school building project and services to help older people live at home.

- 17** I also assessed your treasury management arrangements as you had investments of £5.5 million in two Icelandic Banks when they collapsed in September 2008. I found that you had monitored financial markets and investments had been made in accordance with your treasury management strategy. At the time investments had been made in institutions that had good credit ratings, but circumstances changed before the investments were due to be returned.
- 18** You provide services at relatively low cost and have a successful track record of achieving efficiency savings. However, efficiency targets were not all achieved in 2008/09 and while arrangements have been improved to address challenging targets for the next two years it is too early to assess the impact. Work is ongoing to fully embed the use of whole life costing in long term projects and plans.
- 19** Your consultation process on the contents of the annual report has been acted upon and while your budget monitoring and reporting is accurate and timely, it does not yet fully integrate financial and performance information to drive your improvement agenda.

Governing the business

- 20** I found there is a good level of engagement with local communities when commissioning services and shaping services for users. There is also a focus on improving the experience of services to customers and value for money is challenged delivering some significant procurement savings.
- 21** I also found evidence of service improvement prompted by your performance management system. There is, however, scope to improve you data quality arrangements. I found the need to improve arrangements for documenting and evaluating the controls underpinning individual performance indicators. Improved reporting to the Audit Committee would allow further scrutiny of performance information by Members.
- 22** All relevant codes of conduct are in place. You have a training programme for Members which is well attended and personal development plans and arrangements to evaluate the impact of training and development are currently being strengthened. You have not yet assessed the level of awareness of governance arrangements of officers and or promoted your governance arrangements in the wider community.
- 23** You have an established risk management strategy with operational and strategic risk registers in place and clear responsibilities both corporately and operationally. However, further work is needed to ensure full compliance with the risk reporting timetable and greater focus on the risks of non achievement of service plan objectives. Internal control arrangements have improved during 2008/09 although there is still further scope in areas such as reporting and follow up of Internal Audit work.

Managing resources

- 24** You are starting to reduce your use of natural resources and develop a carbon action plan and an environmental policy. This work would be further strengthened by developing an overall strategy document which encompasses all aspects of natural resources including: renewable energy, water and the natural environment. Such a strategy would provide a single integrated approach to the use of all natural resources. It would further inform future direction and also increase knowledge across the Council and your partners.
- 25** You have established a baseline of natural resources and are beginning to use this information to reduce your impact on the environment. Work is in progress to ensure the environmental impact of suppliers of goods and services is taken into account in commissioning and procurement decisions. There is evidence that you are working with suppliers to reduce their overall environmental impact.
- 26** We found good management of the asset base to provide value for money and examples of asset rationalisation and transfers to the voluntary and charity sector.

National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI); an exercise that matches electronic data within and between audited bodies in local government and Health to prevent and detect fraud.

27 In February 2009, we issued the latest set of data matches there are over 1,000 possible matches under investigation. This is a lengthy exercise but you are currently making good progress in investigating these and have already identified two potential housing benefit frauds linked to student loans with £6,600 benefit overpaid. Work is ongoing to conclude the investigation for possible prosecution recover the overpayment. You have also identified a £3,200 pension payment overpaid in error which is being repaid.

Closing remarks

- 28** I have discussed and agreed this letter with the Chief Executive and the Service Director Finance. I will present this letter at the 26 January 2010 Audit Committee will thereafter provide copies to all Members of the Council.
- 29** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to you during the year.

Table 3

Report	Date issued
Audit Fee Letter	June 2008
Annual Governance Report	September 2009
Use of Resources Report	September 2009
Annual Accounts Memorandum	October 2009

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- 30** You have continued to take a positive and constructive approach to our audit, I wish to thank you for your support and co-operation.

Mark Kirkham
District Auditor
November 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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North Lincolnshire Council

Organisational Assessment (Summary version)

Dated 9 December 2009



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for an independent overview
of local public services

North Lincolnshire Council

Overall, North Lincolnshire Council performs adequately

Managing performance	2 out of 4
Use of resources	2 out of 4
Managing finances	2 out of 4
Governing the business	2 out of 4
Managing resources	2 out of 4

Description of scores:

1. An organisation that does not meet minimum requirements, Performs Poorly
2. An organisation that meets only minimum requirements, Performs Adequately
3. An organisation that exceeds minimum requirements, Performs Well
4. An organisation that significantly exceeds minimum requirements, Performs Excellently

Summary

Overall North Lincolnshire performs adequately. The Council has made adequate progress on tackling the priorities agreed for North Lincolnshire. It is adequate overall at managing its money and making savings.

The Council has a clear vision of what it needs to deliver, based on an assessment of local need. This vision has been translated into clear corporate objectives with supporting strategic plans, although some detailed operational plans and action plans are not fully complete.

The Council scores 2 out of 4 for managing its performance. There is a balance of strengths and weaknesses in performance across the Council's local priorities. Many of the Council's services are effective and improving in North Lincolnshire, but there needs to be a sharper focus on improving outcomes for local people.

The Council has had some success in its ambition to increase employment and enhance skills in North Lincolnshire. But due to the economic recession, overall employment has decreased and the number of people claiming benefits has increased.

There has been mixed success in its ambition to improve learning and attainment, health and inequality. The Council is helping more young people to learn skills and find jobs. The number of 17 year olds in education or training is better than that in similar areas and the numbers of 16 to 18 year olds not in education, employment or training has continued to reduce. The skills of the working age population have also increased.

Education standards across the age range are variable compared to similar areas. Achievement is rising for children up to seven years old, but getting worse for seven to eleven year olds. This is especially so for those young people from the poorest backgrounds. At key stage 4 (14 to 16 year olds) standards are rising slowly, but the gap is widening between North Lincolnshire and other areas. Too few young people in North Lincolnshire are getting 5 or more GCSEs grades A* to C including English and maths. The achievement gap for some vulnerable groups has widened.

In partnership with NHS North Lincolnshire the Council has made poor progress in reducing the number of teenagers who become pregnant. Performance has been below expectations on this issue for a number of years and the action planning to date on this issue has been poor.

In partnership with the police the Council has had some success in its ambition to reduce crime and the fear of crime. However violent crime, such as assault with injury, is getting worse.

There has been limited success in the Council's ambition to reduce deprivation and increase participation, engagement and satisfaction of residents. Performance in the regeneration of the Crosby area of Scunthorpe has been poor and has not shown a sustainable improvement, despite major investment over a long time. Regeneration work has failed to increase home ownership and serious disrepair of properties has increased. These schemes have focussed on improving housing and have failed to address any underlying social problems such as deprivation. The Council has been more successful with other regeneration schemes, for example in Barton on Humber.

Local people say they like living in North Lincolnshire. They also say that people from different backgrounds get on well together in North Lincolnshire and treat each other with respect and consideration.

The Council has reduced the amount of household waste which goes to landfill sites. This makes the Council one of the best performing twenty five percent of similar Councils for reducing household waste. It performs equally well in terms of the large proportion of household waste it recycles, re-uses or composts.

The Council has increased the numbers of people it supports to live at home by providing, or paying for them to receive, care in their homes. The Council is also helping more vulnerable people to live independently.

Most people who need specialised equipment to help them live in their own homes receive it within seven days and most older people who need support to live at home receive their care within twenty eight days. However, there are unacceptably long delays in providing major adaptations to those people who need them.

The Council demonstrates a good approach to diversity and equality. It has achieved level 4 of the equality standards. It takes the diverse needs of its population into account when designing and delivering services.

The Council works well in partnership with other local organisations for example it is achieving economic progress in the area despite the recession. It

is taking forward some large economic developments such as the planning of the South Humber Bank and Lincolnshire Lakes.

Ofsted has rated the Council's children's services as performing well. The overall effectiveness of the large majority of inspected and regulated services and settings is good or better. Almost all the judgements for staying safe are good or better as is the case for inspected services for enjoying and achieving. Performance against the very large majority of national indicators, including those for staying safe, is at least in line with that found in similar areas and nationally.

The Care Quality Commission has rated services for adult social care in North Lincolnshire Council as performing well. The Council has embraced the national focus on social care for adults through its programme "putting people first - the North Lincolnshire way". It has a clear vision for the development of social care which is based on effective arrangements with partner agencies and good management within the Council. The Council could take a more effective lead by being clear about the outcomes expected to show its programmes were successful and also by further developing ways for local people to contribute to the planning and vision for social care.

Overall, the Council's services are low cost. The Council has an ambitious plan, called the transformational plan, to modernise its internal organisation so that it can provide its services more effectively and make them more accessible to local people.

The Council has performed well against its targets contained within the National Indicators. Of those indicators where information is currently available, 64 per cent of targets were achieved and 36 per cent were not. Also, 64 per cent of these indicators showed an improvement over the year 2008/09. But the Council's annual performance report does not make it clear if performance has improved in the most important areas. It also lacks the detail to show how performance compares with other councils and is at times too focused on processes rather than outcomes for local people.

The Council and its partners face a challenging time ahead, particularly in light of the additional demands placed upon it due to the economic recession. The Council has some capacity issues in taking its performance forward in 2009/10. Capacity to improve its services is hampered by high levels of staff sickness. It is one of the poorest performing Councils in terms of staff sickness. Improvement in reducing the number of days lost due to sickness absence, is poor.

The Council scores 2 out of 4 for use of resources. It manages its finances adequately overall. The Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. There are examples of the Council applying service redesign to improve the way it operates.

CAA looks at how well local public services, working together, are meeting the needs of the people they serve. It's a joint assessment made by a group of independent watchdogs about the performance of local public services, and how likely they are to meet local priorities. From 9 December you will find the results of Comprehensive Area Assessment on the Oneplace website - <http://oneplace.direct.gov.uk/>

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