

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

VALUE FOR MONEY REPORT 2010

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 Each year every local authority was assessed on how well it manages its resources. This was an independent assessment made by the audit commission as part of the Use of Resources assessment,
- 1.2 The government has subsequently cancelled the Use of Resources for 2009/2010. This means although an assessment has been carried out no scores will be reported however the outcome of this work continues to be used to support external audit's VFM conclusion.
- 1.3 The VFM report provides a commentary on the basis for that judgement and is attached as an appendix. It shows that overall North Lincolnshire Council has good arrangements in place to achieve value for money.
- 1.4 The committee are invited to consider the judgement, the assurance that can be implied from its conclusion, and to agree and monitor the implementation of the recommendations made.

2. BACKGROUND INFORMATION

- 2.1 The Use of Resources assessment evaluates how well councils manage and use their resources. Members were informed of progress on this year's evaluation in April. Results were expected in September and scores would have been reported to the Committee. Use of Resources work has been cancelled by the government and auditors scored judgment is not longer available.
- 2.2 In 2008/09 external audit issued an unqualified VFM conclusion, that the council made proper arrangements to secure economy, efficiency and effectiveness in the use of public money. For 2009/10 external audit's work focused on changes to those arrangements and the value for money conclusion is, as last year, based on the Use of Resources Key Lines of Enquiry (KLoE). It is finalised when the accounts and major grants work is completed. Final conclusions and key findings are

reported in the external audit's Annual Governance Report shown elsewhere on this agenda.

2.3 The report concludes there are no major weaknesses in the council's arrangements and there has been good progress in the improvement areas reported in 2008/09. Most of the recommendations have been addressed including:

- Progress on shortfalls in efficiency targets
- Clearer integration of financial and performance reports
- Better information to the audit committee to allow more effective scrutiny
- Improved assessment of the risk of incorrect performance indicators and checking arrangements; and
- Updated partnership governance procedures.

2.4 Some areas for improvement were identified and action agreed as shown in the report's action plan. The main improvement areas identified are:

- Raising public awareness of the local standards framework
- Ensuring overall risks facing the council are more explicit; and,
- Consideration of introducing independent assessment of risk management arrangements.

3 OPTIONS FOR CONSIDERATION

3.1 Attached as an appendix is the report from the council's auditors. The main findings are considered here. The report also makes several suggestions for improvement which are also highlighted in the Governance report elsewhere on this agenda.

4. ANALYSIS OF OPTIONS

4.1 The Committee should consider the external auditor's judgement, which is a positive one, and the assurance that can be implied from its conclusions. The Committee should seek clarification from the Audit Commission or council officers as necessary. In addition, to maintain or improve its performance in future years the council needs to address the issues raised by the auditors. An action plan has been developed with implementation started in 2010/11.

4.2 To take no action would invite an adverse value for money judgement in future years.

5. RESOURCE IMPLICATIONS

5.1 There are no direct resource implications.

6. OTHER IMPLICATIONS

- 6.1 The value for money judgement is part of the Comprehensive Area Assessment by which the Audit Commission fulfils its statutory duty under section 99 of the local Government Act 2003 to make an assessment, and report on the performance, of local authorities.

7. OUTCOMES OF CONSULTATION

- 7.1 Not required.

8. RECOMMENDATIONS

- 8.1 That the Committee consider the external audit judgement, the assurance that can be implied from its conclusions, and agree that its recommendations be implemented and monitored.

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Carol Andrews
Date: 08 September 2010

Background Papers used in the preparation of this report

Value for Money, North Lincolnshire Council Audit 2009/10' attached as an appendix to this report

Value for money

North Lincolnshire Council

Audit 2009/10

September 2010



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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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Summary report

Introduction

- 1 Our 2009/10 value for money conclusion is, as last year, based on the revised Use of Resources Key Lines of Enquiry (KLOE). In 2008/09, we issued an unqualified conclusion having reviewed sufficient evidence to be satisfied that the Council made proper arrangements to secure economy, efficiency and effectiveness in the use of public money. This year's work focused on changes in your arrangements.
- 2 Unlike like last year, our assessments will not include scores. However, the work will still inform our value for money conclusion planned for late September 2010 when our accounts and major grants work is completed.
- 3 This document summarises our findings and records improvement opportunities.

Background

- 4 We assessed your arrangements to secure economy, efficiency and effectiveness, using criteria specified by the Audit Commission. The Table below shows the areas reviewed.

Table 1 **Value for money themes**

<p>Managing finances</p> <p>How effectively do you manage your finances to deliver value for money?</p> <ul style="list-style-type: none">• Financial Planning• Understanding costs• Financial Reporting
<p>Governing the business</p> <p>How well does you govern yourself and commission services providing value for money and 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>Managing Resources</p> <p>How well do you manage your physical assets and people to meet current and future needs and deliver value for money?</p> <ul style="list-style-type: none">• Asset Management• Workforce Planning

Key findings and conclusions

- 5 We identified no major weaknesses in your arrangements. Overall, we can report good progress in the improvement areas reported in 2008/09: Most of the recommendations have been addressed. We have seen:
- progress on shortfalls in efficiency targets;
 - clearer integration of financial and performance reports;
 - better information to the audit committee to allow more effective scrutiny;
 - improved assessment of the risk of incorrect performance indicators and checking arrangements; and
 - updated partnership governance procedures.
- 6 While your arrangements have improved, it is too early to assess the full impact on outcomes of some of the improvements. This was particularly so in the governance, internal control and risk management areas. The main improvement areas identified as part of our 2009/10 work are:
- raising public awareness of the local standards framework; and
 - ensuring overall risks facing the Council are more explicit.

Detailed report

Managing finances

- 7 We found no significant weaknesses in your arrangements and good progress in the improvement areas identified in 2008/09.

Financial planning

- 8 We found a clear financial management culture, evidence of impact of consultation and a stable financial position. You provided examples of spending matching priorities showing good outcomes. This is consistent with our 2008/09 findings, we identified no significant improvement areas.

Understanding costs

- 9 You continue to provide services at relatively low cost and have improved your arrangements. You provided evidence of the use of whole life costing in major capital projects addressing one of the 2008/09 improvement areas.
- 10 Although you are still behind the NI179 efficiency target, overall performance has improved. In 2009/10 total cumulative savings were £8.1 million, compared with your target of £9 million, with in year savings of £5.5 million. Management commitment to meet the savings target and deliver the Council's ambitious change programme was clear. We identified no significant improvement areas and your arrangements demonstrated clear impact.

Financial reporting

- 11 We found evidence of better reporting of budget and performance data to members, good progress in planning the 2009/10 accounts exercise and implementation of International Financial Reporting Standards.
- 12 Improvements seen in financial reporting in 2009/10 include, summarising variable budgets driven by performance activity, and identifying impact on the budget of the economic downturn.
- 13 Cabinet formally consider financial reports in detail, September and December budget reviews and the year-end position. Leading members including cabinet and opposition also receive quarterly performance reports (QPR) and monthly financial report, allowing informal financial and performance monitoring. The introduction of a July budget review report in 2009/10 has helped demonstrate Cabinet scrutiny of the financial position.
- 14 We also found clear evidence of action taken in response to the economic downturn and overspending budgets demonstrating clear impact.

Governance

- 15 Again we found no areas of significant weakness in your arrangements and good progress in the improvement areas identified in 2008/09. It is too early to assess the impact of the improvements seen in 2009/10 in some areas.

Commissioning and procurement

- 16 We found:
- good engagement with local communities when shaping services for users;
 - focus on improving the experience of services to customers; and
 - clear challenge of value for money, delivering some significant procurement savings.
- 17 This is consistent with our 2008/09 findings and we identified no significant improvement areas.

Data quality and the use of information

- 18 We found evidence of service improvement following intervention by performance management and improving data quality for key indicators. You have also further improved arrangements, responding to recommendations made in 2008/09 across all KLOE focus points. Examples include:
- reinforcing your data quality policy via workshops;
 - improving documentation of controls for performance indicators;
 - refining your risk based programme of data quality reviews, including partnership information and risk based internal audit work;
 - providing clearer assurance to the audit committee on data quality arrangements; and
 - strengthening your performance improvement panels (PIPs).
- 19 We identified no significant improvement areas and your arrangements demonstrated clear impact.

Good governance

- 20 You have made progress responding to recommendations in 2008/09 across all areas of the KLOE. However, it was too early to assess the impact of some of these improvements. We identified no significant gaps in your arrangements.
- 21 You have clear governance arrangements in key areas.
- All your relevant codes of conduct clarifying roles and responsibilities of Members and Officers are in place. You have a well-attended training programme for members, personal development plans and arrangements to evaluate the impact of training.
 - Most major capital projects have cross party working groups, with agreed terms of reference in line with your constitution. Key decisions are made by Cabinet.

Detailed report

Improvements seen in 2009/10 included:

- introducing a clear assurance plan for the Audit Committee, allowing members to see clearly, where and when they will receive assurance. Clearer reports to the Committee give Members the opportunity to improve their oversight;
- implementation of the partnership protocol now adopted by all partner organisations has strengthened arrangements. You introduced new LSP constitutional arrangements, but it is too early to assess its impact;
- measuring staff governance awareness through a survey, so any future work to increase awareness can now be more effectively targeted; and
- reviewing the role of the Standards Committee. You recognise the need to be more outward facing, and raise public awareness of the local standards framework a recommendation in our 2008/09 report. Discussions with members about publishing members' registers of interest on the website are also ongoing.

Recommendation

R1 Consider the most effective way of raising public awareness of the local standards framework by explicit promotion of the Council's governance arrangements with members of the public and stakeholders.

Risk management and internal control

- 22** We found improving risk management and internal control arrangements with no significant weaknesses. You demonstrated clear outcomes in preventing and detecting fraud, but are not yet able to show impact across all areas of the KLOE. We identified some further improvement areas.
- 23** You have a clear strategy for dealing with fraud and corruption and can prove outcomes. You prepare an annual fraud risk profile, identify gaps and set a programme of work to address the risks. There is increasing use of the whistle-blowers hotline and detailed investigation of all allegations. You also have a good track record of successful housing benefit prosecutions and preventing fraudulent claims.
- 24** We found fewer control failures in 2009/10 compared with the previous year. However, some weaknesses in important controls remain eg journal controls and Carefirst authorisation. Implementation of IA recommendations from prior years is improving, but still only 69 per cent. There is now greater clarity on the assurance given by Internal Audit for each system reviewed, and the impact of control failures identified. This provides clearer assurance for management and the audit committee and allows a benchmark to measure overall effectiveness of internal control in future.
- 25** You have clear risk management arrangements. Risks are assessed for likelihood and impact, and responsibilities identified for mitigating each risk. Successful delivery of a number of major capital projects shows successful risk management. The Strategic Risk Management Group (SRMG) manages overall risk.

26 Improvements in 2009/10 were:

- clearer linking of service plans to risk registers; and
- clarification of the timetable for reporting key risks to the audit committee.

27 Further improvements identified as part of this work include:

- providing clearer evidence of the assurance systems in place supporting risk reporting to the Audit Committee. The current traffic light system, control mechanisms are described as 'good' without any explanation or description of the control; and
- introducing an external assessment of your risk management arrangements as Internal Audit, having a role in the operation of the framework, is not in a position to do this.

Recommendations

R2 In risk reporting to the audit committee the current traffic light system, control mechanisms are described as 'good' without any explanation or description of the control Risk. Providing clearer evidence of the control systems in place to support these conclusions would improve the level of assurance given to the Audit Committee.

R3 Consider introducing independent assessment of your risk management arrangements.

Managing resources

28 We assessed the strategic asset management and workforce planning arrangements in 2009/10. We found no significant areas for improvement.

Asset management

29 Consistent with 2008/09, you continue to demonstrate clear outcomes in the use of assets. You have a strategic approach, and some good examples of consolidating services to improve access, managing assets to provide VFM as part of your rationalisation program. Good partnership working, improving access to services and providing good VFM was clear.

Workforce

30 You can demonstrate you have a productive and skilled workforce and are:

- addressing poor performance and low agency costs. Joint workforce planning has already delivered benefits through joint procurement with NE Lincolnshire, and the Highways Alliance with two private firms;
- reducing sickness absence year-on-year. You are around average for unitary councils but are in the bottom quartile for similar councils. Work is continuing to improve performance;

Detailed report

- undertaking a full skills audit. Apprenticeship schemes, a graduate trainee programme, and many carer pathways are addressing skills gaps;
- engaging with staff and unions. You have relatively low levels of grievances, tribunals and disputes with high staff satisfaction and low turnover. Flexible working is well established, and the council is developing total reward statements;
- completing equal status and the local pay review in 2002, consequently you have not received any equal pay claims; and
- ensuring good progress on having a representative workforce.

31 We identified no significant improvement areas.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	Consider the most effective way of raising public awareness of the local standards framework by explicit promotion of the Council's governance arrangements with members of the public and stakeholders.	2	Service Director Legal and Democratic Services	Yes	Best practice has been considered and a number of improvements are being introduced such as: <ul style="list-style-type: none"> enhanced website (including members' register of interests); annual report to Council and article for Direct; discussions with the secretary of ERNLLCA (regional body for town/parish councils) regarding ways of working together to promote standards; and meetings to be arranged between the Chair of Standards and the Chief Executive and Party Leaders to again emphasise commitment to the standards regime. 	Ongoing

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	In risk reporting to the audit committee the current traffic light system, control mechanisms are described as 'good' without any explanation or description of the control Risk. Providing clearer evidence of the control systems in place to support these conclusions would improve the level of assurance given to the Audit Committee.	2	Service Director Legal and Democratic Services	Yes	Improvements in Audit Committee reporting were introduced in September 2010.	Ongoing
8	Consider introducing independent assessment of your risk management arrangements.	2	Service Director Legal and Democratic Services	Yes	Consideration will be given when CIPFA guidance on the role of the chief internal auditor is published (currently out to consultation).	Ongoing

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, auditing 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.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
