

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**USE OF RESOURCES JUDGEMENT 2008**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 Each year every local authority is assessed on how well it manages its resources. This is an independent assessment made by the audit commission.
- 1.2 The outcome of the 2008 use of resources assessment is reported here. It shows that North Lincolnshire Council has again achieved a score of 3, 'performing well'.
- 1.3 The report provides a commentary on the basis for that judgement and the full auditor report is attached as an appendix.
- 1.4 The committee are invited to consider the judgement, the assurance that can be implied from its conclusions, 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. It is part of the Comprehensive Performance Assessment (CPA) which is a statutory responsibility of the audit commission to report on the performance of local authorities. This is the fourth annual assessment and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment (CAA).
- 2.2 Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. The assessment reported here relates to the financial year 2007/08.
- 2.3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale:

1 Below minimum requirements – inadequate performance

2 Only at minimum requirements – adequate performance

3 Consistently above minimum requirements – performing well

4 Well above minimum requirements – performing strongly

### 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 Annual Audit and Inspection Letter elsewhere on this agenda.

3.2 Overall the council continues to achieve level 3 'performing well'. This score is a composite overview of the five themes, which in turn are made up of one or more strands. The judgement on each strand is shown in the table which follows, with the comparable score for the previous year:

	<b>Key Line of Enquiry</b>	<b>2007</b>	<b>2008</b>
	<b><i>Financial reporting</i></b>	<b>3</b>	<b>2</b>
1.1	The accounts	3	2
1.2	Financial reporting	3	3
	<b><i>Financial management</i></b>	<b>3</b>	<b>3</b>
2.1	Financial strategy	3	3
2.2	Management of budgets	3	3
2.3	Management of asset base	3	3
	<b><i>Financial standing</i></b>	<b>3</b>	<b>3</b>
3.1	Financial standing	3	3
	<b><i>Internal control</i></b>	<b>3</b>	<b>3</b>
4.1	Management of business risks	3	3
4.2	Sound systems of internal control	3	2
4.3	Proper conduct of business	3	3
	<b><i>Value for money</i></b>	<b>3</b>	<b>2</b>
5.1	Achieves value for money	3	2
5.2	Manages and improves value for money	2	3
	<b>Overall score</b>	<b>3</b>	<b>3</b>

3.3 Members should note that the council submitted an extensive self-assessment to enable the external assessment to take place. This also showed achievement of level 3, with minor variations in component scores.

3.4 The key findings are:

#### Financial reporting

- The Council's published financial statements were unqualified, although a number of amendments were required during the audit. There were some weaknesses in quality assurance arrangements.
- External reporting is timely and presents information in accessible formats demonstrating compliance with duties under the equalities legislation.
- Consultation with key stakeholders is good and achieves positive outcomes. The Council's consultation process to engage a range of stakeholders has been deemed notable practice.

#### Financial management

- The Council has continued to improve in this area by focussing on embedding arrangements.
- There is evidence of improved outcomes with the allocation of additional resources leading to improved performance in priority areas as a result of the medium term financial strategy and budget setting process.
- There is also evidence that the Council has arrangements in place to ensure that new policy and capital developments are consistent with the Council's priorities and are affordable.
- Recommendation: arrangements could be improved by explicitly linking performance and budget reporting and quantifying the level of risk of achieving budget targets, or the likely impact of any uncertainties

#### Financial standing

- The council's financial standing is sound and supports the achievement of its long term objectives.
- The council are well awareness of a tightening financial position and this is reflected in the medium term financial plan.
- The Council manages its spending within the available resources and has a strong track record of balancing budgets.
- The Council has good arrangements to manage investment of spare cash in accordance with its approved investment strategy, spreading risk and

actively monitoring the credit ratings of banks. These good arrangements did not prevent the Council's investment in two Icelandic banks during the summer of 2008. At the time of the investments both institutions had good credit ratings but these changed with the banks subsequently failing, before the return of the investments were due.

#### Internal control

- The overall score for this theme remains at 3, however, the weaknesses found in the control environment have resulted in a score of 2 for the arrangements to manage a sound system of internal control.
- Potentially significant control weaknesses were by identified by Internal Audit and reported in the Annual Governance Statement. Additional testing confirmed that arrangements were working satisfactorily overall and mitigating controls were in place; action has now been taken to address the weaknesses.
- Recommendation: a summary report on the actions taken to manage key business risks should be taken to members (such a report was considered by the Audit Committee in January 2009)

#### Value for money

- The council has improved its arrangements to promote VFM but is yet to see any significant impact on performance or outcomes.
- The council has below average costs, and overall inspection service scores are good in all service areas.
- However performance is generally below average and performance compared to previous years and other councils is not improving *as fast* and as a consequence the overall score is assessed at 2.
- Recommendation: arrangements could be improved by ensuring there is clear explicit information to members on the impact of savings and reprioritisation

### 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 and that of the internal self assessment. The Committee should seek clarification from the Audit Commission or council officers as necessary. In addition, to maintain or improve its score in future years the council needs to address the issues raised by the auditors. An action plan has been developed with implementation started in 2008/09.
- 4.2 To take no action would invite an adverse use of resources judgement in future years.

**5. RESOURCE IMPLICATIONS**

5.1 There are no direct resource implications.

**6. OTHER IMPLICATIONS**

6.1 The use of resources judgement is part of the Comprehensive Performance 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 agrees that its recommendations be implemented and monitored.

SERVICE DIRECTOR FINANCE

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**Background Papers used in the preparation of this report**

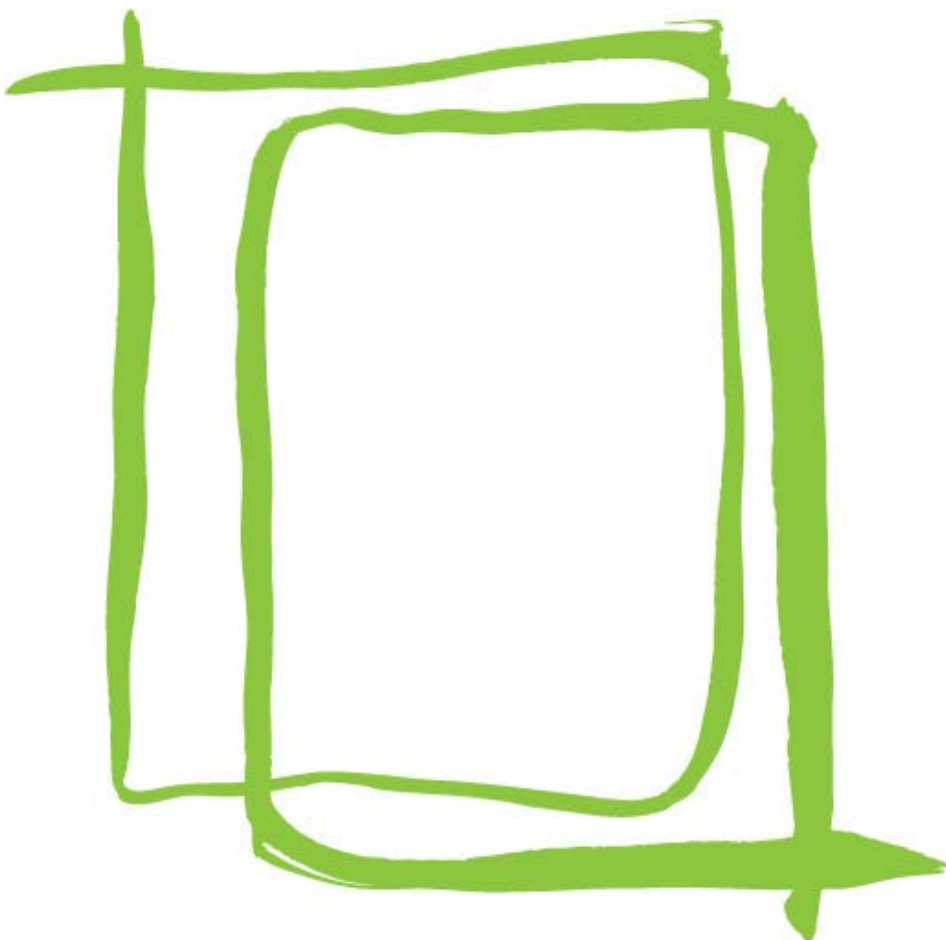
'Use of Resources, North Lincolnshire Council Audit 2007/08' attached as an appendix to this report

# Use of Resources

North Lincolnshire Council

Audit 2008-2009

February 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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# Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth annual assessment and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment (CAA). Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the 2008 key lines of enquiry. Changes to the criteria were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. Changes were made to:
  - reflect professional developments, legislative requirements and best practice; and
  - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below.

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**Table 1 Standard scale used for assessments and inspections**

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

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- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's website. We have also taken account of the previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
  - 5 The five theme scores for North Lincolnshire Council are outlined overleaf.
  - 6 This summary sets out our key findings in relation to each theme and key areas for improvement.



## Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
<b>Financial reporting</b>		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	2	3
1.2 The Council promotes external accountability.	3	3
<b>Financial management</b>		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	3	3
<b>Financial standing</b>		
3.1 The Council manages its spending within the available resources.	3	3
<b>Internal control</b>		
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3	3
<b>Value for money</b>		
5.1 The Council currently achieves good value for money.	2	3
5.2 The Council manages and improves value for money.	3	2

# Theme summaries

7 The key findings and conclusions for each of the five themes are summarised in the following tables.

## Financial reporting

<b>Theme score 2</b>	
<b>Key findings and conclusions</b>	
<p>The Council's published financial statements were unqualified, although a number of amendments were required during the audit. External reporting is timely and presents information in accessible formats demonstrating compliance with duties under the equalities legislation. Consultation with key stakeholders is good and achieves positive outcomes.</p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>There are adequate arrangements in place to produce accurate financial statements in accordance with statutory and technical requirements. There were some weaknesses in quality assurance arrangements. Arrangements to ensure full compliance with the SORP were not fully effective and some working papers were not available at the start of the audit.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>The Council continues to make key documents available to the public on a timely basis. It has demonstrated that it understands and is complying with the equalities legislation when publishing information and has plans in place to address barriers to accessing information.</p> <p>The Council's consultation process to engage a range of stakeholders has been deemed notable practice.</p>

**Financial management**

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council has continued to improve in this area by focussing on embedding arrangements. We found evidence of improved outcomes (eg allocation of additional resources leading to improved performance in priority areas) being achieved as a result of the medium term financial strategy and budget setting process. There is also evidence that the Council has arrangements in place to ensure that new policy and capital developments are consistent with the Council's priorities and are affordable.</p>	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>The Council's service and budget planning are clearly linked and service improvements drive the medium-term financial strategy. There is an affordable capital programme which is designed to deliver its strategic priorities.</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Responsibilities for budget monitoring are clear and the arrangements are working effectively. Budget overspends or underspends are managed proactively with no impact on service delivery. The potential impact of strategies to comply with the equalities legislation for race, gender and disabilities, have been assessed. Monitoring reports identify key operational indicators and risk although these are both implicit rather than explicit. These could be improved by explicitly linking performance and budget reporting and quantifying the level of risk of achieving budget targets, or the likely impact of any uncertainties.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Forward looking and strategic plans for asset management show how assets are being used to deliver corporate priorities. Accurate information on the efficiency, effectiveness and value of assets is used to support decision making with respect to investment and disinvestment of assets.</p>

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Financial standing

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council's financial standing is sound in order to support the achievement of its long term objectives. The Council is well awareness of a tightening financial position and this is reflected in the medium term financial plan.</p> <p>The Council has continued to manage its spending within available resources. There were no material or significant overspends which had an adverse impact on service delivery.</p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>The Council has a strong track record of balancing budgets. There is a clear policy on the level of balances and these have been adhered to, despite the additional costs associated with the floods which have been contained within available resources.</p> <p>Performance to manage the level of outstanding debtors is comparatively good.</p> <p>The Council has good arrangements to manage investment of spare cash in accordance with its approved investment strategy, spreading risk and actively monitoring the credit ratings of banks. Despite this, the Council had invested in two Icelandic banks in the summer of 2008 with a potential loss of £5.5million before changes to credit ratings and subsequent failure of the institutions.</p>

**Internal control**

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
The overall score for this theme remains at a 3, however, the weaknesses found in the control environment have resulted in a score of 2 for the arrangements to manage a sound system of internal control.	
KLOE 4.1 The Council manages its significant business risks.	The risk management strategy is regularly reviewed. Risk registers are maintained and reviewed. Training is in place for relevant staff and members. Key business risks are being monitored and managed and reported to members via various routes, however, no summary report on the actions taken to manage key business risks is taken to members.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	There are adequate arrangements in place to maintain a sound system of internal control. Potentially significant control weaknesses were by identified by Internal Audit and reported in the Annual Governance Statement. Additional testing confirmed that arrangements were working satisfactorily overall and mitigating controls were in place; action has now been taken to address the weaknesses.
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	There is a counter fraud and corruption policy which is regularly reviewed and promoted. The Council is pro-active in its role to raise standards of ethical behaviour amongst members and officers.

### Value for money

<b>Theme score 2</b>	
<b>Key findings and conclusions</b>	
<p>The Council has improved its arrangements to promote VFM but we are yet to see any significant impact on performance or outcomes. The Council has below average costs, overall inspection service scores are above minimum standards in all service areas but performance is generally below average and performance compared to other councils is not improving and as a consequence the overall score is assessed at 2.</p>	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Costs are commensurate with the range, level and quality of services. Areas of higher spending are in line with the Council's stated priorities.</p> <p>The Council is generally below median cost and performance and whilst there are some areas of improvement these are not consistently across all areas.</p> <p>In comparison with other unitary authorities and with its nearest neighbours, the Council's overall costs are not significantly higher than other councils providing similar levels and standards of service. Costs are below median levels whilst attainment and satisfaction levels are also generally below average.</p> <p>Based on 2007/08 performance:</p> <ul style="list-style-type: none"><li>• investment in waste re-cycling has led to top quartile performance;</li><li>• for children's' services performance is improving performance at secondary level but worsening at primary level;</li><li>• in adults' services there is a comparably higher level of residential placements which may not constitute best value; and</li><li>• benefits costs per head are relatively high and performance is below the median level (based on non audited information).</li></ul>

Theme score 2	
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>Arrangements for promoting VFM have improved. The Council is now formally committed to achieving the Investors in Diversity standard. The Council's Building Schools for the Future (BSF) programme is progressing. The Council also now has a combined Strategic Procurement and VFM into one unit, which has increased the focus on VFM.</p> <p>The Council has clear information on costs and how these compare to quality of services. Members and managers use this information routinely to review and challenge value for money.</p> <p>Although improving the quality of data is still an issue in certain areas and there is a need to ensure that there is clear explicit information to members on the impact of savings and re-prioritisation.</p>

# Conclusion

- 8 The Council's performance demonstrates that it continues to achieve level 3 'performing well'.
- 9 The Council has been preparing for the new 2008/09 use of resources assessment for some time and we will undertake some early work on reviewing progress.

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## Use of resources 2008/09

- 10 From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners (CAA).
- 11 Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 12 The assessment is structured into three themes:
  - managing finances: sound and strategic financial management;
  - governing the business: strategic commissioning and good governance; and
  - managing resources: effective management of natural resources, assets and people.
- 13 The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For single tier and county councils auditors will assess natural resources and strategic asset management (where there is continuity with 2008).
- 14 The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.



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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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