

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**North Lincolnshire 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.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2008

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

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

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Key messages</b>	<b>4</b>
Action needed by the Council	4
<b>Purpose, responsibilities and scope</b>	<b>5</b>
<b>How is North Lincolnshire Council performing?</b>	<b>6</b>
The improvement since last year - our Direction of Travel report	7
Service inspections	11
<b>The audit of the accounts and value for money</b>	<b>12</b>
Additional services	14
<b>Looking ahead</b>	<b>15</b>
<b>Closing remarks</b>	<b>16</b>
Availability of this letter	17

## Key messages

- 1 The Council continues to improve in many of its priority areas. It has continued to deliver its plans together with its partners whilst meeting and dealing successfully with the flooding in the summer of 2007. It is financially strong and achieves good value for money. It achieved an increase in its performance rating under the Audit Commission's Comprehensive Performance Assessment and is now a four star council which is improving adequately.
- 2 The Council and its partners are ambitious for the area but it recognises that there is more to do in all the shared priority areas to achieve the planned improvements in the lives of the people it serves. There needs to be more consistent and rapid improvement in performance to enable these plans to have their fullest impact.

## Action needed by the Council

- 3 I have communicated the detailed actions required by the Council in my reports during the year. However, I would highlight the following high level actions for councillors in the key areas raised by our work. Councillors need to:
  - ensure that the areas for improvement identified in the corporate assessment are incorporate into the Council's plans, these include:
    - communicating its vision for the area in a more effective way;
    - adding capacity within the Council to provide additional leadership and impetus to partnership working;
    - providing additional support to councillors in their community and strategic leadership roles; and
    - enhancing the work of scrutiny within the Council;
  - get assurance that actions to address the auditor's findings on the use of resources are happening and delivering improvements in:
    - producing an annual report in a variety of formats;
    - integrating financial and performance management arrangements more closely for partnerships in which the Council is engaged; and
    - improving the timeliness and accuracy of grant claims submitted for audit.

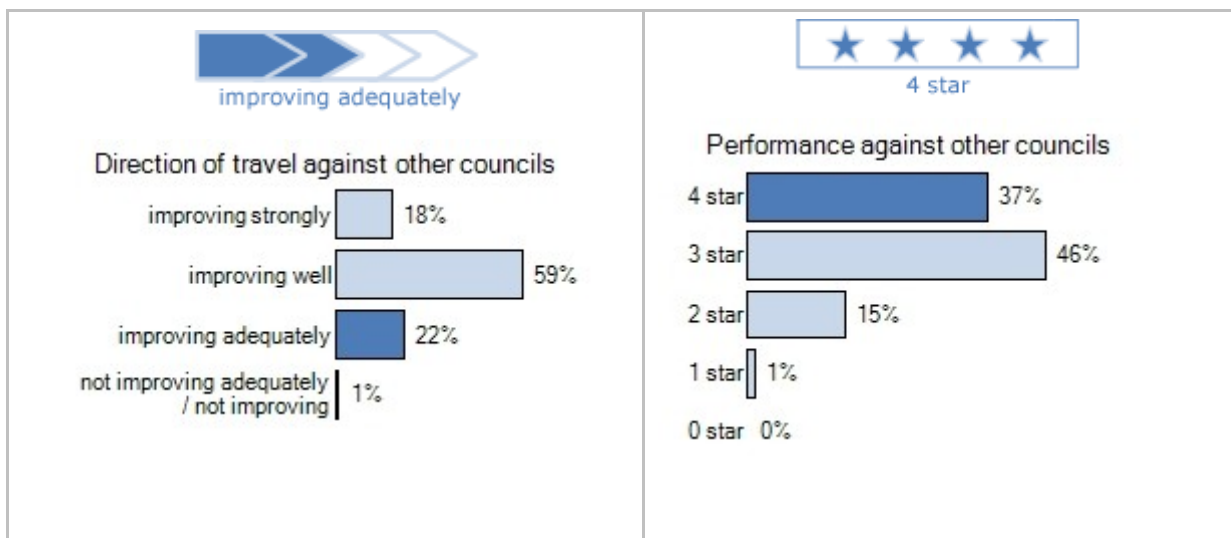
## Purpose, responsibilities and scope

- 4 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 report which was published in February 2008.
- 5 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.
- 6 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](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 7 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.
- 8 The auditor's conclusions are reported in the relevant sections of this letter.
- 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 North Lincolnshire Council performing?

- 11 The Audit Commission’s overall judgement is that North Lincolnshire Council is improving adequately and we have classified the 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 CPA national results**



Source: Audit Commission

- 12 The detailed assessment for North Lincolnshire Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	4 star
Corporate assessment/capacity to improve	2 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*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	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

- 13 The Council has made good progress in some of the local priority areas which it shares with its partners: achieving an area that is thriving; promoting communities that are confident and caring; producing changes where individuals can see the difference; and, working together for the benefit of North Lincolnshire. In addition to working on its plans the Council and its partners had to respond to the floods of June 2007 and their impact. The Council's main office was severely affected but it managed to maintain essential services and work successfully on the recovery process. The hard work and commitment of all staff and councillors during the flooding and its aftermath was impressive.

- 14 Overall the Council's performance is below average when compared to other councils for national priorities. Around 56 per cent of key performance indicators improved since last year which is below the national average of 61 per cent. The Council is ranked 254 out of 388 authorities in terms of its improvement. The proportion of its key performance indicators in the best 25 per cent nationally is 23 per cent which is below the average for other councils of 29 per cent. The Council has made improvements in some national priority areas. But progress in other areas is mixed. The Council has improved its performance in cultural services which includes sports, museums and other recreational activities. This has lifted its performance overall to 4 star. The absence of consistent rapid improvement undermines the Council's ambitions in making changes that people notice.
- 15 Progress in regeneration has been strong over the last twelve months. The work on deprived areas within Scunthorpe is well thought through and based on the needs of the community. In addition the Council supports the Urban Renaissance project in Scunthorpe. Yorkshire Forward, the regional development agency, has allocated £12 million to spend on redeveloping the town centre by 2009. Some £5 million of rural renaissance funding has also been secured for the town of Crowle together with £2.5 million for the South Humber Bank Heritage Project. There are plans in place to contribute to wider initiatives to create sustainable economic growth on the south bank of the Humber. These include the signing of an agreement with landowners to develop almost 1,000 hectares for bio fuel production and developing plans for the Lincolnshire Lakes. Its work on regeneration such as Advance Crosby is having a positive impact on residents' lives. The Council and its partners are in a good position to move forward with their plans.
- 16 In the area of children and young people improvement is also good with particular progress in the attainment of 11 to 16 year olds. The Council and its partners have also had success in addressing children's health and well-being issues. The recent joint area review of services for children and young people in the area and the annual performance assessment by Ofsted were also positive about the progress being made. The Council's partnership working in actually delivering services for children and young people is strong. These successes are important for the future well-being of the area.
- 17 There have been improvements too in sustainable communities and transport, although progress is inconsistent. Planning performance has improved over the last year but the figure (25 per cent) for indicators in this area that are in the best quartile remains significantly below the average (42 per cent). Satisfaction with bus services is improving but remains in the worst quartile. The earlier change to household waste collection to use a system of alternate weekly collections of waste and recyclables has improved recycling performance and net residual waste to a good position, but the volumes of household waste collected per capita of the population is increasing and remains in the worst quartile. Performance in culture remains an area of relatively good performance with 44 per cent of indicators in the best quartile compared to an average of 30 per cent. More consistent progress in all these areas is vital if the Council and its partners are to achieve their shared priorities and make the area thriving.

- 18** Improvement in the safer and stronger communities priority area is also mixed. Only 43 per cent of key performance indicators in this theme improved between 2005/06 and 2006/07 compared to a national figure of around 70 per cent. The proportion of key performance indicators in the best 25 per cent is 29 per cent compared to a national average of 43 per cent. The Council's performance in taking action in respect to acting on racial incidents is amongst the best in the country. But road safety remains an area of poor performance. The level of reduction in road incident deaths and injuries remains amongst the lowest nationally. The number of individuals killed or seriously injured on the areas roads has not reduced between 2005/06 and 2006/07. However, the number of children killed or seriously injured has reduced during this period.
- 19** Improvement in the priority areas of older people and healthier communities is again inconsistent. 63 per cent of key performance indicators in this area have improved in this period compared to a national average of around 53 per cent. But many indicators remain outside of the top 25 per cent of performance nationally. The Council and its partners are making progress in helping greater numbers of vulnerable people to live independently in their own homes. There is conspicuously good performance for example in the area of assisting adults with a learning disability to live independently in their own home. Elsewhere plans have been put in place to tackle the drivers of health inequalities such as obesity, smoking and teenage pregnancy but these have yet to have a consistent impact on peoples' health. Early death rates from heart disease and stroke have reduced significantly over recent years. The death rate from cancer in under-75s was also higher than the national average but has improved strongly and is now at the average. But cancer mortality rates in the most deprived areas of the area remain significantly higher than for the area as a whole and are yet to improve significantly. Similarly the differences in life expectancy between the most affluent and most deprived areas of North Lincolnshire remain marked particularly for men where the difference is almost six years. Tackling health inequalities successfully is crucial if the Council and its partners are to achieve their shared priorities for individuals and communities.
- 20** The Council's performance in improving access and the quality of service for all its citizens is strong. It has a comprehensive diversity plan which sets out its plans for addressing the needs of all the communities. The area's communities are undergoing rapid and significant change due to migration but the Council has ensured that it understands the nature of these changes. In addition it is working with the South Humber race Equality Council (SHREC) which provides support to new migrants. It has also worked well with partners to develop knowledge of and intelligence about the diverse communities they serve. The Council's actions mean that it is well placed to meet the needs of all the communities which it serves.

- 21 The Council overall continues to provide good value for money and its costs are lower than those of other councils. It has established a joint procurement facility with North East Lincolnshire Council which is performing well. North Lincolnshire Council is on track to achieve savings of around £3 million on procurement in 2007/08. It has well-established arrangements in place to review services for their value for money. Developments in the last twelve months have included the agreement of an External Funding Strategy which will assist the Council in directing resources at its priorities. The Council is in a strong position going forward to secure greater value for money particularly in light of its sound financial position.
- 22 The Council has invested in its corporate strategic planning framework. There is a clear link through community and corporate plans, department and service plans and individual appraisals to the Council's priorities. But the linking of priorities and objectives to actions in strategic and service plans is inconsistent. Furthermore some targets in the published plans and strategies are not consistently robust or SMART (specific, measurable, achievable, relevant and time related). The Council has involved the community and voluntary sector well in service delivery but the compact (agreement) between the Council and these parties has not been regularly reviewed. This weakens the partners' ability to be certain that progress is being made in priority areas.
- 23 Performance management arrangements are in place within the Council. The Council's approach is aligned to the strategic and planning process. The performance management system integrates the Community Strategy, with the Council's Strategic Plan, service plans and personal plans (for staff). This process is well integrated in the Council and is effective in identifying key trends over time against key strategies. This means that the Council is able to understand its performance.
- 24 Although the Council understands where performance is poor it has had mixed success in addressing areas of underperformance. Between 2005/06 and 2006/07 85 performance indicators improved (53.1 per cent), 13 stayed the same (13.8 per cent) and 53 deteriorated (33.1 per cent). There is evidence that rates of improvement in the quality of life indicators monitored by the Council are higher but altogether progress does not match the Council's own ambitions.
- 25 The Council's capacity to deliver its plans is adequate. It has worked with partners to improve its capacity to deliver its plans. It is working well in most, but not all partnerships, to increase capacity and deliver impact. Performance management arrangements in partnerships are not as well developed as those operating within the Council. Councillors and officers work well together and while there is some definition of the roles of councillors this needs to be followed more closely. The role of overview and scrutiny committees in managing performance is not consistent. The Council has built a strong financial position and shown that it can deliver value for money. It is refocusing its arrangements to improve access to services for its residents.
- 26 The Council's governance arrangements are strong. Its systems of internal control operate effectively and there is a clear commitment by councillors and officers to deliver improvements for the area.

## Service inspections

- 27 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. The major piece of joint working during the year was the corporate assessment and joint area review. This has been fully reported elsewhere and the detailed content is not repeated here. However, it is appropriate to mention again the areas for improvement identified in the corporate assessment report.
- 28 A lack of awareness of the vision and ambitions for North Lincolnshire means that some stakeholders do not know the long term ambitions for the area are unable to market the area to investors and others and may not allocate adequate resources in line with the community strategy. The Council needs to communicate clearly the agreed place shaping agenda, health aims, priorities and targets to all stakeholders. This will ensure partners can support the delivery of the ambitions for the area.
- 29 The Council and its partners are only just beginning to develop an understanding of the issues involved in building sustainable communities. North Lincolnshire is an area with a range of challenging concerns including income levels (which compare well with the rest of the sub-region), health inequalities, poor quality social housing and low aspirations among its residents. The Council needs to strengthen its management capacity to address this agenda by filling the vacant Deputy Chief Executive post in the Executive Management Team. This will improve its capacity to focus on partnership working, the place shaping agenda and health inequalities.
- 30 Councillors do not yet fully understand their roles in strategic leadership and as community leaders. The Council needs to provide members with the support and training they need to carry out the strategic demands of cabinet membership, their roles on external bodies and as representatives of the Council.
- 31 Scrutiny councillors are not sufficiently engaged in the performance management and scrutiny of Cabinet. The role and operation of the scrutiny function in managing performance needs to be strengthened. This will enable councillors to engage in the performance management of services and provide effective challenge and scrutiny of Cabinet.

## The audit of the accounts and value for money

- 32 Your appointed auditor has reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:
- an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.

### 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; and
  - value for money, including an assessment of how well the Council balances the costs and quality of its services.
- 34 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

---

**Table 2**

<b>Element</b>	<b>Assessment</b>
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

*(Note: 1 = lowest, 4 = highest)*

## The key issues arising from the audit

35 The key issues arising from the audit are summarised as follows.

- The Council maintained its strong performance of recent years in the preparation and audit of its financial statements. Supporting working papers and the responsiveness of Finance staff were good. The Council should build on the progress it has made in producing an annual report and consider the benefits of producing it in a variety of formats.
- Financial Management and financial standing. The Council continues to have in place robust budget setting and monitoring arrangements and operates consistently within the budget that it sets. Asset management arrangements have been strengthened in year with formal plans for the reduction of maintenance backlog being approved and improvements to performance measures for asset management. The Council can further improve its arrangements through strengthening the role and linkages of partnerships within financial plans, strategies and the Council's objectives, and fully embedding procedures for the management of assets.
- the Council continues to operate a sound system of internal control and has improved its arrangements with the development of the Audit Committee, which has been in place for a full year, and the Strategic Risk Management Group. The updating of the Risk Management Strategy and Fraud and Corruption Policy were also key features. The auditor suggests improvements can be made in the following areas:
  - ensuring continuity in membership and attendance at the Audit Committee;
  - introducing formal procedures for updating and assessing performance of partnerships; and
  - applying a broader-based, risk assessed approach to anti-fraud and corruption work.
- The Council continues to achieve good Value for Money from its activities and is in the lower to mid quartile for overall expenditure whilst delivering good overall performance. It has also made improvements to seeking external funding, and the development of the Resources, Strategic Investment and Funding Team which took effect from 1 April 2007.
- The auditors' review of the Council's data quality confirmed that arrangements have improved from the position in 2005/06.

## **14 Annual Audit and Inspection Letter | The audit of the accounts and value for money**

- The arrangements for the timely and accurate submission of grant claims have been developed, however these processes do not appear to be operating effectively. The most significant issues raised by the auditors' were:
  - timeliness of claim forms submitted for audit. Only 44 per cent of claims were submitted by nationally prescribed deadlines; and
  - accuracy - 67 per cent of claims required amendment and 11 per cent being qualified.

The Service Director- Finance has produced an action plan to ensure improvements are made.

## **Additional services**

- 36** The Council in conjunction with Connexions Humber and North East Lincolnshire, East Riding and Hull City Councils engaged the Audit Commission to undertake a piece of voluntary improvement work during summer 2007. This work was in preparation for the Council receiving a direct grant from 2008/2009 for commissioning integrated youth services. Currently the funding is paid direct to Connexions Humber, a separate organisation.
- 37** The focus of the work was to investigate the transition planning in place and consider how prepared each Council was to operate the service independently. The conclusion was that in summer 2007, none of the four Councils were advanced enough in their planning to operate the service independently. All four Councils have now agreed to formally contract with Connexions Humber for the provision of the service for a further 12 months from April 2008.

## Looking ahead

- 38 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.
- 39 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.
- 40 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

- 41 This letter has been discussed and agreed with the Chief Executive and Service Director Finance. A copy of the letter will be presented at the Audit Committee meeting in April 2008.
- 42 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 3      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	April 2006
Grant Claim report	July 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Opinion on Whole of Government Accounts	September 2007
Report on Best Value Performance Plan	December 2007
Data quality 2007	October 2007
Use of resources auditor judgements 2007	December 2007
Corporate Assessment Report	February 2008
Annual audit and inspection letter	March 2008

- 43 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

- 44 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website. <http://www.northlincs.gov.uk/NorthLincs/>

**Michael Newbury**  
**District Auditor and Relationship Manager**

March 2008