

# Annual Audit Letter

East Lindsey District Council

Audit 2008/09

December 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 I have undertaken to assess your arrangements to secure value for money in your use of resources. It also includes a summary of the Audit Commission's Organisational Assessment of the Council.

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## Audit Opinion and financial statements

- 1 I have issued an unqualified audit opinion on the Council's accounts.
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## Value for money

- 2 I gave an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during 2008/09.
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## Organisational Assessment

- 3 Our assessment of the Council as an organisation is that it performs well. The Council has made good progress, improving front line services and improving the efficiency of its own operations.
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## Financial Position

- 4 Spending was kept within the overall budget in 2008/09 and in the current year you expect to maintain this performance. Your current financial health is sound but major challenges lie ahead in the light of the uncertain economic prospects and other operational and financial pressures. It is essential that you continue to monitor closely your financial position over the short and medium term and ensure effective management and governance of the Merged Services Programme.
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## Audit Fees

- 5 We were able to deliver the audit within the fee agreed at the start of the year as summarised below.
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**Table 1      Audit fees**

	<b>Actual (£)</b>	<b>Proposed (£)</b>
Financial statements and annual governance statement	74,300	74,300
Value for money	24,200	24,200
<b>Total audit fees</b>	<b>98,500</b>	<b>98,500</b>

**Actions**

6 Recommendations are shown within the body of this report.

**Independence**

7 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

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 8 The draft Financial Statements were approved by the Council on 24 June 2009, enabling the Council to meet the 30 June 2009 deadline under the Accounts and Audit Regulations 2007.
  - 9 The findings from the audit, and the agreed amendments to correct errors in the Financial Statements, were reported in my Annual Governance Report to the Audit Committee on 24 September 2009. The amendments to the Financial Statements were reported in full in my Report and reflected, in the main, the correction of capital accounting errors.
  - 10 The Council published its amended financial statements, as required by the Accounts and Audit Regulations, by the 30 September 2009. The audit opinion was issued a little later on 14 October 2009. This delay was not due to any continuing audit concerns but the result of unavoidable audit staff difficulties.
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## Material weaknesses in internal control

- 11 To comply with auditing standards we need to assess the risk of material misstatement arising from the activities and information systems used to produce the Council's financial statements. I did not identify any significant weaknesses in these internal control arrangements in relation to my audit opinion
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## Accounting Practice and financial reporting

- 12 I considered the qualitative aspects of your financial reporting. The Council overall has well established arrangements for preparing annual financial statements which are substantially SORP compliant in accordance with the timescale required by the Accounts and Audit Regulations. The findings from my audit however indicated that the capital accounting processes and systems in place needed to improve if the Council is to prepare future accounts which are free from significant errors and if it is to effectively respond to the more onerous requirements of International Financial Reporting Standards. I made a recommendation covering these matters in my Annual Governance Report and officers have agreed to address the identified areas for improvement during 2009/10.

# Value for money and use of resources

I considered how well the Council is managing and using its 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 the Council 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

- 13** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 14** The Council's use of resources theme scores are shown in Table 2. We have provided officers with detailed feedback on the basis of the scores and areas for improvement. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

## Value for money and use of resources

- 15 The Council scores 2 out of 4 for Use of Resources. Finance and business planning arrangements are effective. They are improving the efficiency of services, have helped improve value for money and made sure additional money is put into priority services. The Council reviews how well services are doing to identify service improvements and deliver improved value for money. The methods for producing the annual accounts are well established and public reporting is improving. The Council is redesigning services and customer access to services is getting better. It considers properly the way it buys goods and services to make sure they are appropriate and good value. Performance is monitored against priorities and targets, and underperformance is addressed. The Council is improving the way it works and responding to the CPA recommendations regarding the role and work of Councillors and its relationships with partners and the public. There are effective internal controls and adequate arrangements to prevent and detect fraud and corruption. The Council manages its staff, monitors staffing levels and its future need for staff. A clear appraisal system is in place which is linked to the Council's overall priorities. Sickness absence is relatively high but plans for improvement are monitored regularly by senior managers and councillors.
- 16 Although the overall theme scores under the revised use of resources framework are lower than the scores achieved in previous years, this does not necessarily reflect any deterioration in overall performance as the basis of the assessment has been revised. An overall theme score of 2 means that the arrangements we would expect to see are in place and in many areas the Council still performs strongly, relative to many other councils. The challenge in order to achieve higher scores is to demonstrate how your arrangements result in improved outcomes consistent with the Council's aims and those of its key partners.

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### VFM Conclusion

- 17 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 18 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Financial position

- 19** I have also considered the Council's financial position. The Council delivered in the year most of the planned £1.8m savings identified in the approved 2008/09 revenue budget and responded to the financial pressures emerging largely as a result of the economic downturn. These included reduced levels of car parking and planning income, increases in fuel costs and loss of investment interest due to the collapse of the Icelandic banks in which the Council had invested £4m and the general difficulties in the banking and financial markets. The Council took effective action to reduce expenditure and members were closely involved in monitoring progress and in determining spending priorities. The Council achieved an overall balanced position by the end of the financial year and the General Reserve level was still in line with the risk assessed target level.
- 20** Performance against the 2009/10 budget is being closely monitored. Mid way through the year the Council was £0.6m underspent, mainly to due lower than anticipated staff costs and improved levels of income from car parking and sports venues. The Council was making good progress towards meeting the £2.4m savings target. A potential £1m overall year end underspend is predicted. The Council's Icelandic Bank investments are still at risk and it continues to press for their recovery.
- 21** Although the current financial health is sound there are still financial risks and service pressures in the medium term, together with major operational changes. Examples of these developments include the new leisure centre in Louth, which is to open to the public towards the end of the year, and the Merged Services Programme with South Holland District Council. Both of these require continued effective performance management and, particularly in respect of the Merged Services Programme, strong governance arrangements which address the inherent operational, legal and financial risks. Major challenges lie ahead in implementing policy decisions in the light of the uncertain economic prospects and the expected cuts in central government funding in future years. It is essential that the Council continues to monitor regularly its financial position over the short and medium term and takes decisions promptly in order to maintain its good financial standing.

### Recommendation

**R1** The Council must:

- continue to monitor closely its financial position and service performance and take prompt action if required to maintain its good financial standing; and
- ensure the governance and performance management arrangements for the implementation of the Merged Services Programme are robust and effective.

### Local Area Agreement

- 22** Local Area Agreements (LAAs) aim to enable public, private and community and voluntary sector bodies to pool their efforts and financial resources in order to improve service outcomes and quality of life for local people. The duty to prepare and performance manage the LAA rests with the County Council, but the involvement and commitment of all partners is clearly central to the effective delivery of LAA targets which reflect local priorities.
- 23** As part of our 2008/09 audit we agreed with the partner authorities in Lincolnshire that we would carry out a review of the risks associated with participation in the LAA.

### Findings

- 24** At the time of the onsite work the Lincolnshire LAA was at an early stage of development. As a direct result of a concentration by partners on process and procedure few outcomes were likely to be delivered in the short term. This audit therefore concentrated on assessing if the correct building blocks were in place to ensure the delivery of outcomes the public will benefit from.
- 25** We found that the partnership was making progress in developing robust governance and performance management arrangements, although there were some specific aspects of good governance and process still to be implemented. Most of these will be put in place once the partners merge the LAA priorities in the Sustainable Communities Strategy for Lincolnshire. This is not likely to happen until the end of 2009/10. We recommended partners:
- clarify roles and expectations of each of the partners including priority leads, as well as programme management and working protocols to ensure that key timelines are met and delivery of outcomes remains on plan;
  - draft terms and conditions of funding in detail to ensure appropriate allocation and governance, and the appropriate use on priorities that will make a difference;
  - implement clear processes to ensure value for money is delivered, develop clear links between financial and performance management information and ensure the learning from the area two tier pathfinder efficiency review is replicated in this programme;
  - establish a clear risk and assurance framework which is linked back to individual priority risks and ensure the correct people and financial resources are in place to enable the effective management and delivery of the project; and
  - ensure the performance management framework is clearly accepted and understood by all in order that clear reporting can be delivered to the Strategy Board and the public.

- 26 The partnership demonstrates capacity to improve in a number of ways.
- The partnership is self-aware, and as a result is taking steps to strengthen governance, financial management and performance management;
  - there is clear leadership from the accountable body and communication between partners is good.
  - Partners have an obvious knowledge and commitment to the benefits of working together to deliver better outcomes for the public. Early signs show they are working well together to develop the delivery of the priorities.
  - A governance structure is in place including the Strategy Board and the Planning Group.
  - Delivery planning is taking shape and in most cases delivery plans are in place.
- 27 The Lincolnshire LAA partnership is merging its priorities into the SCS themes, which will be the basis of reporting in future years. This should help to clarify the focus and relevance of the LAA targets. An action plan has been drawn up in response to our report and progress is being monitored.

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# Organisational Assessment

**The Comprehensive Area Assessment Lead has used my use of resources assessment along with an assessment of how well the Council manages its performance to come to an overall assessment for the Council. This is known as the organisational assessment.**

- 28 Comprehensive Area Assessment, or CAA, is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It is a joint assessment made by a group of six independent watchdogs and will provide an annual snapshot of quality of life in the area. There is also an organisational assessment for each council within the CAA.
- 29 The organisational assessment brings together the use of resources judgement with the Council's managing performance assessment. East Lindsey District Council performs well. The Council has made good progress, improving front line services and improving the efficiency of its own operations.
- 30 There is a difference between the scores for Managing Performance and Use of Resources. We decided that the overall score should be that East Lindsey District Council performs well. This is because of the leadership provided by the Council, good financial management and the visible difference the Council is making to the lives of residents by giving them pride in the place they live.

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**Table 3      Organisational assessment**

Managing performance	3 out of 4
Use of resources	2 out of 4

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- 31 The Council scores 3 out of 4 for Managing Performance. The Council is tackling issues that are important to local people. The work it does has a positive effect in improving economic prosperity, nurturing distinctive and vibrant communities and reducing inequality as well as improving the quality of life for people. The Council is working to improve the ways it involves its residents and tries to provide services in a green and sustainable way.
  - 32 Councillors and staff work well together and the Council has saved money and improved services despite the pressure of a rising population. This has been achieved through regular monitoring of costs, performance and customer satisfaction with early action taken when issues occur.

- 33** Neighbourhood Management, a scheme where residents work in partnership with public services to address the local issues, is now developed by the Council. Just over two thirds of residents feel strongly that they belong to their immediate neighbourhood which is significantly higher than other councils in England. Three quarters of people think that people from different communities get on well together, which is average when compared to others.
- 34** The Council is making sure lowcost homes are built helping families on low incomes. A knock on effect is that it also provides work for local builders who are being hit by the recession. The Council has responded to the recession by introducing a number of measures to support residents and local businesses.
- 35** Most services are now more efficient and this saved around two million pounds last year. This has released money to be invested in the areas considered more important by residents and helped make services more efficient and effective. It has also improved how well services are doing over time. A good example is the amount of household waste recycled or composted which is now the highest in the country.
- 36** The Council works well with health services. Programmes such as 'Choosing Health' provide people with activities such as exercise, food education and health trainers to help improve and maintain their health. To further address differences in people's levels of health; sports coaching, roving activities for younger people and other social activities are targeted to areas of most need.
- 37** The Council is a key partner in the East Lindsey Community Safety Partnership. This has been successful in reducing crime and local people's fear of crime. Thirteen percent of local people think antisocial behaviour is a problem which compares well to the regional and national average.

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# Closing remarks

- 38 This letter will be presented to the Audit Committee on 13 January 2009. A copy of the letter will be provided to all members.
- 39 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 4**

Report	Date issued
Audit Plan	May 2008
Annual Governance Report	September 2009
Audit Opinion and Certificate	October 2009
Value for Money Conclusion	October 2009
Final Accounts - Matters Arising report	November 2009
Use of Resources Feedback	November 2009
Organisational Assessment	December 2009

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- 40 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Chris Wilson  
District Auditor  
December 2009

# Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances - How effectively does the organisation manage its finances to deliver value for money?

<b>Overall theme score = 3</b>	
<b>KLOE 1.1 - Financial Planning - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</b>	
<b>Score</b> <b>VFM criterion met</b>	<b>3</b> <b>Yes</b>
<b>Key findings and conclusions</b>	
Finance and business planning arrangements are integrated and effective which has improved the efficiency of services, helped improve value for money, and enabled extra resources to be invested in priority services. The level and nature of reserves are in line with the risk assessed targets. Future year savings requirements have also been assessed and are subject to regular updates. Public and partners contribute to the business plan and budget process and consultation largely confirmed the proposals that members adopted in budget strategy for services. Spending is effectively managed within budgets without adversely affecting performance. There is good leadership on financial issues within the Council by members and managers and sufficient level of skills and capability. There is an established and effective framework of officer responsibility and accountability for financial management.	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 1.2 - Understanding costs and achieving efficiencies - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</b></p> <p><b>Score</b> <b>VFM criterion met</b></p>	<p><b>3</b> <b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council uses performance and value for money reviews to identify service improvements and deliver improved value for money. The Council takes account of both cost and performance in decision making. The Council establishes a complete cost picture including a whole life costing approach in its investment decisions. The Council has a good track record of identifying and achieving efficiencies. Efficiencies have been gained through partnership working.</p>	
<p><b>KLOE 1.3 - Financial reporting - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</b></p> <p><b>Score</b> <b>VFM criterion met</b></p>	<p><b>2</b> <b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>Financial monitoring and forecasting arrangements are effective and reliable. There is a good understanding by members and officers of the key financial and performance related issues that are affecting the council. Action plans are used to address issues and progress is monitored. Councillors and managers are taking an active and informed role in decision making and performance and cost monitoring. There are established arrangements for producing and approving the annual accounts. An unqualified audit opinion was given but the draft accounts were not error free. The Council had started to identify the work programme necessary to enable it to meet the reporting requirements under International Financial Reporting Standards. Published reports provide an objective and understandable assessment of the Council's performance in the year. Reporting on environmental and diversity issues is emerging.</p>	

**Governing the business - How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?**

<b>Overall theme score = 2</b>	
<b>KLOE 2.1 - Commissioning and Procurement - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?</b> <b>Score for KLOE</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
Key findings and conclusions	
<p>The Council's approach to commissioning and procurement to provide value for money services is based on an understanding of local need. Priorities have been informed through consultation and reflect local needs. The Council is responding to local needs in its service provision in light of the ongoing recession. The Council involves local people, partners, staff and suppliers in commissioning services. The Council is redesigning services and using IT to improve the customer experience. Value for Money reviews help to improve service quality and value for money. Customer access to services has increased. The Council is seeking to influence and develop the supply market. The Council evaluates options for procuring services and supplies. Arrangements have been established with the voluntary sector, the PCT and the private sector The Council reviews the competitiveness of services.</p>	
<b>KLOE 2.2 - Data quality and use of information - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
Key findings and conclusions	
<p>The Council produces relevant and reliable data and is working with partners to secure data quality. The Council understands the needs of its decision makers and provides them with information that is largely fit-for-purpose. The Council has arrangement to keep data secure and comply with statutory requirements. The Council monitors performance against its priorities and targets, and addresses underperformance. The performance management systems are being improved.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 2.3 - Good Governance - Does the organisation promote and demonstrate the principles and values of good governance?</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>Governance arrangements are clear, established and being improved. The Council is responding to the CPA recommendations regarding making better use of member capacity and improving the arrangements for Overview and Scrutiny. The Council's Vision is based on an assessment of needs of the community is understood. Arrangements have been established designed to promote a strong ethical framework and culture. Partnerships and their governance arrangements have been reviewed and are being strengthened.</p>	
<p><b>KLOE 2.4 - Risk management and internal control - Does the organisation manage its risks and maintain a sound system of internal control?</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>Risk Management arrangements are well established. The Audit Committee takes a close interest in the Risk Register and the effectiveness of Risk Management arrangements. Risk training is provided for those involved in managing risks. Risk assessments are included in the budget setting and financial reporting processes. The Risk Management arrangements have enabled additional investment in IT disaster recovery facilities. There are adequate arrangements to prevent and detect fraud and corruption. A Counter fraud and corruption strategy has been approved. Possible cases of fraud or corruption are investigated by appropriate staff. The Council participates in NFI. Fraud awareness training has been provided to managers in recent years but needs to be revisited. A clear system of internal control in place. Internal Audit has been assessed as effective and is forming a partnership with other audit sections in the County to improve its capacity and skills base and share learning. The Audit Committee is established and independent. It is challenging and has requested additional reports on topics to enable it to discharge its role. The Business Continuity plan has been tested in the year. The Audit Committee tracks progress on report recommendations and requests further explanations from officers on issues of poor control.</p>	

**Managing resources - How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?**

<b>Overall theme score = 2</b>	
<b>KLOE 3.3 - Workforce planning - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>The Council has effective workforce management arrangements in place. The Council's Learning and Development Policy and Plan shows its aims and intentions in relation to workforce development and corporate learning. The Council illustrates its commitment to having a motivated and highly performing workforce in its ambitious People and Organisation Development Strategy. Key priorities and expected outcomes have been established for the achievement of the strategy's aims. A clear appraisal system is in place which is linked to the Council's overall priorities. Sickness absence is relatively high and the improvement plans are monitored at a corporate level. The Council has been responsive to the changing requirements on its workforce. The management competency framework links to skills required to deliver the Corporate Strategy. The Council has examples of planning its workforce and it is gathering workforce information and aligning this with the perceived skills and numbers requirement to meet future service needs. The Council has had two major reorganisations of its management in the recent past. It has managed to avoid compulsory redundancies, save funds and maintain service performance levels. Staff report good support for training and line management provided. The Council's Equality Standard action plan supports the Council's aim to improve its approach to diversity. The Council has a SMART diversity action plan designed to enable it to achieve level 3 of the Local government equality standard in 2009/10. The Council had (in 2008/09) yet to implement its new pay scheme.</p>	

# Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
8	R1 The Council must: <ul style="list-style-type: none"> <li>continue to closely monitor its financial position and service performance and take prompt action if required to maintain its good financial standing; and</li> <li>ensure the governance and performance management arrangements for the implementation of the Merged Services Programme are robust and effective.</li> </ul>	3	Chief Financial Officer	Yes		Ongoing

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# 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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