

Annual Audit Letter

Nottinghamshire County Council

Audit 2008-2009

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.

Audit Opinion

- 1 I have issued an unqualified audit opinion on the Council's accounts. However, I have not yet formally completed the audit and certified its closure owing to two outstanding matters. The first relates to the exercise of public rights to inspect the accounts. This delay has arisen as a result of the continuing Court case between the Council and its Waste PFI contractor. Secondly, I am also considering the Council's practice of pooling the Pension Funds' surplus cash with its own to invest the combined surpluses.

Financial Statements

- 2 The draft financial statements were produced before the required statutory date and we were able to complete the audit in line with the agreed timetable. There were no material errors in the statements presented for audit and few amendments were made to the accounts as a result of the audit.
- 3 As I reported in my Annual Governance Report in September, I have been advised that the Council's approach to allocating interest earned on its own surplus cash and that of the Pension Funds may be unlawful. I recommended that the Council urgently considered its present practice.
- 4 The Council has since reviewed its practice and has prepared a report on Pension Fund Cash Investment for consideration by the Pensions Investment Sub-Committee on 10 December. The Pensions Committee is then due to consider any recommendations of the Sub Committee and take a final decision in January 2010. I am currently reviewing the Council's response and taking further advice in order to determine what action I should take.

Organisational Assessment

- 5 Our assessment of the Council as an organisation is that it performs well. Important services are good and most are improving. Vulnerable adults and older people get some excellent services and very good support to live independently. Public transport is also excellent – local people are very satisfied with it. Services for children and young people are performing adequately, and young people are now getting better qualifications at school and college, although there are weaknesses in some aspects of arrangements for safeguarding children and young people. Crime is reducing in some parts of the county. But in some districts and boroughs of Nottinghamshire high crime and anti-social behaviour remains a significant problem.

Financial Position

- 6 Spending was kept within budget in 2008/09 and in the current year you expect to maintain this performance. Although your current financial health is sound, major challenges lie ahead in the light of the uncertain economic prospects and the expected cuts in central government funding from 2010/11 onwards. These factors contribute to significant pressures in maintaining the quality and current level of key services. Budget proposals have recently been announced which set out how the Council will attempt to meet the challenges it faces. It is essential that you continue to monitor regularly your financial position and take decisions promptly in order to balance the budget.

Value for money

- 7 I have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	193,150	183,900	9,250
Value for money	78,100	78,100	0
Total audit fees	271,250	262,000	9,250
Additional audit work	13,306	0	13,306
Total	284,556	262,000	22,556

Key messages

- 8 The variance in the audit fee reflects an agreed increase in the cost of the audit of the two pension funds. The additional audit work reflects the cost of dealing with three separate issues raised with us by local government electors during 2008/09.
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Actions

- 9 The recommendation shown within the body of this report has been agreed with officers.
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Independence

- 10 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.

Significant issues arising from the audit

Pension funds

- 11** As I reported in my Annual Governance Report in September, the Council's Pension Funds invest surplus cash with the Council and in return receive interest at an agreed (and guaranteed) seven day rate. The Council pools the Pension Funds' surplus cash with its surplus cash and invests the balance in accordance with its treasury management policies. In 2008/09 the average 7-day rate was 3.76 per cent against an average interest rate earned by the Council of 5.13 per cent. The Pension Funds received interest of £4.9 million on their surplus cash – they would have received a further £1.2 million had the higher rate been applied.
- 12** The Council's approach reflects common practice nationally, and the Council asserts that it is in accordance with the prevailing regulations. However, as I reported in September, the Audit Commission has advised its auditors that this practice may be unlawful. I recommended that the Council urgently considered its present practice.
- 13** The Council has since reviewed its practice and has prepared a report on Pension Fund Cash Investment for consideration by the Pensions Investment Sub-Committee on 10 December. The Pensions Committee is then due to consider any recommendations of the Sub Committee and take a final decision in January 2010. I am currently reviewing the Council's response and taking further advice in order to determine what action I should take.

Other errors

- 14** Although we identified several errors in the County Council's accounts, these were not material either individually or in total and the majority have not been amended. The number of errors which have been amended, including narrative and consistency errors, was relatively small.
- 15** In addition to the Pension Funds' interest issue referred to above, there was just one unadjusted error in the Pension Funds' accounts which related to the understatement of an investment in the main Pension Fund. This was an isolated error.
- 16** Officers continue to demonstrate a commitment to improving the closedown process. Nevertheless, there is still scope for improvement and we will continue to work closely with your staff to assist them in this matter.

Material weaknesses in internal control

17 I did not identify any significant weaknesses in your internal control arrangements.

Accounting Practice and financial reporting

18 I considered the qualitative aspects of your financial reporting. We identified a relatively small number of issues which were reported to the Audit Committee in our annual governance report. These were:

- amendments made to the disclosure note covering the impact of Single Status to provide additional information on the payments made and liabilities outstanding;
- amendments made to the Capital Commitments disclosure note which had also required amendment in the previous year;
- the need to amend the way in which the Council accounts for Government Grants Deferred to ensure that balances are written down in line with the life of the related assets;
- the late review of the valuation of land and buildings despite the significant changes in the property market nationally and the initial absence of satisfactory documentation to support the approach adopted;
- further opportunities to improve compliance with the Statement of Recommended Practice (SoRP) in relation to Fixed Assets; and
- our testing of individual debtor and creditor balances which identified a number of significant, but not material, errors.

19 We made recommendations covering these matters in our annual governance report and they are not repeated here. A detailed action plan has also been agreed with officers.

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

- 20** 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.
- 21** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Council's use of resources theme scores are shown in Table 2. 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	2
Governing the business	2
Managing resources	2

- 23** 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.
- 24** An overall theme judgement 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. We will agree an action plan with officers to enable them to identify opportunities to further improve performance.

Local Area Agreement

- 25** 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.
- 26** As part of our 2008/09 audit we agreed with a range of authorities in Nottinghamshire that we would carry out a review of the risks associated with participation in the LAA.

Findings

- 27** The partnership is making progress in developing robust governance and performance management arrangements, although this has been at a slower rate than in some other county LAAs. It is now taking clear action to strengthen arrangements, and is making some progress with developing more effective financial management and capacity. Areas for development include:
- implementing the current proposals to enable more robust delivery planning and performance management;
 - making more rapid progress in developing a flexible and joint approach to resourcing LAA priorities;
 - achieving a greater focus on managing and challenging performance within partnership meetings;
 - developing a means of evaluating value for money and clarity about the partnership's approach to managing risk;
 - further clarifying the role of elected councillors across the partnership; and
 - improving alignment of LAA targets with the new Sustainable Community Strategy and with partners' strategies and performance management frameworks.
- 28** 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 wide engagement in the partnership overall, with a growing culture of partnership working underpinned by greater levels of trust;
 - the partnership has agreed differentiated targets at district level that aim to 'narrow the gap';
 - a Joint Scrutiny Board has been established; and
 - there is now a joint partnership performance management system. Recent investment in new resources aims to help improve performance management, communication and intelligence.

VFM Conclusion

- 29** 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.
- 30** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Position

- 31** Spending was kept within budget in 2008/09 and in the current year you expect to maintain this performance. The latest report to the Council forecasts an expected modest overall under spending of £3 million against budget. Your current financial health is sound with a county fund balance of just under £25 million at 31 March 2009 and adequate reserves set aside to meet known liabilities. However, major challenges lie ahead in implementing policy decisions in the light of the uncertain economic prospects and the expected cuts in central government funding from 2010/11 onwards.
- 32** These factors contribute to significant pressures in maintaining the quality and current level of key services. The grant settlement will not be known until early 2010 and so uncertainty is likely to continue for some time, but budget proposals have recently been announced which set out how the Council will attempt to meet the challenges it faces. At this stage the expectation is that over the 3 years to 2012/13 the Council will need to save around £85 million, the majority of which will be re-invested in key services. It is essential that Council continues to monitor regularly its financial position over the short and medium term and takes decisions promptly in order to balance its budget and maintain its good financial standing.

Recommendation

- R1** The Council must closely monitor its finances over the short and medium term and take decisions promptly to maintain a sound financial standing.

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.

- 33** 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.
- 34** The organisational assessment brings together the use of resources judgement with the Council's managing performance assessment. Overall, Nottinghamshire County Council performs well. Important services are good and most are improving. Vulnerable adults and older people get some excellent services and very good support to live independently. Public transport is also excellent – local people are very satisfied with it. Services for children and young people are performing adequately, and young people are now getting better qualifications at school and college, although there are weaknesses in some aspects of arrangements for safeguarding children and young people.
- 35** Crime is reducing in some parts of the county. But in some districts and boroughs of Nottinghamshire high crime and antisocial behaviour remains a significant problem. Road safety and the environment are improving, and the County Council is working well with its partners in helping the area through the recession. It is managing its resources adequately, by planning and managing its budgets to make sure its services can meet the needs of local people.
- 36** There is a difference between the scores for managing performance and use of resources. The Audit Commission decided that the overall score for Nottinghamshire should be that the Council is performing well. This is because the Council has excellent services for vulnerable adults and it is making things better for local people in important areas like transport, school results, waste and the economy.

Table 3 Organisational assessment

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

- 37** The Council scores 3 out of 4 for managing performance. The Council is very focused on what is most important to improve the quality of local people's lives. It understands the different issues for different parts of the county and different parts of the community. Satisfaction with the area as a place to live has improved but remains below average. The number of local people that are satisfied with the way the Council runs things or think it gives value for money is also below average.
- 38** The Care Quality Commission has rated the Council's adult social care as excellent. The Council has a very good track record of working with other agencies to improve services to vulnerable adults and older people. They get the help they need to stay independent and live the healthiest and most fulfilled lives that they can, often in their own homes. The Council has good plans and strong leadership to make sure that services continue to improve.
- 39** The rating from Ofsted for children's services in Nottinghamshire County Council is that it performs adequately. Childcare and primary schools are good. Secondary education is more variable and educational achievement at 16 is not as good as similar councils or nationally. The overall effectiveness of a large majority of inspected services and settings is good. However, the recent unannounced inspection found that the responses to child protection referrals do not meet statutory guidance and do not always ensure that children are effectively safeguarded. In addition, core and initial assessments are not always carried out well or within the expected timescales. These weaknesses have played a pivotal role in determining the children's service rating.
- 40** Public transport services are excellent and local people are very satisfied with the services they receive. The Council is improving road safety and the environment. It is also developing plans and implementing action to respond effectively to the effect that the recession is having.
- 41** But crime is the most important thing for local people and it is too high, especially in the north of the county. In most areas it is getting better but in some areas it is still going up. Antisocial behaviour is also a big problem for people in Nottinghamshire, despite the Council's good provision for teenagers and young people.
- 42** Crime is not the only problem that affects people in the more deprived areas in the north more than the people who live in the south. There is lower employment, lower qualifications and poorer health, too. The Council knows this and works with other public services to try to narrow these gaps. But they are very deep seated and in some areas of Nottinghamshire there has not been enough reduction in the inequalities that exist.
- 43** As reported above, the Council scores 2 out of 4 for its use of resources. It is a high spending council but is becoming more efficient and giving local people better value for money. It plans and manages its finances well so that it can improve important services in the medium term, and has a history of making savings when it needs to. It is looking at how it can make better use of its own buildings to help with this and to make it easier for local people to get services. Like most councils it has difficult decisions to make because it needs to spend much less over the next few years than it has been used to. It has good information to help make these decisions, and manages risks well.

Organisational Assessment

- 44 The Council has a very good understanding of what needs to improve and what is most important, and has good leadership to ensure that this improvement is likely to happen. In most areas the Council is good at working with other public services and with the private sector to improve things through combined effort. And the Council's work to make sure it has motivated employees with the right skills is paying off. All of this makes more improvement in Nottinghamshire likely.

Closing remarks

- 45** I have discussed and agreed this letter with the Chief Executive and the Service Director (Finance). I will present this letter at the Audit Committee on 15 December 2009 and will provide copies to all Council members.
- 46** 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.

Table 4

Report	Date issued
Nottinghamshire LAA	June 2009
Interim Audit Memorandum 2008/09	9 July 2009
Annual Governance Report 2008/09	21 September 2009
Pensions Annual Governance Report 2008/09	21 September 2009

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- 47** 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.

Andrew Blackburn
 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

Theme score 2	
Key findings and conclusions	
The Council has a strong record in financial planning, consultation and financial health. It is making improvements in other areas such as financial reporting and achievement of VFM. Overall it achieves the basic requirements.	
KLOE 1.1 (financial planning) Score VFM criterion met	3 Yes
Key findings and conclusions	
The Council sets a timely, comprehensive, and balanced budget which is fully integrated with the medium term planning process. Service planning reflects changing priorities and budget pressures and the financial strategy has contributed significantly to achieving improved outcomes in priority areas. The Council balances the risk and rewards of investments and engages well with the wider community. Guidelines have been developed to help plan and manage joint projects although resources have not yet been shifted to align with Local Area Agreement (LAA) targets. The Council demonstrates good financial standing. Corporate management team responsibilities are clearly set out and the Council encourages individual responsibility for financial matters.	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has a strong track record in understanding its service costs but more work is required to understand its unit costs. It tackles areas of high or increasing cost methodically and ensures re-investment in priority areas. The ‘resourcing priorities’ programme is ongoing - the Council knows it needs to look at significant changes to maintain momentum and meet more demanding targets. The Council sets challenging efficiency targets. It has a track record of securing savings above Gershon targets although the £6.5m savings achieved in 2008/09 whilst meeting its target, was much lower than previous years. Overall costs are not significantly higher than other councils providing similar levels and standards of services.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Budget monitoring statements are concise and easily understood and highlight the key issues and risks. Financial reporting is fit for purpose but there is greater scope for financial information to be reported alongside performance and non financial information. The accounts present fairly and reflect an increased commitment to producing good quality accounts but scope for improvement remains. Public reporting is improving well and the website has recently been updated and successfully re-launched. ‘County News’ provides an understandable assessment of the Council’s performance. More could be done to report on the Council’s impact on the environment.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	2
Key findings and conclusions	
<p>Services perform well and the Council has a good system of internal control. Procurement practices are sound but not yet well aligned with strategic priorities. The Council meets the basic requirements regarding data quality and has effective performance management tools. Scrutiny and other challenge arrangements are well established and risk is managed effectively. The LAA partnership has been slow to develop robust governance and performance management arrangements.</p>	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has a good understanding of needs, equality and diversity which informs planning, commissioning and major procurement exercises. A new procurement strategy is to replace the existing one which is not well aligned with strategic priorities. Stakeholders and users are engaged in commissioning. Quality and access to services are improving. Major procurement exercises are managed effectively but in some areas monitoring and compliance is less strong. The Council has a strong, well established programme of service reviews, with some joint procurement, although better VFM is likely through improving the wider procurement process.</p>	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Data Quality policies and procedures are well established and systems are mostly effective although the potential of the PRIDE system is not yet realised across all services. Training and increased capacity is helping improve areas where gaps in key data were identified. This year's audit spot checks have been completed satisfactorily. Information for decision making is fit for purpose, and the Council has a range of information, qualitative and quantitative, to ensure that strategic decisions are well-informed. There are appropriate security arrangements for business critical information systems.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Good governance is supported by clear roles set out in the Council's Constitution document and effective Scrutiny arrangements are in place. The Council understands local needs and priorities and has communicated and consulted extensively with stakeholders. Appropriate behavioural codes are in place and members' interests are comprehensively recorded and available on the website. The complaints process is simple and easily found. There is a high level of confidence in the whistle blowing process. The Council has not always demonstrated robust governance and performance management arrangements to help it deliver its local priorities. Effective working with others is encouraged although it is too soon to judge in terms of effectiveness of outcomes.</p>	
<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The risk register links strategic objectives to business risks with a comprehensive assessment of the likelihood and impact of risks and clear allocation of responsibility for actions to individual staff. The fraud and corruption strategy is well established and its effectiveness has been evaluated. Information sharing with other bodies is also well established. Partnerships are subject to the Council's Financial Regulations but evidence of outcomes to date is less well evidenced. Core financial systems are robust and no significant weaknesses have been reported in recent years. The assurance framework is sound.</p>	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score	2
Key findings and conclusions	
The Council has a reasonable understanding of its resource use and environmental impact and has a strategy for reducing these. It is acting effectively in priority areas to reduce its footprint although some data is not yet sufficiently robust. There is some good work with local groups on biodiversity. Strategic asset management plans are being revised to improve strategic alignment. The Council is rationalising asset use but the maintenance backlog is high and rising. More emphasis on working with shared building users may improve asset planning.	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has the basics in place in understanding and quantifying its use of natural resources. It has a carbon management strategy and a reasonable understanding of its resource use. It is acting effectively in priority areas to reduce its footprint, which is above average in many areas. Energy saving has had a good impact in schools but in other areas it is in the early stages of establishing systems to manage performance. Fuel use and business miles continue to increase. In tandem with local groups the Council manages habitats to increase biodiversity although outcomes are not well evidenced. Sustainability impact appraisals for major decisions and projects is not yet systematic nor does the Council consistently understand or manage suppliers' impact on the environment or work with others to reduce environmental impact in shared buildings.	

Appendix 1 – Use of resources key findings and conclusions

KLOE 3.2 (strategic asset management)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
Strategic plans are being revised but the Property Strategy is not fully integrated with corporate and service planning and is not well-focused on delivering organisational objectives. The Council is currently implementing major reviews of much of its asset base although robust implementation plans are not yet developed. The asset management database is fit for purpose but there are high levels of backlog maintenance and how the Council will bridge the gap is not yet clear. Decisions about new capital investment support delivery of priorities. The Council is improving access, modernising facilities and mitigating environmental impacts in some developments. There are examples of joint working on individual buildings or programmes but there is not yet a strategic approach to collaboration and planning. Sale at best price is first option for disposals, with only a developing approach to community use.	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendation						
9	R1 The Council must closely monitor its finances over the short and medium term and take decisions promptly to maintain a sound financial standing.	3	Service Director (Finance)	Yes		Quarterly

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.

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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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