

# Audit Committee Update

July 2011

Durham County Council

Audit 2010/11

**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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## Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.
- 2 This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Committee.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please remember that our website contains a section aimed exclusively at Local Government. This contains key information and guidance in one easily accessible location.

Cameron Waddell  
District Auditor

July 2011

## Progress Report

### Financial Statements and the Annual Report

- 5 We are in the early stages of our audit of the 2010/11 financial statements, which the Council produced by the end of June 2011, albeit with the omission of group accounts and some other disclosure notes. However, most of these are now included in the revised financial statements with the exception of the segmental reporting and agency expenditure notes which we understand are nearing completion.
- 6 We have continued our discussions around specific and significant risks with members of the Council's finance team, including:
  - preparing accounting policies and financial statements for the first time under IFRS;
  - ensuring that the remaining final accounts working papers are made available to support entries in the financial statements, including those relating to property, plant and equipment, debtors and creditors;
  - providing the revised entries for the change in Council stock valuations; and
  - consolidating the group accounts.
- 7 We will include the conclusions of the audit in our annual governance report which we plan to present to the September 2011 Audit Committee.

## VFM Conclusion

**8** For the 2010/11 audit I am required to give my statutory value for money (VFM) conclusion based on two criteria specified by the Audit Commission, based on two criteria as follows;

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

**9** I continue to undertake risk based work focusing on the robustness of the Council's arrangements relating to financial governance, strategic financial planning and financial control and for prioritising resources and improving productivity and efficiency.

**10** The key risks indicators based on the Audit Commission's criteria, I have considered and reviewed are currently as follows;

- progress in medium-to long-term financial planning, for example ensuring that there is an up-to-date sustainable 3-5 year medium-term financial plan (MTFP) and realistic scenario planning;
- success of delivery against previous years' efficiency savings;
- ensuring that financial risks are not managed in the short term only, with limited consideration of longer term implications; and
- ensuring that action is taken to review and challenge strategic priorities and cost-effectiveness of existing activities in the context of the medium-term financial plan (MTFP), and the impact of changing circumstances, to identify where activities do not contribute sufficient value.

**11** I will keep the Audit Committee updated of my progress in this area.

# Other Matters of Interest

## Value for money in Adult Social Care

**12** A new Commission briefing finds councils need to increase the pace and scale of change of efficiency in adult social care to release material savings and improve care for people.

**13** However, councils are changing their approach and have looked at many aspects of the service in order to provide better, more efficient services.

**14** Of the findings in [Improving value for money in adult social care](#), Andy McKeon said, 'Social care services have seen an increase in demand because of an ageing population and because people with learning disabilities are living longer. We are pleased to see that councils have reacted to these pressures and started to change the way they operate, by giving more people personal budgets and spending more on prevention.

**15** 'But the pressures on councils are growing. They have many competing demands on their finances and, over time, more and more people will need their help. Small, tried and tested improvements will help to make savings in the short-term and there are opportunities to do this. But councils also need to look more widely to deliver greater savings and make a real difference to peoples' lives in the longer term.'

### Nine areas to find efficiencies

**16** The briefing identifies nine areas in which councils can make changes to deliver efficiency savings. They are procurement; staffing; back office; assessment and care management; prevention; personalisation; changing the balance of care; partnership and charging. Most councils have addressed a combination of these factors, but no one council has made changes to all nine.

**17** The briefing highlights examples of councils who have made substantial savings in these areas. The West London Alliance, made up of six London boroughs, predicted a combined saving of £4 million by jointly procuring personal home care. Hertfordshire County Council has reviewed its care packages for people with learning disabilities. By introducing individual budgets and negotiating cuts in fees for high-cost placements, it expects to make substantial savings while improving outcomes for service users.

**18** All of the positive examples in the briefing bring savings and improvements for service users, but they are mostly transactional. Councils are seeking to redesign services and develop different approaches to care to provide a better quality of life - so called 'transformational' change. However, the briefing points out that although transforming services will help

to deliver better quality support, it is a long and challenging process, and may not deliver savings.

**19** One big opportunity for councils to do things differently in the coming years will be working more closely with the NHS. Working together they can make savings by commissioning or delivering services jointly, cutting duplication and avoiding simply transferring costs from one organisation to another.

**20** Andy continues, 'Social care is undergoing a radical change and we cannot predict what the service will look like in years to come. But we do know that like all public services, savings will need to be found in social care. This briefing presents a starting point for local authority decisions on adult social care spending over the next three years.'

**21** This briefing is the first in a series looking at value for money in social care.

## **Services for younger people: Value for money self assessment pack**

**22** This free self-assessment pack is a collaboration between the Audit Commission and the Confederation of Heads of Young People's Services (CHYPS). It aims to help make sure money spent on services for young people is well used and has the right impact.

**23** Already piloted in six areas, it was credited with:

- helping statutory and voluntary providers to begin longer-term reviews of provision, staffing and costs;
- increasing self-awareness among managers and staff about council youth services;
- stimulating discussion between partner organisations on improvement and how to achieve better value for money;
- identifying some 'quick wins'- for example, doing more to celebrate young people's achievements; and
- generally raising the profile of youth services.

**24** The pack is organised into five modules which take users through a structured assessment of their services, drawing on their own and comparative data about spending and outcomes. It then helps them prepare an action plan to provide the best value for money services for young people, specifically tailored to their area and its resources.

**25** Services for Young People: Value for Money Self-Assessment Pack is a voluntary, online, self-assessment tool aimed at elected members and senior staff with an interest in services for young people. It is relevant to all councils, fire and rescue authorities, the police, voluntary and private sectors - indeed anyone who is involved in commissioning or delivering services locally for young people.

**26** In 2009 the Audit Commission report Tired of Hanging Around showed how sport and leisure activities could prevent young people being drawn into anti-social behaviour. It found that a young person caught up in the

criminal justice system costs the taxpayer £200,000 by the age of 16, but one needing support to stay out of it costs less than £50,000. The report identified a need for councils and their partners to improve resources for young people. This new resource is designed to complement it.

## Better value for money in schools

**27** These four briefings are designed to help schools make the best use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings.

**28** England's maintained schools spent £35 billion in 2009/10. School staff account for over three-quarters of this total and form one of the country's largest public sector workforces.

**29** These briefings, under the heading **Better Value for Money in Schools**, examine patterns in spending in maintained schools in England. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment.

- They look at four areas where schools have scope to improve efficiency:
- the deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants;
- the breadth and focus of schools' curriculum offer;
- approaches to covering for staff absence, including supply teachers; and
- the size, cost and composition of the wider (non-teaching) school workforce.

**30** In addition we published a summary paper, **An overview of school workforce spending**, which is targeted at chairs of governing bodies and lead members on children's services.

**31** For more information about the briefings you can email [schoolsworkforce@audit-commission.gov.uk](mailto:schoolsworkforce@audit-commission.gov.uk).

## Achieving Better Value for Money in Road maintenance

**32** England's 236,000 miles of local roads - used by 30 million drivers every day – are under attack from increasing traffic, severe winters, higher repair costs, and dwindling highways funding.

**33** However, a new Commission report shows how councils can get more for their money. Cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience are all recommendations from *Going the Distance: Achieving better value for money in road maintenance*.

### Big costs and big cuts

**34** Between them, council highways authorities are responsible for 98 per cent of the country's roads\*, spending a total of £2.3 billion in 2009/10. Yet,



in response to increasing financial pressure on councils, highways budgets are facing significant cuts.

**35** The Commission has found that the cost of maintaining roads is now 50 per cent higher than it was ten years ago, in part due to inflation in road materials and construction costs. Other pressures facing councils are:

**36** Road traffic is expected to increase by more than 30 per cent by 2025;

**37** In the next three years there will be a 26 per cent drop in government revenue funding and 16 per cent less capital funding via local transport plans;

**38** Damage by utilities works costs nearly £50 million every year.\*\*

### **Overall deterioration**

**39** Councils must also strike a difficult balance. Public perceptions of whether roads are in good shape are often only skin deep, so potholes and patchworks attract the most criticism. But dealing with these so-called 'worst first' surface issues must be weighed against prolonging a road's 'whole life' before it is too late.

**40** Chairman of the Audit Commission, Michael O'Higgins says: 'Prevention is better than cure, but councils have to consider the safety and insurance risks of damaged surfaces. Roads costs are rising while councils' belts are tightening. Improvement in A roads seems to have stalled, and the road network overall is starting to deteriorate.'

### **Asset management**

**41** In cash terms, a council's road network is its single most valuable asset. Yet councils struggle to apply asset management principles to roads. They cannot be sold, they don't generate income, indeed they consume large resources. Hardly surprising that some councils see roads as liabilities rather than assets.

**42** But the report urges councils to consider asset management plans, such as Cornwall's Transport Asset Management Plan (TAMP), which for an investment of £80,000 is driving consistent levels of service and road condition across the whole county. Such plans also indicate when best to intervene with works to extend the whole life of a road, typically a maximum of only 20 years.

### **Collaboration pays dividends**

**43** The study team found that collaboration pays real dividends. The Midlands Highway Alliance estimates it has delivered £5.1 million savings for councils and £7.8 million for the Highways Agency in its first three years, and it is looking to a further £14 million of savings between 2010 and 2014. Ten authorities in the East of England have also formed an alliance to save £6m over five years, with £3.3 million from shared back office costs alone.

**44** Michael says, 'Sadly we found collaboration between councils to be rare, with too few councils procuring in cost-saving partnerships.'

**45** 'Pick up any local newspaper and you will see that people care very much about their local roads. In the last national Place Survey, roads were a higher priority with residents than crime or affordable housing. Our report aims to help councillors maintain their local network against a backdrop of reduced funding. Roads in disrepair can put the brakes on trade, economic prosperity, even emergency services. But a well-maintained network helps people, goods and services to move freely and safely.'

\* The 152 Councils designated as Highway Authorities have a statutory duty to maintain all local roads in their area. The remaining 2 per cent of the national network, comprising mainly motorways and trunk A roads (known as the Strategic Road Network) is the responsibility of the Highways Agency.

## Care Quality Commission Annual Survey

**46** The Care Quality Commission has recently published the results of its annual survey, which 66,000 hospital inpatients and took place between September 2010 and January 2011.

**47** The survey of patients staying in acute and specialist NHS trusts showed a greater proportion describing wards, rooms and bathrooms as 'very clean' and there were also improvements regarding the use of single sex accommodation. However, the results also showed a reduction in the proportion of people rating their overall care as 'excellent'.

## Increased Fraud Risks

**48** As part of the 'transparency agenda', local authorities, NHS Trusts, and government departments have published details of their spending. Some organisations have reported an increase in attempted and actual fraud using details taken from this published data.

**49** The identified fraud cases have usually involved the submission of false invoices or a request to change supplier bank account details so that payments might be made to bank accounts set up by the fraudsters. Other types of fraud have also involved fraudsters:

- calling telephone switchboards asking for contact names of those who process payments so that correct names can be included in letters seeking bank account changes;
- requesting supplier numbers by telephone;
- chasing requests for payment changes hoping that, by putting pressure on organisations, routine verification checks might not be carried out; and
- diverting telephone calls to supplier landlines to a mobile phone, in order to handle phone calls checking the authenticity of requested changes.

**50** Councils should therefore assess whether there are adequate arrangements to manage the risk of fraud relating to the transparency

agenda. For example only accepting requests for changes to supplier standing data in writing and undertaking standard checks on invoices before making any payments.

## Future of the Audit Practice

**51** The Department for Communities and Local Government (DCLG) announced in August 2010 plans to abolish the Audit Commission and put in place new arrangements for auditing England's local public bodies. DCLG has consulted on its proposals for the new audit regime and plans to publish a draft Bill for further scrutiny and comment later in the year. The new regime will see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money.

**52** The Commission is working with DCLG to develop an approach to transferring its existing in-house Audit Practice into the private sector. DCLG's provisional view is that its preferred route is to ask the Commission to invite bids for all existing Audit Practice audit appointments from 2012/13 onwards from private sector firms. If ministers confirm this outsourcing route, the staff of the Commission's in-house Audit Practice intend to submit a bid for the work on offer, probably as a joint venture, which could form the basis of a new employee-owned, or mutual, organisation. The aim will be to provide a distinctive and competitive choice for local public bodies.

**53** We have discussed developments with chief officers and have reaffirmed the Commission's, and our own, commitment to delivering a high quality and effective audit service right through to whatever date the transfer to new arrangements takes place. We will continue to keep you up to date on developments.

## Contact Details

**54** If you would like further information on any items in this briefing, please feel free to contact either Cameron or Catherine.

**55** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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