

Use of Resources

Herefordshire Council

Audit 2006/07

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Introduction

- 1 The Use of Resources (UoR) assessment evaluates how well councils manage and use their resources. The assessment is carried out each year and focuses on the importance of strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This is the third assessment we have undertaken at Herefordshire Council. Our assessment is based on the key lines of enquiry for 2007. These include new requirements for councils as part of the Commission's approach to phasing in those elements that need more lead in time and to supporting improvement by gradually raising the standard of the assessment. The period assessed for 2007 has also been aligned with the financial year 2006/07. Councils may, however, provide evidence that becomes available after the end of the financial year, to demonstrate their arrangements are working effectively and are embedded.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

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

- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2007, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
- 5 This summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2007	Score 2006
Financial reporting		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	3
1.2 The Council promotes external accountability.	3	3
Financial management		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	2	3
Financial standing		
3.1 The Council manages its spending within the available resources.	2	2
Internal control		
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	1	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	1	2
Value for money		
5.1 The Council currently achieves good value for money.	2	3
5.2 The Council manages and improves value for money.	2	3

Theme summaries

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

Financial reporting

Table 3

Theme score 3	
Key findings and conclusions	
<p>The Council produced good annual accounts which were supported by a comprehensive set of working papers. There have been improvements this year in the working papers that support the figures in the financial statements, for example in the detail supplied to support the Income and Expenditure Statement. There is still scope for further improvement in some areas. Absent staff should have their work covered by another member of staff, who is capable of providing full and robust responses to audit queries raised. Working papers should ideally be 'stand alone' without the need for too many additional questions from the auditor. Some working papers purely identified an individual to see.</p> <p>The Council should ensure that accounts have been reviewed by their own staff for reasonableness prior to presentation to the auditor. There were three non-trifling errors found in the 2006/07 accounts.</p> <p>The Council produced a good summary annual report and this has been improved upon in the last year.</p>	
Improvement opportunities	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Continue to improve working papers to avoid unnecessary questions from the auditor.</p> <p>At least two members of staff should have a working knowledge of each entry within the accounts due to possible illnesses or leave.</p> <p>The Council should review all figures within the accounts for reasonableness prior to presentation to external audit.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>The Council should consider completing an annual report.</p>

Financial management

Table 4

<p>Theme score 3</p>
<p>Key findings and conclusions</p>
<p>The Council has a good Medium Term Financial Management Strategy (MTFMS) in place which is linked to key strategic objectives and is updated regularly. Budget management and monitoring of both capital and revenue budgets have improved still further in the year. Prudential indicators are used to assess the affordability of capital spend, however there are areas where improvement is required. The budget reported to members does not include a positive assurance statement and capital and revenue budget assignment (responsibility) is not up to date.</p> <p>The Corporate Plan and MTFMS are integrated with the strategic goals included in the Corporate Plan being used within the MTFMS to take work forward. The Corporate Plan projects forward three years and takes account of stakeholder consultation, capital and revenue plans and risk assessment. There is still no inclusion of sensitivity analysis and links between key documents such as the MTFMS and the Human Resource Plan are unclear.</p> <p>The Integrated Performance Report (IPR) has continued to embed into the culture of the Council and the financial information supplied is up to date and shows the Council's financial position. Non financial information is also offered within the IPR; however the quality of some of the data supplied is questionable eg homelessness.</p> <p>The Council has an up to date Corporate Capital Strategy and the asset register is also up to date. The asset register is maintained by the finance department and updates to it are provided by the Property Section. All information that is included within final accounts, no matter where it is received from, should be challenged. Indications are that some information received regarding fixed assets is not. For example the disposal of a school which should have remained on the books of the Council should have been challenged.</p> <p>The Council, in general, do make investment decisions based on a thorough and robust appraisal, however as reported previously there was not a full options appraisal on the Herefordshire Connects Project. The Council will need to consider all investment decisions to ensure that they comply with their own procurement processes.</p>

Theme score 3	
Improvement opportunities	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>The Council's Medium Term Financial Management Strategy needs to have clear links to other key strategy documents for example the Human Resource Plan.</p> <p>An assurance statement from the Director of Resources regarding estimates used for the purpose of budget calculations should be made in the annual budget book.</p> <p>The assignation list for Revenue and Capital budgets needs updating.</p> <p>The Corporate Business plan needs to include sensitivity analysis (same improvement requirement noted last year).</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Reported Performance Indicators within the IPR should be correctly stated.</p> <p>All budgets have to be carefully monitored to ensure that overspends and under spends are managed. (ICT)</p> <p>Financial information produced should be accurate and meet the needs of members and senior officers. (ICT)</p> <p>Training needs to be continued with all relevant staff and members receiving the financial training needed in order for them to carry out their job.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Procedures should be put in place to ensure all figures included within the financial systems of the Council are checked for reasonableness.</p> <p>More robust financial appraisals are required.</p>

Financial standing

Table 5

Theme score 2	
Key findings and conclusions	
<p>The Council has a good track record of achieving financial balance. Over the last four years the Council has under spent on budget and this has led to an increase in the value of revenue reserves over a number of years. The Medium Term Financial Management Strategy (MTFMS) has improved the management of reserves with the revenue reserves being more clearly aligned to specific service areas.</p> <p>For the first time in a number of years revenue reserves have reduced, albeit by a minimal amount. Revenue reserves now stand at £27.8m, which is a slight reduction on previous reported revenue reserves of £28.4m. Capital reserves are £22.4m. Revenue reserves remain high; however the MTFMS should help in ensuring that reserves are used for their intended purpose. The Council need to continue to address the level of reserves.</p> <p>Debt monitoring is improving; however there are a number of old debts (over five years old).</p>	
Improvement opportunities	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>The MTFMS needs to continue to embed into the culture of the Council.</p> <p>The Budget Book should contain a positive assurance statement from the Director of Resources.</p> <p>The management of debt monitoring needs to continue to improve.</p> <p>Links between the IPR and MTFMS need to be improved upon.</p>

Internal control

Table 6

Theme score 1
Key findings and conclusions
<p>The Council has not progressed as quickly as they would have liked in relation to internal control issues. Although there have been improvements, the serious nature of the issues noted within the ICT section have overshadowed these.</p> <p>Risk management has improved. The Council has a risk management strategy which has been approved by Members. The register is maintained and ownership for each risk within the register is assigned. The Member responsible for risk does not have specific terms of reference and some of the links between service areas in the departmental risk register and the Corporate risk register are unclear.</p> <p>Internal Control arrangements had been progressing relatively well, the Audit Committee has shown real signs of improvement, there is positive interaction with the Chief Internal Auditor and challenge is good. We carried out a review of Internal Audit during 2006/07 and found that Internal Audit conformed to the CIPFA code of practice.</p> <p>There have, however, been serious flaws within the application of your internal control arrangements that have been uncovered within ICT by Internal Audit during 2007. Policies and procedures within your procurement processes were not complied with. Expense claims made to some staff have not been adequately scrutinised or authorised which has led to abuse of your expense system. The action taken by the Council subsequently to address the probity issues identified is positive.</p> <p>There is no consolidated Business Continuity Plan. Reconciliations of significant feeder system have not occurred throughout the year.</p> <p>In 2005/06 we reported that there were weaknesses within the gifts and hospitality arrangements within the Council. Further work has indicated that the issues found previously have improved but other weaknesses have emerged such as the receipt and gifting of hospitality within ICT which was not declared. The Council has improved your whistle-blowing arrangements by communicating with those parties being contracted by the Council.</p>

Theme score 1	
Improvement opportunities	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Further embed risk into the culture of the Council.</p> <p>Specific Terms of reference for the Member Champion in relation to risk should be drawn up.</p> <p>Develop Departmental risk registers which clearly align with the Corporate risk register.</p>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Ensure policies and procedures are complied with Council wide.</p> <p>Ensure all expenses expenditure is correctly authorised taking into account the Council constitution.</p> <p>Produce an action plan which will address the concerns raised in the Crookhall report.</p> <p>Introduction of a consolidated Business Continuity Plan.</p> <p>Ensure regular reconciliations are carried out of all major feeder systems.</p>
<p>KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.</p>	<p>Ensure that all Members and officers are aware of the need to complete the gifts and hospitality register where required.</p> <p>Put in place processes which ensure the register is regularly reviewed to ensure compliance with the Council's own constitution.</p> <p>PRINCE methodology should be used for all procurement projects which should be incorporated within Council constitution.</p>

Value for money

Table 7

Theme score 2	
Key findings and conclusions	
<p>The Council is generally a low cost authority with a mix of performance levels. In Education, attainment is good, costs are low and in both social care areas (children's and adults) costs are low and performance is broadly average, In Environment, Planning and Transport areas value for money is reasonable. There is a mixed picture of value for money in benefits and local taxation. Costs in benefits are low but performance, although improving, is below average, There is good performance in Council Tax collection which, combined with low costs, is providing good value for money.</p> <p>The Council has information on its own and comparable data, however this information is not combined with cost data to either measure value for money internally or with other authorities. There is no requirement on managers to report on value for money within the Council's performance monitoring framework. The Council is delivering on its efficiency plan and in the last nine months the Council has started to make savings as a result of improved central procurement practices. Reductions in sickness absence have also benefited the value for money profile.</p>	
Improvement opportunities	
KLOE 5.1 The Council currently achieves good value for money.	<p>Improve the cost versus performance ratio in a number of key service areas including performance in Environment, Planning and Transport.</p> <p>Further embed of improvement needed in Children's and Adults Social Care where investment has been made.</p>
KLOE 5.2 The Council manages and improves value for money.	<p>Revise the corporate performance management framework to include a systematic review of value for money.</p> <p>Implement a consistent corporate approach to benchmarking costs.</p> <p>Gather cost and performance profiles of services for various user groups across all services.</p> <p>Targets should be set and applied to improve efficiency and value for money.</p>

Conclusion

- 7 The Council's performance demonstrates adequate level of performance, Level 2 scored.

Use of resources 2008

- 8 The Commission has published its key lines of enquiry for 2008 on its website. There is an annotated version of the key lines of enquiry available which show all the changes from 2007. This should assist you in pin pointing the changes. We will be reporting our scores and findings from our 2008 assessment to you at a similar time next year.
- 9 The Commission consulted on the changes to the key lines of enquiry for 2008 during April to June 2007. The Commission's response to the consultation can be found on its website. The key lines of enquiry for 2008 reflect some of the changing priorities for councils as they respond to the major challenges facing them and the higher expectations of them. Making further improvements in efficiency will be critical for councils in responding to: the changing demographic profile of communities, increasing public expectations of public services and expected constraints on funding from Government.
- 10 The key lines of enquiry give more emphasis, mainly at level 4, to areas such as: sustainability, working in partnership and using IT to secure service and value for money improvements; strategic asset management and joint procurement. These areas signal the changes which will be given more emphasis in the use of resources assessment under Comprehensive Area Assessment, the new performance framework for local services.