

Use of Resources

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Use of Resources Auditor Judgements

Herefordshire Council

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Introduction

- 1 The annual Use of Resources (UoR) assessment evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes.
- 2 This is the second year of carrying out the assessment and our work has focused on building on our previous year's work and updating it for any changes and improvements to the Council's arrangements.
- 3 Judgements will be made for each theme on the following scale which has been standardised by the Audit Commission across 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

The overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 1 December 2006.

- 4 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 assessment. In particular, in order to support scores of 3 and above, we need to consider whether relevant arrangements are 'embedded' that is, they have been operating consistently with clear outputs and having an impact. For scores of 4 (performing strongly) we are required to consider whether, in addition to meeting the descriptors/criteria, councils can demonstrate innovation or best practice that can be shared with other authorities. The descriptors/criteria at level 4 have been kept to a minimum so as to avoid them becoming unnecessarily prescriptive and limiting.
- 5 In relation to future assessments, as outlined in the CPA framework documents for 2006 [for single tier and county councils/for district councils], the status of a number of criteria will change to 'must have status'. For information, these criteria have been summarised at Appendix 1. In order for the Council to sustain or to improve upon its current performance at the next assessment, it will need to take these criteria into consideration.

- 6 The five theme scores for Herefordshire Council are outlined overleaf. This summary sets out our key findings in relation to each theme and key areas for improvement.

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Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2006	Score 2005
Financial reporting	3	3
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	2
Financial management	3	3
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.	3	3
Financial standing	2	2
3.1 The Council manages its spending within the available resources.	2	2
Internal control	2	2
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.	2	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.	2	3
Value for money	3	3
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	3	3

Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in Table 3.

Table 3 Summary of findings and conclusions by theme

<h3>Financial reporting</h3>	
<p>Theme score 3</p>	
<p>Key findings and conclusions</p>	
<p>The statement of accounts was produced and audited earlier this year and there were fewer errors found. The standard of working papers supporting the financial statements has improved and is good, but there is still some scope for improvement. For example the analytical review received for Education was not sufficient for us to complete our work and the papers received from the capital team could be improved with many references on the capital accounting checklist to "see capital accountant". Requests for further information were dealt with swiftly by finance staff and this speed of response was a significant improvement on previous years.</p> <p>The Council have improved their external website and it is now an easier to find relevant information. The Council have produced a good summary annual review of the accounts which is in an easy to read format.</p>	
<p>Improvements since the 2005 assessment</p>	
<p>The standard of the working papers has improved The website has improved and finding detailed financial information is far easier. A good summary report has been produced which is easy to read An annual report has been produced. The Audit Committee has been in place for twelve months and there is member scrutiny of the accounts prior to audit. . Members have received good training in the review of the statement of accounts Accounts were produced and audited earlier</p>	
<p>Further improvement opportunities</p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working</p>	<p>Further improve quality of working papers particularly in relation to capital accounts.</p>

Financial reporting	
Theme score 3	
papers.	Improve the analytical review in relation to the CRA.
KLOE 1.2 The Council promotes external accountability.	The preferred formats for the annual report could be further developed by incorporating user views.

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<h2>Financial management</h2> <p>Theme score 3</p>	
<p>Key findings and conclusions</p> <p>The Council has made very good progress over the last year in improving the quality and reliability of financial management arrangements including in adult social care. Particularly significant was the production of a robust Medium Term Financial Plan which is focussed on the achievement of the Council's objectives. The Council need to continue this improvement and fully embed the new financial management arrangements.</p>	
<p>Improvements since the 2005 assessment</p> <p>The production of a robust Medium Term Financial Plan which is linked to corporate objectives along with the risks in achieving them. It also identifies departmental responsibilities.</p> <p>The MTFP addresses options for when overspends occur.</p> <p>Greater Member involvement and understanding in the monitoring of budgets. Financial and non-financial information to Members has improved.</p> <p>A clear and transparent budget setting process which is now more focussed on budget holders. Budget Holders have to monitor their expenditure, provide information on service development, cost pressures and efficiency savings. They appear also to have greater understanding of their responsibilities.</p> <p>Significant improvement in forecasting under and over spends.</p>	
<p>Improvement opportunities</p>	
<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>There have been a number of innovations during this financial year (see above) which now need embedding into the culture of the Council.</p> <p>The Corporate Business plan needs to include sensitivity analysis.</p> <p>A new system for revenue and capital projects, including a project appraisal, business plan and affordability test needs to embed.</p> <p>Level 4 tests need consideration</p>

Financial management

Theme score **3**

KLOE 2.2 The Council manages performance against budgets.

Innovations during this financial year (see above) which now need embedding into the culture of the Council.

Training must be provided to Members and relevant non financial staff.(training is being developed)

Underspend and overspend need to be closely managed with reported variances to Members being a more accurate reflection of the Councils spend to date.

Level 4 tests need consideration

KLOE 2.3 The Council manages its asset base.

Innovations during this financial year which now need embedding into the culture of the Council.

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Financial standing

Theme score **2**

Key findings and conclusions

Achieving financial balance is an important element of financial standing and historically the Council has been successful at this. Good financial standing is also about effectively managing activities and associated budgets to avoid significant under-spending and the non-achievement of objectives. It is also about setting aside prudent but not excessive levels of reserves in relation to risks. For the last three years the Council has started the year forecasting the need to use approximately £3m of its general reserve. However due to large unplanned under-spending within a number of departments a contribution has been made to reserves of between £3-4m. Capital reserves have remained static at approximately £20m.

We have seen significant improvements in this financial year. Until recently the Council has had high levels of general reserves for which there was no clear strategy on how they would be used. As part of the production of the medium term financial plan, revenue reserves were reviewed and significant amounts of reserves were earmarked against specific risks..

Further improvement is still needed, including a reappraisal of the level of reserves that the Council should now hold.

Improvements since the 2005 assessment

Reserves are being earmarked for specific purposes.

A robust medium term financial plan has been produced.

Further improvement opportunities

KLOE 3.1 The Council manages its spending within the available resources.

The Council must ensure that it continues to manage its level of reserves more robustly. This includes regular reports to members on the level of reserves needed.

The Council must set and monitor targets for all material categories of income collection and recovery of arrears, based on age profile of debt.

Internal control

Theme score 2

Key findings and conclusions

There have been significant improvements this year in risk management arrangements. The Council has put in place a risk register which assigns key individuals to risk. The register is actively managed as can be seen from the movement of the waste disposal risk into the corporate log. Champions have been put in place to drive risk forward and Members have been trained. However there is still scope for improvement. The Council now needs to demonstrate that it actively manages risk and there are outputs from that management. Officers need to be trained in risk awareness and the Council need to demonstrate that they have adequately considered partnerships in their risk assessments.

There have also been significant improvements in the internal control arrangements of the Council. The Audit and Corporate Governance Committee has been in operation for over 12 months, having had 5 meetings and has been improving with each meeting. The Committee now provides a focus for audit reports and governance issues, giving these a greater profile. It also has started to track progress on previous internal and external audit reports, an area which is developing. The Statement of Internal Control (SIC) is reviewed by the Audit Committee and there is much wider involvement in the process than previously. Issues raised during the 2005-06 audit are being or have been addressed. To improve further, the elements that have been put in place over the last year need to embed. The assurance framework needs to embed and the links between the Council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate.

Probity and propriety have not progressed in the same way as other parts of this assessment. We were particularly concerned with the robustness of the process in relation to gifts and hospitality and found several weaknesses in its operation whilst testing it. The Code of Conduct for Officers and Members needs to be re-visited. The whistle blowing policy has not been communicated to those who contract with the Council. The Council has been proactive in trying to raise awareness concerning ethical behaviour. The Council also needs to raise awareness of whistle blowing procedures and the anti fraud and corruption policy. This can be done by providing leaflets and placing posters where they would be seen. The fraud and corruption policy is not yet considered in the risk strategy.

<h2>Internal control</h2> <p>Theme score 2</p>	
<p>Further improvements since the 2005 assessment</p>	
<p>Standing orders, standing financial instructions and the scheme of delegation have been reviewed at least annually</p> <p>Compliance with SFIs, SOs and the scheme of delegation is monitored by CMB.</p> <p>The risk register is better focused with champions nominated</p> <p>A far more robust risk register is in place.</p> <p>Training for members on risk has taken place.</p> <p>An Audit and Corporate Governance Committee is in place which is continually improving</p> <p>Much improved process for the Statement of Internal Control</p>	
<p>Further improvement opportunities</p>	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>The risk management process should be reviewed and updated at least annually.</p> <p>All significant risks should be included in the corporate risk log</p> <p>All appropriate staff should be offered relevant training.</p> <p>The Council risk register must be clearly aligned to the Council's strategic objectives.</p>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>The assurance framework should more clearly map the strategic objectives to the risk register, controls and assurances.</p> <p>All reports submitted to Members must be formally considered for legal issues before presentation.</p> <p>Regular reconciliations of all</p>

Internal control	
Theme score 2	
	significant financial systems should be carried out
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>The Code of Conduct for Members and Officers needs review and there should be some tightening of the rules around the receipt of gifts and hospitality.</p> <p>More emphasis needs to be placed on having stronger arrangements for probity and propriety in place by actively ensuring staff and others involved with the Council are aware of and understand policies and processes (e.g. whistle-blowing).</p> <p>Whistle-blowing processes must be communicated to all staff and external partners. This can be carried out internally by displaying posters etc.</p>

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Value for money

Theme score 3

Key findings and conclusions

Overall spend on services is below average when compared with similar councils. Service outcomes in some areas are good and some improvements have been achieved (e.g. speed of processing planning applications), however the Council has also seen a decline in performance in some significant areas. The capital programme is linked to priorities, and is reasonably well managed. In broad terms, the Council still achieves a lot for its level of resourcing.

The Council's understanding of its cost pressures is improving, with a more robust and rigorous approach to medium term planning. There is a more robust approach to integrating service and resource planning. Areas of overspending are identified and a range of steps are being taken to address them. The key area here is Adult Social Care which has significant projected overspends and will present a continuing challenge over the medium term. There is a better grasp on costs and benchmarking information in some services, but this is still not consistent across all service areas. Corporate approaches to procurement are still not well developed.

Arrangements for challenging and driving better value for money (VFM) and more efficient ways of working are improving, but many of these improvements are still at an early stage and have yet to show their impact. For example, the Council believes the Herefordshire Connects programme to have the potential to deliver significant improvements in both customer service and cash-releasing efficiencies. This programme, and the more robust approaches to medium term planning, is already having an impact on the organisation's culture. However, a VFM culture is still not well developed or embedded across all service areas. A consistent pattern of under-spending in most service areas indicates that there is still scope in service budgets to drive further efficiencies, and the lack of targets in a significant number of 05/06 performance indicators meant that the Council's capacity to assess improved VFM was weakened. There is room for improvement in the challenge provided by Scrutiny.

There is a lack of straightforward and transparent accounting for how well services are doing in their delivery of value for money. It is not always clear from service plans and performance reports how improved value for money has been achieved. The Council has set itself challenging targets for efficiency gains, but it does not always have assurance that non-cashable efficiency gains are being robustly stated.

Improvements since the 2005 assessment

Value for money

Theme score **3**

Improved understanding of cost pressures

More robust approach to medium term planning, and better integration of service and resource planning.

Much work has been done on the Herefordshire Connects programme

Significant improvements in customer service and cash-releasing efficiencies

Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

The Council's understanding of its cost pressures is improving, with a more robust and rigorous approach to medium term planning. The Council needs to continue to embed this understanding.

Significant service overspends need to be robustly tackled.

KLOE 5.2 The Council manages and improves value for money.

Embed the improvements made in planning for and delivering value for money, e.g. Herefordshire Connects.

Ensure robust approaches to benchmarking in all service areas, and ensure that challenge (e.g. Scrutiny) is robust.

Ensure that improvements in value for money are accounted for in a straightforward and transparent way, by improving service planning and reporting arrangements.

Issue updated guidance to services on measuring efficiencies, and improve the assurance arrangements to ensure that efficiency gains are robustly

Value for money	
Theme score 3	
	stated. Corporate approaches to procurement are still not well developed.

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Appendix 1 – Criteria which will gain 'must have' status for the next assessment

New criteria in bold type ('must have') for 2006/07 assessment

- 1 This table summarises criteria that are currently included in the KLOE but are not in bold type and do not have 'must have' status, but which will have such status for the 2006/07 assessment.

KLOE	Summary of criteria
Financial reporting	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meet the needs of a range of stakeholders is published.
Financial management	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month-end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.
Financial standing	
3.1	Collection and recovery of material categories of income is monitored.

20 Use of Resources Auditor Judgements | Appendix 1 – TCriteria which will gain 'must have' status for the next assessment

KLOE	Summary of criteria
Internal control	
4.1	Appropriate staff are trained in risk management.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Governance arrangements are in place for significant partnerships.
4.3	The Council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.

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