

Understanding the Audit Commission's Use of Resources (UoR) and Direction of Travel (DoT) judgements

Richard McGahon
21 August 2008

Introduction

- Richard McGahon, Audit Manager with the Audit Commission and based in Carlisle;
- Currently Audit Manager for Carlisle and SLDC and also responsible for resourcing the work on the patch;
- Report directly to Karen Murray (District Auditor).

Who and what are the Audit Commission?

- Audit Commission is an independent body, established in 1983 and responsible for external audit of local government, NHS and criminal justice in England;
- There are two parts to the Audit Commission:
 - The Commission as I would term it which is the central part of the organisation. They set policy, appoint auditors (us or the firms) and link into central government;
 - The operational part (previously known as District Audit 1844 - 2002) undertakes 70% of the audits appointed by the Audit Commission. The operational part is the fifth largest audit supplier in the UK and the largest public sector audit firm in the world.

- Going to look at two areas:
 - Use of Resources (UoR);
 - Direction of Travel (DoT).
- Terminology – Key Lines of Enquiry (KLOEs);
- Links with other areas of our work (see handout 1)


[illegible]

- The Use of Resources judgement covers five themes:
 - Financial reporting;
 - Financial management;
 - Financial standing;
 - Internal Control;
 - Value for Money.
- Annual assessment based on the year to 31 March;
- 2008 will be the fourth year of UoR judgements and final one before introduction of Comprehensive Area Assessment (CAA) from 1 April 2009

- For county councils the overall UoR score is a component of the CPA framework star rating;
- For district councils the assessment will provide councils with important evidence as to whether to go for a CPA re-categorisation.

Audit Commission

UoR / DoT judgements




UoR – making the judgements (1)

- Each of the five themes will be scored;
- Basis of the scoring is:
 - 4 = well above minimum requirements – performing strongly;
 - 3 = consistently above minimum requirements – performing well;
 - 2 = at only minimum requirements – adequate performance;
 - 1 = below minimum requirements – inadequate performance.

Audit Commission

UoR / DoT judgements




UoR – making the judgements (2)

- Each of the five themes has a number of KLOEs or sub themes (see handout 2):
 - Financial reporting (2); Financial management (3); Financial standing (1); Internal Control (3) and Value for Money (2).
- Normally it is just the combining of the scores divided by number of KLOEs.
- For financial reporting (1.1) and VFM (5.1) the first KLOE is more important and therefore is given more weighting.

Audit Commission

UoR / DoT judgements



UoR – making the judgements (3)

- UoR gets an overall score which is given by the Audit Commission centrally based on:
 - 4 = At least two 4's and no scores below 3 on any theme;
 - 3 = At least three 3's and no scores below 2 on any theme;
 - 2 = At least three 2's;
 - 1 = Any other combination.
- It is only this overall score that a council can challenge.

audit commission

UoR / DoT judgements

UoR – making the judgements (4)

- Level 2 = all criteria must be met (see handout 3);
- Level 3 = All Level 2 arrangements embedded and working effectively with clear outcomes. All Level 3 criteria met and embedded.
- Level 4 = All criteria for levels 2 and 3 embedded. Displays innovation or best practice that can be shared with other councils.
- General requirement is that failure to meet any criteria at Level 2 or 3 would prevent the Council from achieving that Level. May be some circumstances where this can be varied but need to demonstrate compensating arrangements.

audit commission

UoR / DoT judgements

UoR – making the judgements (5)

- Different approach to the VFM theme:
 - There are no Bold / non Bold criteria because the assessment is more judgmental;
 - Use the term descriptor rather than criteria;
 - Level achieved will be defined by which set of descriptors best fit your council.

audit commission

UoR / DoT judgements

UoR – sources of evidence

- Links with other work that we have done (see handout 1);
- Self assessment provided by the council;
- Work of other regulators.

- Formal report;
- Reporting of the scores for the five themes and the sub themes that make them up (see handout 4);
- Narrative commentary on each theme in terms of progress made against achieving the criteria and areas for improvement (see handout 5);
- Recommendations on areas for improvement to help the council consolidate or improve its score (see handout 5, second page).

- Self assessment from council in July;
- Assess relevant UoR criteria for VFM Conclusion in August;
- Complete fieldwork in September / October;
- Quality assurance in October / November;
- Meeting with Council to discuss draft scores in November;
- Council's notified of overall UoR scores and five theme scores on 8 December 2008;
- Application for review of scores ends 19 December 2008.

- The Direction of Travel assessments provide public assurance on an annual basis about whether a council is complying with its duty of making arrangements to secure continuous improvement.
- In particular it:
 - assesses track record of achievement of outcomes during the last year and assesses the robustness and delivery of its improvement plans;
 - helps maintain momentum and focus in delivering improvement priorities;
 - signals further support / improvement work required;
 - provides learning about good and poor practice to inform improvement planning.

Audit Commission
Unit 1: DoT Judgements

DoT – What is its purpose and links with CPA?

- DoT assessments serve two important purposes:
 - Firstly, to recognise progress achieved in the year;
 - Secondly to make the CPA model two dimensional: formally categorising (for county councils) both how well the Council is performing and whether or not it is continuing to improve.
- Annual assessment but deals with progress in the last year not the financial year.
- County councils it is changes since Nov / Dec 2007 and district councils changes since January 2008.

Audit Commission
Unit 1: DoT Judgements

DoT – The two questions and the KLOEs

- Assessing how well the council is performing and whether or not it is continuing to improve is based around two high level questions:
 - What evidence is there of the council improving outcomes?
 - How much progress is being made to implement improvement plans to sustain future improvement?
- There are four KLOEs to support the answering of each question (see handout 6).

Audit Commission
Unit 1: DoT Judgements

DoT – sources of evidence

- Links with other work that we have done (see handouts 1 and 6);
- Self assessment provided by the council;
- PI data pack assessing comparative position;
- Work of other regulators.

DoT – how is it reported?

- Document produced which outlines our view, against each KLOE, of how the council is performing and whether or not it is continuing to improve. This is discussed with senior management / members;
- County council - output will be a score which is published with a 180 word summary which answers the two high level questions;
- For district councils it is not scored but will be a summary for inclusion in the council's Annual Audit and Inspection Letter.

DoT - Timetable

- Self assessment from council by the end of October;
- Complete fieldwork in November / early December;
- Quality assurance in January 2009;
- Meeting with Council to discuss draft findings end January 2009;
- Summary in the council's Annual Audit and Inspection Letter in February / March 2009 (see handout 7).

The Future – Current proposals for the Comprehensive Area Assessment

- Comprehensive Area Assessment (CAA) introduced from 1 April 2009;
- Use of Resources to be reduced from five themes to three:
 - Managing finances;
 - Governing the business;
 - Managing resources.
- Direction of travel no longer required.

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

[illegible]

- Any questions?

Handout 1

LINKS BETWEEN OUR WORK AND THE OPINIONS AND JUDGEMENTS WE MAKE

	Accounts	VFM Conc	UoR	Service inspection	DoT	CPA
Accounts	X		X			
VFM conclusion		X	X		X	X
Data Quality		X	X	X	X	X
UoR - local Performance work		X	X	X	X	X
UoR		X	X			X
Service inspections		X	X	X	X	X
DoT					X	X
CPA					X	X
Grants	X	X	X		X	X

USE OF RESOURCES THEMES AND SUB THEMES (KLOEs)

KLOE	THEME / SUB THEME
1.	FINANCIAL REPORTING - How good are the council's financial accounting and reporting arrangements?
1.1	The council produces annual accounts in accordance with relevant, standards and timetables, supported by comprehensive working papers.
1.2	The council promotes external accountability.
2.	FINANCIAL MANAGEMENT - How well does the council plan and manage its finances?
2.1	The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.
2.2	The council manages performance against budgets.
2.3	The council manages its asset base.
3.	FINANCIAL STANDING - How well does the council safeguard its financial standing?
3.1	The council manages its spending within the available resources.
4.	INTERNAL CONTROL - How well does the council's internal control environment enable it to manage its significant business risks?
4.1	The council manages its significant business risks.
4.2	The council has arrangements in place to maintain a sound system of internal control.
4.3	The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
5.	VALUE FOR MONEY - How well does the council demonstrate that it achieves good value for money?
5.1	The council currently achieves good value for money.
5.2	The council manages and improves value for money.

4. INTERNAL CONTROL			
How well does the council's internal control environment enable it to manage its significant business risks?			
Key line of enquiry			
4.1 The council manages its significant business risks			
Audit Focus			
Evidence that:			
<ul style="list-style-type: none"> the council has a risk management process in place the risk management system covers partnership working 			
Criteria for Judgement			
Level 2	Level 3	Level 4	
<p>* The council has adopted a risk management strategy/policy that has been approved by members.</p> <p>* The risk management strategy/policy requires the council to:</p> <ul style="list-style-type: none"> identify corporate and operational risks assess the risks for likelihood and impact identify mitigating controls allocate responsibility for the mitigating controls. <p>and is complied with.</p> <p>* The council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigns named individuals to lead on the actions identified to mitigate each risk.</p> <p>* Member responsibility for corporate risk management is identified in the terms of reference of one or more committees as appropriate.</p> <p>* Reports to support strategic policy decisions</p>	<p>* The risk management process is reviewed and updated at least annually.</p> <p>* The risk management process specifically considers risks in relation to significant partnerships and provides for assurances to be obtained about the management of those risks.</p> <p>* All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment.</p> <p>* The members with specific responsibility for risk management have received risk management awareness training.</p> <p>* Members with responsibility for corporate risk management receive reports on a regular basis and take appropriate action to ensure that corporate business risks are being identified and effectively managed, including reporting to full council as appropriate.</p>	<p>A senior officer and member jointly champion and take responsibility for embedding risk management throughout the council.</p> <p>The council can demonstrate that it has embedded risk management in its business processes, including:</p> <ul style="list-style-type: none"> strategic planning financial planning policy making and review performance management project management. <p>All members receive risk management awareness training appropriate to their needs and responsibilities.</p> <p>The council considers the opportunity side of risk management in the successful delivery of major innovative and challenging projects.</p> <p>Reports to support strategic policy decisions, and initiation documents for all major projects, require a risk assessment including a sustainability impact appraisal.</p>	

Use of resources

and initiation documents for all major projects include a risk assessment.		
--	--	--

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
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	1	1
1.2 The Council promotes external accountability.	2	2
Financial management	2	2
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	2	2
2.2 The Council manages performance against budgets.	2	2
2.3 The Council manages its asset base.	2	2
Financial standing	3	3
3.1 The Council manages its spending within the available resources.	3	3
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.	3	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	2
Value for money	2	2
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	2	2

Internal control

Table 6

Theme score: 2

Key findings and conclusions

Corporate Resources Overview and Scrutiny Committee is responsible for reviewing corporate risks on a quarterly basis with the Audit Committee being responsible for overseeing and challenging the adequacy of the risk management framework. Relevant Members and the senior management team have had risk management training with training for middle management being undertaken in May 2007.

The Council continues to work towards linking risks in the risk register to corporate objectives. Governance arrangements for partnerships have been strengthened during 2006/07 although there is still a need to ensure that risks in relation to significant partnerships are specifically considered and assurances provided about the management of those risks.

Arrangements are in place for the annual review of the effectiveness of the systems of internal control (SIC) with greater involvement of Members in 2006/07 and improved clarity over the sources of assurance to support the Statement on Internal Control.

The Council now has arrangements in place to for the ongoing review and updating of procedure notes for key financial systems. The Council has introduced monthly traditional bank reconciliations during 2006/07 and no problems were experienced at this year's final accounts audit. This is a positive move and has strengthened the Council's monthly internal control arrangements.

Audit Committee is in place that delivers the core functions of an audit committee as required by CIPFA. In its work on monitoring progress on action plans the Audit Committee has provided challenge to the Authority although there is a need to ensure that the impact of this can be clearly demonstrated.

Our work during 2006/07 identified that only 40 per cent of staff knew that the Authority had an anti-fraud strategy and we made a recommendation to improve awareness. The Council has developed an overall counter fraud policy during 2006/07 and this is currently being consulted upon. A counter fraud action plan has also been developed.

Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.

Ensure, particularly around significant or complex partnerships, that risks are being actively managed.

KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.

Ensure that the challenge provided by the Audit Committee has an impact in terms of improvement.

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.

Improve awareness amongst staff of the Council's anti-fraud strategy as part of a strong counter fraud culture that is supported and promoted by members and senior officers.

Ensure that the Council's overall counter fraud policy and associated action plan are approved, resourced and fully implemented.

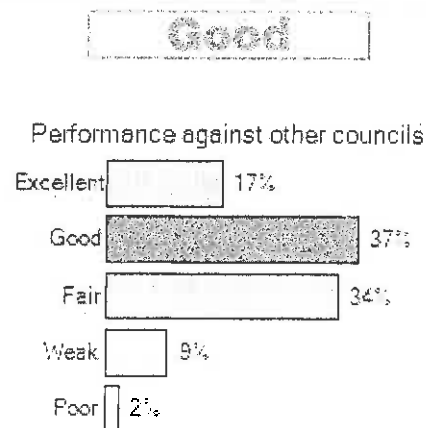
DIRECTION OF TRAVEL KEY LINES OF ENQUIRY

Key lines of enquiry (KLOE)	Evidence source
<p>6. What evidence is there of the Council improving outcomes?</p> <p>6.1. Are services improving in areas the Council has identified as priorities and areas the public say are important to their communities?</p> <p>6.2. What contribution is the Council making towards wider community outcomes?</p> <p>6.3. To what degree is the Council improving both access and the quality of service for all its citizens focusing on those who have been 'hard to reach' or previously excluded?</p> <p>6.4. Is value for money improving as well as quality of services?</p>	<p>Evaluation of the Council's self-assessment;</p> <p>Use of resources assessment that directly provides the evidence of value for money;</p> <p>Relevant PI data pack;</p> <p>Audit Commission inspection reports published in the last 12 months;</p> <p>Published reports, preliminary findings and self assessment information of other relevant inspectorates and regulators;</p> <p>On-site interviews and any further evidence of outcomes being achieved.</p>
<p>7. How much progress is being made to implement improvement plans to sustain future improvement?</p> <p>7.1 Does the Council have robust plans for improving? (Aligned with other plans, SMART¹, detailed, resourced, agreed and widely communicated?)</p> <p>7.2 How well is the improvement planning being implemented: are key objectives and milestones being achieved?</p> <p>7.3 Does the Council have the capacity to deliver its plans?</p> <p>7.4 Are there any significant weaknesses in arrangements for securing continuous improvement or failures in corporate governance that would prevent improvement levels being sustained?</p>	<p>Evaluation of the Council's self-assessment;</p> <p>Document reviews including improvement plans and performance reports showing delivery against the improvement plan;</p> <p>Published reports, preliminary findings and self assessment information of auditors, other relevant inspectorates and regulators relating to improvement planning and delivery;</p> <p>On-site interviews if required.</p>

How is Carlisle City Council performing?

- 14 Carlisle City Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

What evidence is there of the council improving outcomes?

- 15 The Council has achieved a good range of improvement across its services; a number of service performance measures have moved to high performance levels. A comparison of a selected set of national performance measures shows that the Council has made good overall progress over the last year and achieved above the average improvement for district councils. The Council's performance over the last year is showing a faster rate of progress than the trend over the last three years although performance improvement in some services had been affected during flood recovery.
- 16 There has been some good progress in the management of waste for the city area, but the amount of household waste generated remains comparatively high. The standard of cleanliness in neighbourhoods has been maintained at very good levels in 2006/07, performing in the best 25 per cent of all councils. The use of flexible neighbourhood teams has had real impact through tailoring services to local circumstances and responding to community concerns.

- 17 The Council has committed itself to tackling environmental improvement and responding to climate change through the 'Nottingham Declaration', but the development of a full range of clear objectives, baseline information on CO2 emissions and improvement targets in support of the environment policy are not yet in place.
- 18 Carlisle is not a high crime area overall and there have been significant reductions in the total number of crimes committed during 2006 and 2007. However, comparatively high levels of violent crime have been a feature for a number of years, early improvement has not been sustained and throughout 2007 the levels of common assault have been increasing. Considerable effort is being applied to prevent violence, particularly associated with the town centre at night time, but this has not been successful overall. Progress in preventing and protecting citizens from domestic violence has also been limited.
- 19 The Council has shown vision and community leadership in directly promoting knowledge and skills development to support community aims. It recognised the local education and skill gaps and is contributing well to the vision for a 'learning city'. This commitment to the learning and development of its own employees, and through that the skill levels within the city generally, have been recognised in the 'Go Award North West'. This was the first award to a council in the north west of England.
- 20 The housing benefit service remains high performing overall, but the areas of accuracy and overpayment recovery are lower performing. The Council is reporting improved performance on overpayment recovery in 2007/08. There is a significant contribution of the planning function towards the plans to develop the city through strategic land use and transport development plans. Cultural and tourism services continue to make a positive contribution to the city. Sport and leisure facilities support relatively good participation rates and high levels of satisfaction.
- 21 Housing policies have had a good impact in reducing the amount of local housing that was not appropriate for the needs of local people. The focus on regenerating one of the largest and most deprived estates through a series of phases has been successful in reducing the proportion of low demand houses, although this remains relatively high overall for the city. The capacity to appropriately re-house people that lose their homes is still limited and waiting times in temporary accommodation can become extended. A multi agency forum to review housing for young people was successful in removing some of the barriers to accessing housing but other groups such as ex-offenders and recovering drug users still face difficulties in obtaining appropriate housing.
- 22 The Council is making progress in developing its understanding of communities through context information on ward and city profiles. This has yet to become a consistent and comprehensive approach across all services areas, directing the development and implementation of policy. Progress in promoting equality and diversity within the Council and its services has been slow and is behind the progress made in most other councils.

How much progress is being made to implement improvement plans to sustain future improvement?

- 23 The aims for the local area are expressed through the community plan and the Council's particular contribution over the medium term is set out in the Corporate Improvement Plan 2007/10. The Council has a complex balance of strategic and front line service delivery issues to manage over the medium term. The progress on both levels has been good in overall terms but there are some areas where plans are not being updated promptly enough to reflect changing circumstances or priorities and action plans have not been delivered.
- 24 The timely updating of plans and expenditure profiles to reflect current circumstances will be an important contribution to the best use of resources as complex strategic plans develop. Risk management, governance and data quality arrangements within partnerships will need to be strengthened to high standards to effectively manage and monitor the progress of the Carlisle Renaissance plans.
- 25 The Council does not have a revised pay and grading structure, based upon equality principles. Job evaluation and appeal processes are progressing, but the full completion date for this exercise and the establishment of a new pay structure is unclear. At present the Council cannot be assured that it has fair and equitable pay structures in place that meet its needs for the future.