

Use of Resources Auditor Judgements 2007

Carlisle City 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 Carlisle City 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 that 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 website. 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** The five theme scores for Carlisle City Council are outlined overleaf and this summary sets out our key findings in relation to each theme and key areas for improvement. The Audit Commission confirmed the overall UoR score for Carlisle City Council as 2 on 10 December 2007.

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

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: 1
Key findings and conclusions
<p>The 2006/07 financial statements were prepared in accordance with the statutory and agreed audit timetable and included the primary statements, disclosures and notes. However, the accounts presented for audit contained four material errors, the most significant ones relating to the Authority's failure to ensure that the Service Expenditure Analysis (SEA) in the Income and Expenditure (I&E) Account was prepared in accordance with the Best Value Accounting Code of Practice (BVACoP). This meant that central services expenditure and income were overstated by £3.5m and £1.7m respectively with corresponding errors in other SEA lines. The accounts also contained several non-trivial errors and other adjustments were also required to the notes to the accounts following our audit.</p> <p>The accounts were signed on 28 September 2007 which was within the statutory deadline and the first time that this has been achieved in five years. This represents an improved position for the Council.</p> <p>One again we have seen continued effort to improve working papers in 2006/07 although there is still a need to ensure that analytical review working papers are available at the start of the audit. Regular meetings during the audit have led to improvements in responding to auditor queries although further improvement is still required.</p> <p>The most recent annual audit letter and published accounts (audited accounts) are on the Council's website. Committee papers are also being made available on a timely basis.</p> <p>The Council has sought and obtained the views of some stakeholders in terms of the financial information it produces although a larger and extended exercise is planned for early 2008 which will also consult wider stakeholders on the need for an annual report.</p>

Improvement opportunities	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	<p>Ensure that the accounts presented for audit are free from material and non trivial errors.</p> <p>Ensure that analytical review working papers for all major statements are produced, used as part of the closedown process and provided to the auditors at the start of the audit.</p>
KLOE 1.2 The Council promotes external accountability.	Identify all relevant stakeholders and undertake meaningful consultation on whether to publish an annual report.

Financial management

Table 4

Theme score: 2
Key findings and conclusions
<p>The corporate business plan incorporates stakeholder and partner consultation, efficiency improvements, the revenue implications of capital projects / known developments and service developments. The Corporate Improvement Plan 2007-10 has started to look at risk assessment and sensitivity analysis.</p> <p>The full implications of key strategies (such as HR) upon the Medium Term Financial Strategy (MTFS) are still developing. Team meetings are used to cascade the key messages from the MTFS although it is less clear how the MTFS key messages are communicated to other stakeholders, particularly partners.</p> <p>Improved procedures, guidance and training is required so that soundly based project appraisals, business plans and affordability tests are produced for new policy and capital developments. The Council needs to evidence that investment and disposal decisions are based on thorough option appraisal and whole life costing.</p> <p>Budget monitoring is predictive, focusing on the year end position with explanations required for variances of £10k or more although links to operational activity indicators is less developed.</p> <p>The Council regularly tests all its financial systems to ensure that their processes are secure and now that monthly bank reconciliations are being produced these should be tested by Internal Audit.</p> <p>A paper on financial training and who needs it was produced in February 2007 and courses on the Council's finances and budget processes were held in April 2007.</p> <p>During 2006/07 the Council reviewed its practices and procedures in respect of partnerships, including its role in the financial monitoring of partnerships, and their implementation should see further progress being made in this area during 2007/08.</p> <p>The development of local performance measures to evaluate asset use in relation to corporate objectives was being undertaken in 2007/08.</p>

Improvement opportunities	
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>Enhance the use of risk assessments and sensitivity analysis in business planning.</p> <p>Improve the links between the MTFS and key strategies such as HR.</p> <p>Ensure there are appropriately evidenced project appraisals, business plans and affordability tests for new policy and capital developments.</p> <p>Ensure that equality impact assessments are completed for all policy areas.</p>
KLOE 2.2 The Council manages performance against budgets.	<p>Ensure that internal audit regularly review the bank reconciliation in detail.</p> <p>Continue to develop a structured training programme on finance issues for both members and officers.</p> <p>Link budget monitoring reports to key operational indicators.</p>
KLOE 2.3 The Council manages its asset base.	<p>Develop and implement a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.</p> <p>Ensure that investment and disposal decisions are based on thorough option appraisal and whole life costing.</p>

Financial standing

Table 5

Theme score: 3	
Key findings and conclusions	
<p>The Council sets a balanced budget linked to cost pressures and council tax levels. The budget report includes a positive assurance statement on the adequacy of reserve levels and reserves are monitored.</p> <p>There has been a policy in place for a number of years on the level of reserves. The Council should take the opportunity to review this in detail to ensure that reserve levels remain appropriate, and if they are exceeded, the Council should consider the cost and benefits of holding balances at this level, and report this to Members.</p> <p>The Council continues to keep its spending within budget. Further improvements are required to demonstrate that underspending is identified, anticipated and acted upon within the year to make best use of available resources.</p> <p>The treasury management strategy is in accordance with CIPFA requirements with good arrangements in respect of monitoring of income collection and arrears with effectiveness of recovery actions considered as part of the recent revenues review.</p>	
Improvement opportunities	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Review current policy on reserves to ensure that reserve levels remain appropriate. If they are exceeded, the Council should consider the cost and benefits of holding balances at this level, and report this to Members.</p> <p>Improve the process to ensure that underspending (and overspending) is acted upon to maximise best use of available resources.</p> <p>Ensure that Members monitor key financial health indicators, set challenging targets and ensure that these are met.</p>

Internal control

Table 6

Theme score: 2
Key findings and conclusions
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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

Value for money

Table 7

Theme score: 2	
Key findings and conclusions	
<p>The Council is relatively high spending but there are connections between high expenditure and high performance. There are some positive trends where improvement in performance is made alongside increased cost efficiency. Comprehensive and high performance is not demonstrated across all service areas.</p> <p>Increased investment has been targeted at priority areas and improvement trends are being generated as a result eg benefits, homelessness and waste. Efficiency targets have been set for the Council and are subject to regular monitoring and investigation with targets currently being exceeded. Overall targets are set but processes are starting to develop to identify particular areas for efficiency gains.</p> <p>The capital programme is well connected to corporate priorities and the projects board monitors programme delivery. Recent improvements to the monitoring information should assist further development, but there is a history of not delivering the overall annual programme with significant slippage and consequential underspending on both capital and revenue.</p> <p>Corporate processes do not show strong links between cost, activity and performance information including the quality of services. The evaluation of the accessibility of services across localities and for vulnerable groups in communities is not developed. There is increasing connection between financial and performance information within investigations of efficiency gain or service improvement and quarterly seminars support the process.</p> <p>Procurement processes are developing and spending patterns have been reviewed. Collaborative procurement arrangements continue to be explored but have not yet secured significant efficiency and quality gains.</p>	
Improvement opportunities	
KLOE 5.1 The Council currently achieves good value for money.	Improve the evaluation of service quality and cost factors to target relative improvement in VFM, including the effectiveness of increased investment.

Improvement opportunities (Cont'd)	
KLOE 5.2 The Council manages and improves value for money.	<p>Improve the availability and use of corporate intelligence on equity of access to services and variation in locality performance and need.</p> <p>Ensure the best application of resources by reviewing profiles of underspending at corporate and service level.</p> <p>Develop the approach to collaborative procurement to maximise the achievement of potential efficiency and quality gains.</p>

Use of resources 2008

- 7 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.
- 8 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.
- 9 The Commission has published its key lines of enquiry for 2008 on its website and there is an annotated version of the key lines of enquiry available which show all the changes from 2007. To assist the Council in pin pointing the changes we have summarised them in Table 8.

Table 8 Changes to the UOR key lines of enquiry 2008

The key changes to the assessment are summarised here.

KLOE	Level	Summary of change
Financial reporting		
1.1	2	An unqualified opinion in the published statements.
1.2	2 , 3	Published information is available to the public in a timely way and in accessible formats in compliance with duties under the equalities legislation.
1.2	4	The annual report or similar document includes information and analysis about a council's environmental footprint.
Financial management		
2.1	2	The impact of strategies is assessed for their impact to comply with duties under the equalities legislation in relation to race, gender and disabilities.

KLOE	Level	Summary of change
2.3	3	The asset management plan provides strategic and forward looking goals showing how land and buildings will be used to deliver corporate priorities. The council holds accurate information on the efficiency, effectiveness and values of assets, to support decision making on investment and disinvestment in assets.
2.3	4	Asset management and planning is fully integrated with business planning.
2.3	4	Asset management is used as an enabler of change. The management of assets is integrated with other local public agencies to identify opportunities for shared use of property and to deliver cross-sector, cross-agency and community-based services to users.
2.3	4	Asset management includes challenge as to whether all assets are fit for purpose, provide value for money and deliver corporate priorities. The council rationalises its holding of property.
Financial standing		
3.1	3	The approved level of balances is adhered to; the council's financial standing is sound and supports the achievement of its long term objectives.
3.1	3	Targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets.
Internal control		
4.1	4	Reports which support strategic policy decisions and initiate major projects require a risk assessment which includes an appraisal of the impact on sustainable development.
4.2	3	Effective scrutiny function to ensure challenge and improve performance.
4.2	2, 3, 4	'Statement of internal control' has been replaced with 'governance statement'.
4.2	4	Evidence of the viability of significant contractors'/partners' business continuity plans.
4.3	2	Preparation for the role of the standards committee in local investigations and determination.

KLOE	Level	Summary of change
4.3	3	Publicising the work of the standards committee.
4.3	3, 4	Enhanced standards for whistle blowing arrangements, demonstrating employees of contracting organisations are aware of the arrangements and staff have confidence in them.
4.3	4	Application forms have fair processing notification permitting data sharing for prevention and detection of fraud and corruption.
Value for money		
5.1	2,3,4	Descriptors for capital programming have been strengthened by including references to the outcomes of a well managed capital programme, ie projects are completed on time, to budget and deliver outcomes which are fit for purpose (and for level 4 – transform services for users and citizens).
5.2	2,3,4	Understanding unit and transaction, as well as, overall costs.
5.2	2, 3, 4	Data quality arrangements should be reliable (level 2) or exemplary (level 4), and including at level 4, an agreed approach with partners. Auditors will rely on the findings of the data quality audit for this descriptor.
5.2	2, 3, 4	The descriptor which assesses community needs and impact of decisions on diverse communities has been revised to better reflect statutory requirements on equality impact assessments. It also makes it clearer that reducing inequality in outcomes ought to be integral to a council's drive to improve VFM.
5.2	2, 3, 4	Demonstrating improvements in value for money by tracking performance over recent years.
5.2	2, 3, 4	More emphasis on stronger, longer-term, full cost evaluation, including (at levels 3 and 4) consideration of environmental and social in its assessments of costs and benefits in decision making.
5.2	2, 3, 4	Improving value for money through partnership working, with an understanding of resources at the disposal of partnerships and planned outcomes. There are opportunities to improve value for money (reduce costs or improve outcomes) through better partnership working. Performance reflects differing levels of engagement with partners to improve outcomes.
5.2	2, 3, 4	Use of ICT to improve services, value for money and access to services.