

# **Use of Resources Audit Score Feedback**

**Carlisle City Council**

**Audit 2005/2006**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

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# Contents

<b>Introduction</b>	<b>4</b>
<b>Summary scores for each theme</b>	<b>5</b>
<b>Theme summaries</b>	<b>6</b>
Financial reporting	6
Financial management	7
Financial standing	9
Internal control	10
Value for money	13

## Introduction

- 1 The annual use of resources (UoR) assessment evaluates how well councils manage and use their financial resources. It is a more stringent test than the auditor scored judgements that formed part of the comprehensive performance assessment (CPA) framework up until 2004. The scope of the assessment has also been widened.
- 2 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.
- 3 Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale.

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

- 4 The overall score for use of resources will be reported to the Council by the Audit Commission on 13 March 2006. The scores for Carlisle City Council for the five themes are outlined overleaf.
- 5 This report is not intended to provide a detailed narrative on the Council's current arrangements in each of the themes or an exhaustive list of all the improvements which the Authority may wish to make over and above those improvements required to achieve minimum standards. It is intended to highlight which of those criteria within the Audit Commission's published Key Lines of Enquiry have been key factors in determining the current score.
- 6 We have discussed the findings in this report with the Council's Chief Executive and Senior Management Team. We understand that the Council is preparing an action plan to identify and monitor the improvement process.

## Summary scores for each theme

Key lines of enquiry (KLoE)	Score
<b>Financial reporting</b>	<b>1</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	1
1.2 The Council promotes external accountability.	1
<b>Financial management</b>	<b>2</b>
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 The Council manages performance against budgets.	1
2.3 The Council manages its asset base.	2
<b>Financial standing</b>	<b>2</b>
3.1 The Council manages its spending within the available resources.	2
<b>Internal control</b>	<b>2</b>
4.1 The Council manages its significant business risks.	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	1
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
<b>Value for money</b>	<b>2</b>
5.1 The Council currently achieves good value for money.	2
5.2 The Council manages and improves value for money.	2

## Theme summaries

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

### Financial reporting

<b>FINANCIAL REPORTING</b> <b>Overall score 1</b>	
<b>Key findings and conclusions</b>	
<p>The Authority's standard of financial reporting is not currently meeting minimum requirements. The audit opinion has been delayed to enable the Authority to correct material errors in the accounts for a number of successive years.</p> <p>There have been a significant number of material errors and misstatements in the accounts and the Authority has required support over and above the audit to rectify errors.</p> <p>In our view the Authority has not given sufficient consideration to accounting matters and inadequate audit evidence has been provided at the start of the audit.</p>	
<b>Improvements needed to move to next level</b>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>The Council's accounts need to be compiled in accordance with statutory and professional reporting standards, with adequate supporting evidence provided at the start of the audit.</p> <p>Ensure guidance is made available to staff on final accounts closedown procedures, including relevant timetables agreed with the auditor and allocation of tasks to individual members of staff are adhered to.</p> <p>Ensure appropriate, knowledgeable, and skilled staff are available to deal with external auditors' queries, to substantiate assertions, and to explain items of account.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>Ensure the audit letter is published in line with requirements.</p> <p>Consult with stakeholders on whether they would find an annual report useful and assess their requirements.</p>

## Financial management

<b>FINANCIAL MANAGEMENT</b> <b>Overall score 2</b>	
<b>Key findings and conclusions</b>	
<p>The Authority meets the minimum requirements of financial management although there are a number of weaknesses, including large variances and underspends that are not addressed through revised budgets and a non-operational bank reconciliation. Overall, the Authority is felt to be a weak 2 with significant improvement required before a level 3 can be achieved.</p>	
<b>Improvements needed to move to next level</b>	
<p>KLOE 2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly-based and designed to deliver its strategic priorities.</p>	<p>Improve consideration of reasons for underspend when setting budgets.</p> <p>Produce regular cash flow projections.</p> <p>Ensure business planning is integrated with financial planning.</p> <p>Ensure the business plan drives the medium-term financial strategy and internal resource allocation, with changes in allocations determined in accordance with policies and priorities.</p> <p>Ensure the corporate business plan projects forward at least three years and takes account of; stakeholder and partner consultation, external drivers, capital investment plans and their revenue implications, risk assessments and financial contingency planning and sensitivity analysis.</p> <p>Ensure the Council's medium-term financial strategy is linked to other internal strategies/ plans as appropriate, for example, human resources, IT.</p> <p>Ensure the organisation's medium-term financial strategy is communicated to staff and stakeholders.</p> <p>Ensure budgets are linked to business and activity plans and risk assessments of material items of revenue and capital income and expenditure, incorporating lessons learned from previous years.</p>

<b>FINANCIAL MANAGEMENT</b>	
	Ensure there are project appraisals, business plans and affordability tests for new policy and capital developments.
<b>Improvements needed to move to next level</b>	
KLOE 2.2 The Council manages performance against budgets.	<p>Demonstrate that action plans are developed for all material variances.</p> <p>Regularly test financial systems to ensure they are secure, in particular put in place controls to evidence that a robust bank reconciliation is produced on a monthly basis and this is subject to internal review and verification.</p> <p>Improve monitoring of financial performance of partnerships.</p>
KLOE 2.3 The Council manages its asset base.	<p>Improve the strategy to address the overall backlogged maintenance position and ensure this is approved by members.</p> <p>Ensure the Council maintains an up-to-date asset register.</p> <p>Ensure the Council makes investment and disposal decisions based on thorough option appraisal and whole-life costing.</p> <p>Develop a set of local performance measures in relation to assets that link asset use to corporate objectives.</p>



## Financial standing

<b>FINANCIAL STANDING</b> <b>Overall score 2</b>	
<b>Key findings and conclusions</b>	
<p>The Authority has been assessed as performing adequately in financial standing. The Authority manages its spending within available resources and has met overall most of the level 2, and some of the level 3 criteria. However, there are a number of areas where performance could be improved including better consideration of targets for reserves, including whether persistent underspending and carry forward of annual budget represents appropriate use of resources, eliminating unexpected underspends and better approach to monitoring debt recovery.</p>	
<b>Improvements needed to move to next level</b>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Ensure the Council monitors and maintains its levels of reserves and balances within the range determined by its agreed policy.</p> <p>Ensure the Council consistently maintains its spending without significant unexpected overspends or underspends.</p> <p>Provide greater clarity over debt recovery information and how this is used.</p> <p>Ensure monitoring information is available that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly.</p>

## Internal control

<b>INTERNAL CONTROL</b> <b>Overall score 2</b>	
<b>Key findings and conclusions</b>	
<p>Internal control overall is scored at a 2 indicating that the Authority are meeting minimum requirements however within this there are some areas where the minimum requirements have not been achieved, including the need to establish the core functions of an Audit Committee.</p> <p>There are a number of items to be addressed before a level 3 can be considered, including increasing member involvement in reviewing the Statement of Internal Control (SIC) and actively promoting anti-fraud issues throughout the Authority.</p> <p>The Authority's approach to risk management continues to develop. There are aspects of the arrangements which can be strengthened to further consolidate or embed the approach.</p>	
<b>Improvements needed to move to next level</b>	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Ensure there is a member committee whose terms of reference include risk management.</p> <p>Link risks in the risk register to corporate objectives and mitigating controls.</p> <p>Ensure the risk management process is reviewed and updated at least annually.</p> <p>Ensure the risk management process specifically identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks.</p> <p>Consider whether all staff have been given appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment.</p> <p>Ensure the members with specific responsibility for risk management have received risk management awareness training.</p>

<b>INTERNAL CONTROL</b>	
	Ensure that the member committee with responsibility for risk management receives reports at least quarterly and takes appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council at least annually.
<b>Improvements needed to move to next level</b>	
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p>Ensure an appropriate member group has responsibility for review and approval of the SIC and considers it separately from the accounts and the sources of assurance to support the SIC have been identified and are reviewed by senior officers and members.</p> <p>Ensure that the core functions of an audit committee have been identified and are being undertaken by a member group.</p> <p>Ensure there are procedure notes/ manuals in place for those systems identified by the Council as being business-critical and that there are agreements in place for all significant partnerships.</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>Ensure there is a whistleblowing policy which has been communicated to staff and those parties contracting with the Council and demonstrates the Council's commitment to providing support to whistleblowers.</p> <p>Demonstrate that the fraud policy has been actively communicated to all staff.</p> <p>Ensure that the Council is proactive in its role to raise the standards of ethical behaviour amongst members and staff, including the provision of ethics training.</p> <p>Undertake an assessment of standards of conduct, including how effectively members are complying with the code of conduct, the number and types of complaints received, and take action as appropriate.</p>

<b>INTERNAL CONTROL</b>	
	Ensure members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and pecuniary interests and that there is evidence that members and staff are making appropriate disclosures in the registers and that they are regularly reviewed.
<b>Improvements needed to move to next level</b>	
	<p>Ensure a strong counter fraud culture is supported and promoted by members and senior officers and that the Council undertakes proactive counter fraud and corruption work which is determined by a formal risk assessment and is adequately resourced.</p> <p>Ensure that financial redress is sought in appropriate cases of proven fraud/corruption, in accordance with legal advice and the results of a cost/benefit analysis.</p>

## Value for money

### VALUE FOR MONEY

Overall score 2

#### Key findings and conclusions

Carlisle City Council is a relatively high spending authority when compared to its nearest neighbours. The Council is aware of the external factors which affect its costs, for example, its low population density and deprivation. There are areas of high spending and good performance, as with street cleanliness and culture. There are also services with high expenditure and weak performance, such as benefits administration. The cost and performance of key services is therefore variable, but high spend is generally in line and in direct support of stated priorities and is supported by higher than average levels of satisfaction.

Quarterly monitoring reports to Overview and Scrutiny and Executive are very detailed, and provide budget and performance information, although it is not always clear how this information can be interpreted in order to effectively review and evaluate value for money. This information does not have any direct reference to variances in activity and performance, or of impact on users of changing spending levels.

There has been no link to performance made for the 2004/05 year-end. Business planning processes are still being improved and there is a need to integrate strategic planning and budgeting. Benchmarking information is limited, qualitative information and resident satisfaction data is not consistently used and interpreted with cost information, in order to review how costs relate to the quality of services over time.

The Council has a good track record of identifying savings generating additional income in order for resources to be directed to priority areas.

Local partnership working continues to develop strongly, and there has been good feedback from partners on their interactions with the Council. This includes joint working with neighbouring authority Eden District Council and other Cumbrian authorities on issues such as recycling, parking enforcement and licensing changes, which have increased effectiveness and capacity to respond to change. Partnership working is evident, including for joint procurement, but is not yet strategic or consistent due to the developing strategic approach to procurement.

Improvements needed to move to next level	
KLOE 5.1 The Council currently achieves good value for money.	<p>Improve information provided to councillors and senior management to include comparative data, service cost and service impact on diverse groups in order to ensure value for money.</p> <p>Improve the link between performance and financial information with analysis of service improvement/deterioration in relation to Council objectives.</p>
KLOE 5.2 The Council manages and improves value for money.	<p>Develop monitoring into better performance management in order to ensure targets are reached, such as Gershon efficiency targets.</p> <p>Procurement needs greater clarity as to how it will be implemented, assessing whole-life costs as a matter of course.</p>