

# **CARLISLE CITY COUNCIL**

## **Independent Review of Financial Management**

**Final Report**  
**August 2006**

**IPF**

Helping public services manage  
resources more effectively

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## 1 Executive Summary

1.1.1 There have been some concerns raised over financial management and in particular, financial reporting, at the Council.

1.1.2 These include:

- A reduced scored judgement for Use of Resources between the 2004 CPA and the 2005 Use of Resources assessment (although this could be indicative of the “harder test” in such assessments)
- Late sign off of accounts for several consecutive years
- A Section 11 recommendation issued by the Audit Commission, raising concerns over the reliance and accuracy of the final accounts for 2004/05

1.1.3 Through a series of interviews with key staff and stakeholders, together with an objective review of documentation, an independent and objective review of Carlisle City Council’s financial management has been carried out.

1.1.4 Key findings and issues have been analysed and compared against best practice in local authorities as well as other authorities of similar nature, size and demography.

1.1.5 The common themes arising from discussions with staff and other stakeholders, as well as reviewing documentation, are shown below:

- As an organisation, the Council needs to own its responsibility for financial management and the relationship with external audit
- Financial literacy across the organisation (both officers and elected members) needs to improve, so that financial information can become more meaningful to decision makers
- The current structure of the finance function within the Council should be reviewed as soon as practicable, to ensure that it is “fit for purpose” (and fit for the future)
- There are plenty of planned improvements and activities, but little in the way of actual implementation and action
- There is need for the organisation to take a step back from too many new initiatives and shift focus onto ensuring that all the basics are in place and working well

1.1.6 As regards the situation with the 2004/05 accounts, the relationship with external audit needs to be repaired and nurtured. The Council needs to acknowledge that mistakes have been made in relation to not having contingency arrangements in place for Bank Reconciliation and seek to improve the quality of the overall final accounts process (as indeed it is doing).

- 1.1.7 Our main assessment of this important issue is that there is room for improvement on both sides, but the key aim should be to re-establish a supportive and constructive relationship. This means that both the Council and the Audit Commission need to move on from the current issues, since a longer term deterioration of relations will not benefit anybody.
- 1.1.8 This review reaches the conclusion that financial management is of an acceptable standard, but in common with most other lower tier authorities, there is still scope for substantial improvement.
- 1.1.9 To assist, a high level improvement plan has been prepared, outlining recommended actions for improvements, together with the anticipated benefits and allocated responsibilities and timeframes for implementation.

## 2 Background and Context

### 2.1 *Relations with External Audit*

2.1.1 Over the last few years, there have been some significant issues relating to the final accounts of the Council. Things came to a head with the audit of the 2004/05 accounts – a section 11 recommendation was issued by District Audit, outlining serious concerns about the continuing problems with sign off of audit for final accounts.

2.1.2 There have been delays in signing off the financial accounts for the last 4 years, with a variety of issues being cited as the cause, as shown below:

- **2001/02** - Issue of credit cover for loan in Business Park deal with Cumbria County Council (whose accounts were qualified as a result of this)
- **2002/03** - Issues around the Large Scale Voluntary Transfer of Housing Stock (treatment of capital receipts)
- **2003/04** - Non-compliance of Statement of Internal Control
  - Quality of Working papers
  - Concerns over Bank Reconciliation
- **2004/05** - Issues relating to Bank Reconciliation and quality of working papers
  - Cash flow statement errors
  - Asset Valuations (adjustments required)
  - Accounting basis for flood costs
  - Quality of working papers

2.1.3 It is felt that there has been deteriorating relations with external audit as a result.

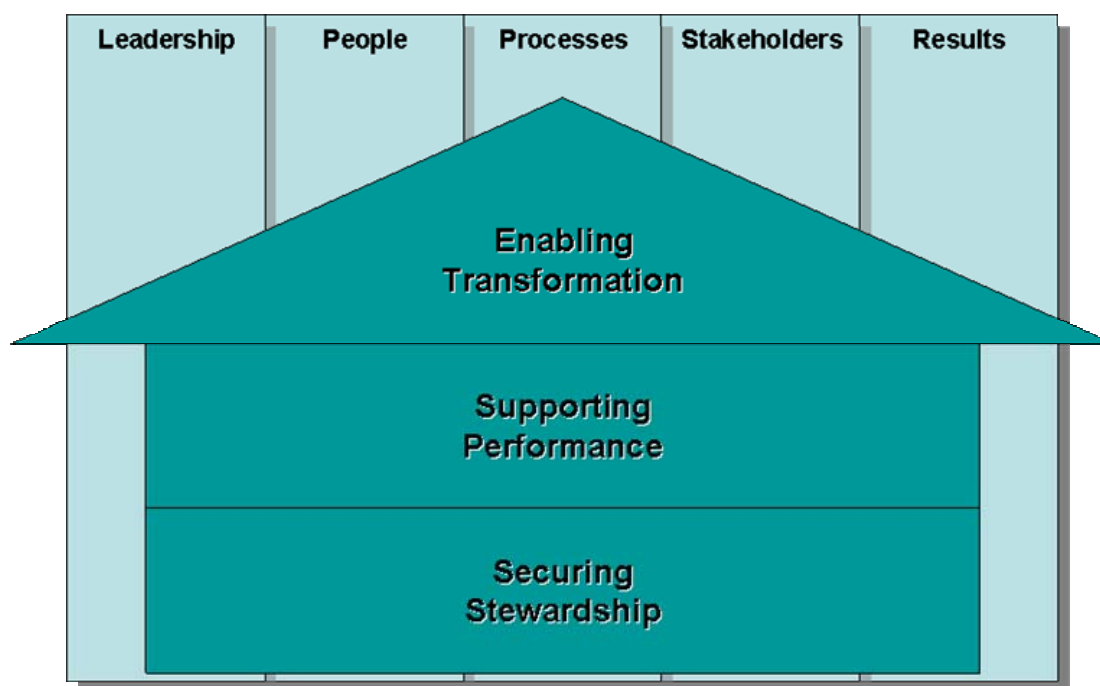
2.1.4 The failure to sign off the 2004/05 accounts has had several implications:

- Delays in commencing preparations for the 2005/06 audit
- Concerns arising over wider financial management within the Council
- Sensitivity at a political level and adverse media coverage

### 2.2 *Assessing Financial Management in the Council*

2.2.1 Although the resources judgments in the Council's CPA inspection were 3 out of 4, the subsequent Use of Resources assessment gave a "2 out of 4" score overall with a score of 1 for financial reporting. This apparent downward trend ("harder test" issues aside) has prompted the Council to re-examine its arrangements and performance in relation to financial management.

- 2.2.2 The Council sought to commission an independent review of their financial management arrangements, with particular focus on the finance function itself. The review has been based on CIPFA's Financial Management Model.
- 2.2.3 This is effectively a self-assessment tool that looks at how an organisation scores against 42 best practice statements. The model is a matrix and is made up of 3 financial management aspects and 5 management dimensions. These are outlined in the diagram below:



- 2.2.4 IPF has undertaken this review to provide an independent and objective view of how the operation of financial management within Carlisle City Council compares with both best practice and other local authorities of a similar size and nature.
- 2.2.5 One specific area where an objective assessment has been requested is the Council's relationship with External Audit and the issues around the closure of accounts in 2004/05.
- 2.2.6 Through a review of documentation and correspondence, together with interviews with all key personnel (on both sides of the relationship) and other stakeholders, a comprehensive and objective view can be developed.

### 2.3 *This report*

- 2.3.1 The report is set out in the following format:
- Approach taken
  - External Audit Issues
  - Financial Management – current performance
  - Financial Management – analysis and comparisons
  - Conclusions and recommendations

## 3 Approach taken

### 3.1 *Review of documentation*

3.1.1 The following Council documents were looked at to help build up a picture of financial management within the organisation:

- Financial Services Business Plans
- Best Value Performance Plans
- Job Descriptions and Person Specifications for a selection of finance staff
- Reports to Executive and Council on financial issues
- Internal Audit reports looking at financial systems and procedures
- A selection of internally-produced procedure notes
- Closure of Accounts timetable and a selection of working papers
- Example management information reports, as sent to service managers

3.1.2 These documents make up a key part of the evidence used to carry out the assessment of financial management, although their content was not taken solely on face value. The aims, aspirations and statements were supplemented by a “reality check” in the form of interviews with key staff and stakeholders

### 3.2 *Interviews undertaken*

3.2.1 Discussions were held with the following groups of stakeholders:

- Finance function staff
- Senior Management
- Elected Members
- Other external stakeholders (Audit Commission, neighbouring authorities)

3.2.2 The majority of these interviews followed a consistent format, with key questions based on the CIPFA FM model material. In this way, a comprehensive view of how Carlisle operates as an organisation (in respect of financial management, at least) could be established from a variety of differing perspectives. **Appendix A** outlines the questionnaires used in these interviews, whilst **Appendix B** illustrates the best practice statements of the CIPFA FM model.

3.2.3 Where appropriate, these questions were supplemented with discussion about the relationship with External Audit and issues around the 2004/05 accounts.

### **3.3 Analysis and comparisons**

- 3.3.1 Although a full implementation of the CIPFA FM model has not been carried out, responses to interview questions and evidence from documentation reviewed have been analysed as compared to the best practice statements within the model.
- 3.3.2 This gives an objective view of how the Council's performance compares with best practice in financial management.
- 3.3.3 A more pragmatic comparison of arrangements and performance has also been carried out by analysing other councils within a comparator group (i.e. authorities of a similar size, nature and demographic makeup). This group includes:
- Exeter City Council
  - Great Yarmouth Borough Council
  - Lincoln City Council
  - Gloucester City Council
  - Preston City Council
  - East Staffordshire Borough Council
  - Chesterfield Borough Council
  - Ipswich City Council
- 3.3.4 The group gives a good cross-section of performance and approach, with CPA ratings ranging from "Fair" to "Excellent", and Use of Resources assessment scores from 1 to 3. **Appendix C** outlines the simple questionnaire used in the exercise, together with some typical comparator statistics.

### **3.4 Knowledge transfer**

- 3.4.1 Throughout the assignment, there has been regular contact with officers, either through a number of interviews, or through project management updates. One of the aims of this assignment is to pass on our knowledge and experience to Council staff and hopefully reduce reliance on external support in the future.

### **3.5 Conclusions and recommendations**

- 3.5.1 After evaluating our findings from the review of documents and interviews, and comparing these with practices in other local authorities, we have drawn out the common themes and highlighted key issues that warrant further investigation or action.
- 3.5.2 To this end, the report includes recommendations in the form of a high level improvement plan that can be taken forward, so the Council can build on its current performance.



## 4 External Audit Issues

### 4.1 *Historic relationships and context*

- 4.1.1 As set down in the Background section, there have been issues between the Council and District Audit over the last few years. The team from District Audit has some members who have an in-depth knowledge of the Council and its operations and have been carrying out final account audits for a number of years, but others who have not audited the Council before.
- 4.1.2 There have been significant delays in signing off final accounts, due in part to amendments and corrections, but also to delays in the Council responding to information requests and delays in District Audit responses. As at the date of this report, the 2004-05 accounts have still not been signed off.
- 4.1.3 Through reviewing documentation relating to the Audit Commission's assessment of the Council's performance, i.e.
- Use of Resources assessment (both the summary judgement and the detailed feedback report issued to the Council in March 2006)
  - Annual Audit Letters
  - Interim Audit reports

it becomes clear that the external auditors are keen to focus on the quality and accuracy of the Council's financial reporting.

### 4.2 *2004/05 Closure of Accounts*

- 4.2.1 The key issues from the 2004/05 accounts relate to:
- Major concerns over the lack of a Bank Reconciliation during the year
  - Cash flow statements
  - Asset valuations (these were the main adjustments to accounts)
  - Accounting for the costs of the flood on a cash basis, rather than accruals basis
  - Working papers still not being up to required standards, despite highlighted issues in previous years
- 4.2.2 With the flood in January 2005, many paper-based records and working papers from previous financial years were lost. As a consequence, final accounts procedures were affected, although many lead schedules for previous years and the statements themselves were online and backed up appropriately. These problems were compounded by the further reduction in timescales for closing the authority's accounts (by one month), as well as some staff sickness and the "learning curve" of the new financial information systems.
- 4.2.3 At the time of the actual audit, the resources employed by the Audit Commission were felt to be inadequate (in terms of quantity, not necessarily quality). Key

- team members were not on hand as much as in previous years, leaving a relatively inexperienced auditor to be the person “on point”.
- 4.2.4 The preliminary audit visit in April/May 2005 was too soon to be of any value, especially in the aftermath of the January flooding. Carlisle staff were still in the middle of closedown of accounts at this point.
- 4.2.5 The Council's own resources were stretched at this point due to the flood and the focus was on trying to rectify the problems with the system Bank Reconciliation. The Civica system had been implemented in April 2004, but the Bank Reconciliation module had not successfully worked at all since that implementation.
- 4.2.6 It is generally accepted that, in hindsight, some form of contingency measures should have been employed for Bank Reconciliations – be it parallel running with the old financial information system, or a manual procedure. Attempts to find a solution and achieve reconciliation have grown over time and have been quite costly in terms of resources allocated to this task.
- 4.2.7 At the time of these interviews, there was a fear that the final accounts for 2004/05 was becoming a political issue (the local elections in May 2006 have superseded these concerns).
- 4.2.8 The perception of the finance function throughout the Council (officers and Members alike) has been fine until recently, but the final accounts issue has caused some wider questions about financial management, generally. However, Use of Resources assessment and CPA suggest that there is no question of incompetence in the area of financial management.
- 4.2.9 The issue of a Section 11 recommendation from the Audit Commission related to recurring issues in relation to final accounts, over a period of 4 years. The outcome of a section 11 recommendation is that the issue and report must be discussed at a Council meeting and remedial action planned and taken as a priority.
- 4.2.10 At the time of this report being drafted, the Council are still awaiting written confirmation that the accounts for 2004/05 will not be qualified. *[POST SCRIPT: Accounts have now been signed off unqualified as of July 2006]*

### **4.3 Moving forward (2005/06 Closure of Accounts)**

- 4.3.1 Within the finance function there is a genuine concern that the main impact of the lack of sign off for the 2004/05 accounts will be that not enough attention will be directed to the closure of the 2005/06 accounts, by both the Audit Commission and the Council.
- 4.3.2 2005/06 sees a further constriction of timescales for producing final accounts and with several major issues still outstanding from 2004/05, some staff are unsure of the benefit of undertaking some closedown processes since further changes will be required.
- 4.3.3 Nevertheless, all staff interviewed are committed to ensuring that closure of accounts goes more smoothly and more accurately for 2005/06. Additional resources have been brought in to assist with the tasks, but this has been coupled with a reallocation of roles and responsibilities.

- 4.3.4 Steps have been taken to improve the wider awareness of the overall final accounts process throughout the organisation and managers' required inputs and responsibilities. This includes sessions at recent Managers' Conferences. In addition, the improvement action plan relating to the 2004/05 audit has helped focus attention on areas of weakness in the process.

#### **4.4 Views of Audit Commission from staff**

- 4.4.1 All staff interviewed found themselves surprised to be in this situation (i.e. a Section 11 recommendation) and all raised concerns that with the local External Audit team's distinct focus on technical accuracy and compliance, some objectivity and the concept of materiality was being overlooked.
- 4.4.2 Whilst all appreciated the capability and experience of some of the auditors, it was felt that the emphasis was on the technical aspects of the accounts.
- 4.4.3 Everyone we spoke to was of the opinion that there was little recognition of the improvements made in financial reporting (and quality of working papers) in recent years and that for 2005/06 final accounts, there was an expectation that it all needed to be "perfect". Another concern was the perception that the Audit Commission refused to view the flood as "mitigating circumstances".

#### **4.5 Views from external stakeholders**

##### ***The Audit Commission View***

- 4.5.1 The logical starting point for this work was to speak to the Audit Commission. An initial meeting was organised with the Council's overall District Auditor and Relationship Manager and another District Auditor brought in for the 2004/05 audit to cover sabbatical leave. Both District Auditors were present at the one meeting. A second meeting was held with the Council's Audit Manager and one of the main auditors working on the Carlisle City Council audit.
- 4.5.2 General "initial" comments from the first meeting with the Audit Commission have been used in this report, although the detailed material contained in the notes of the meeting has not been used (Appendix A(i) refers). The notes from the second meeting were subject to factual correction and were returned to IPF in good time. They have been used to inform this part of the stakeholder review.
- 4.5.3 The overall views of the Commission to specific questions asked by IPF are reproduced below in summary form.

| Questions                        | Audit Commission View  |
|----------------------------------|--|
| Accounts History                 | Number of errors significant. The 2004/05 audit has been one of the most difficult audits in 18 years of auditing. There have been delayed audit opinions in the last 4 years.<br><br>The overall audit approach is risk based and designed around a methodology aimed at meeting professional audit standards |
| Working papers proficiency       | Poor   |
| Technical Capabilities           | Large number of technical errors   |
| Senior Management support        | Insufficient priority given to the process   |
| Co-operation by the Council      | Council staff challenge legitimate information requests  |
| Audit adjustments                | Not carried out from the previous year   |
| Audit Project Plan               | Plan is only for accounts closure process-does not include the audit itself  |
| Bank reconciliation difficulties | No parallel reconciliation carried out-absence of any bank reconciliation prior to the January 2005 flood  |
| Role of Internal Audit           | Uncertain about the level of work carried out by Internal audit on the bank reconciliation   |
| Mitigating circumstances         | Floods not an issue. Reconciliations were not carried out prior to the flood.  |

- 4.5.4 In the Commission's view, "the 2004/05 audit has been one of the most difficult audits in 18 years of auditing," clearly illustrates the difficulties experienced by the Commission. This is reinforced by their view of the quality of the working papers ("poor") and the "large number of technical errors."
- 4.5.5 There have been key frustrations over the Council's 2004/05 bank reconciliation. The Council introduced a new computer system in April 2004 but relied on the in-built system reconciliation for bank reconciliation purposes. In the Commission's eyes, the material presented for audit was not auditable and it is clear that the failure to adopt a "belt and braces" approach to the system changeover particularly with regard to the bank reconciliation has been at the root of many of the 2004/05 audit problems.
- 4.5.6 The Council were hit by some major flood damage in January 2005 and have suggested this represents genuine mitigating circumstances for the current audit problems. The Commission while recognising the impact of the flood, do not believe the floods are an issue in relation to the bank reconciliation problems. Not even a system bank reconciliation was in place from the system implementation in April 2004 and the Council only began putting one in place just prior to the flood and then unfortunately all the working papers were lost. The Commission issued a final accounts memo for 2003/04 and the Annual Audit and Inspection letter in 2004 (prior to the floods) highlighting the absence of any bank reconciliations.

- 4.5.7 It is clear that the Council's failure to continue the traditional bank reconciliation until the system reconciliation could be properly implemented and reconciled in an auditable manner was a major error of judgement and one that has proved extremely costly to the Council.
- 4.5.8 The Commission highlight "insufficient priority given to the process" and incidences of Council staff challenging legitimate information requests. A smooth audit will only take place if there is good levels of co-operation between auditor and Council officials and if Council officials devote sufficient priority to this annual process. From the Audit Commission's viewpoint, there appears to be a lack of commitment from the Council side in this area.
- 4.5.9 In IPF's view, the annual audit should be a fairly routine process and should have the necessary resources invested in it to ensure a structured outcome, without any drama, resulting in a clean, unqualified audit opinion.
- 4.5.10 Overall the Commission highlight an audit fraught with problems and difficulties with poor investment in the process by the Council. Such a critical view demanded that IPF speak to other Cumbrian authorities to establish if the Commission were being unduly harsh on the Council (because this has been hinted at by Council staff) and whether their approach is consistent with audits elsewhere in the region.

***Cumbrian Directors of Finance***

- 4.5.11 Telephone interviews took place with senior finance representatives of all the other Cumbrian Councils including the County Council. Their general views are summarised in the table below:-

| Authority   | Experiences with the Commission  |
|-------------|--|
| Authority A | Improving but their communication skills could be better. Attitude to bank reconciliation for Authority A reasonable |
| Authority B | Unhappy with current arrangements  |
| Authority C | No problems-excellent, but can be frustrating at times   |
| Authority D | Fair and co-operative  |
| Authority E | Okay-pretty fair. Can be very pedantic though  |
| Authority F | Relationship generally good but frustrating (pedantic)   |

- 4.5.12 While the general view appears to be that the Commission's approach is fair, a general view emerged of a pedantic attitude which has led to a number of frustrations on the part of finance staff in the Cumbria region. One Council (B), were extremely unhappy with the current arrangements. Another authority (F) while feeling the relationship was generally good had a number of concerns.
- 4.5.13 Interestingly, Council A also introduced a new system at the same time as Carlisle but feel the Commission's attitude to their bank reconciliation has

been very reasonable. In 2004/05 they replaced their whole financial management system and also had a number of bank reconciliation problems although it appears they had more manual paperwork than Carlisle. So although the system used is different to Carlisle the District Auditor and Audit Manager are the same. Council A's Director of Finance was not sure if they used parallel running on their bank reconciliation but he does know they could exactly reconcile the payments side and were slightly out on the income side so the scope for compensating errors was minimised-this may be the reason their reconciliation ended up being accepted by the Commission.

- 4.5.14 Moreover, Council F has also experienced bank reconciliation difficulties resulting in small irreconcilable differences but no qualifications have been issued.
- 4.5.15 So five out of the current six Directors of Finance have a generally good relationship with the Commission although one of the five criticised them quite strongly. One council is extremely unhappy with current arrangements. Some of the Directors of Finance also hinted at a particularly difficult time being given to Carlisle.
- 4.5.16 There was a general feeling amongst the finance officials that experiences with the audit often depended on the audit team more than anything else.
- 4.5.17 While Carlisle has had a difficult time with their audit, there is no widespread evidence of these difficulties being experienced elsewhere in the region although one or two Councils do have problems with the Commission.
- 4.5.18 Bank reconciliation difficulties exist elsewhere in other Cumbrian Councils but these have not resulted in qualification of the accounts. Without knowing the specific circumstances of each Council's problems in this area, it is impossible to say whether Carlisle City Council's bank reconciliation problems have been treated any differently.

### ***Carlisle City Council Senior Staff and Members***

- 4.5.19 The general views of this group are shown in the table below:

| <b>Impact of Audit problems?</b> | <b>Failure to give the Audit priority?</b> | <b>View on Commission's approach?</b> |
|----------------------------------|--|---------------------------------------|
| No major impact on department    | Disagrees-priority given to process        | Pedantic                              |
| No impact on department          | Resourcing issue                           | Puzzling                              |
| Has affected credibility         | Don't know                                 | Co-operation needed                   |
| There has been an impact         | Not received the attention it deserves     | Uncompromising                        |
| Concern about damaged reputation | Not enough priority at corporate level     | Relationship issues had a bearing     |
| Impacts on                       | Fair comment,                              | Concern over the                      |

| Impact of Audit problems?        | Failure to give the Audit priority?                 | View on Commission's approach?               |
|----------------------------------|---|--|
| confidence in Financial Services | however, all significant issues have been addressed | proportionality of the Commission's approach |
| Cumulative effect                | Lack of urgency displayed                           | Gone overboard                               |
| Sanguine about this              | Resourcing issue                                    | Unkind                                       |
| Disturbing effect                | Fair comment by Commission                          | Acceptable                                   |
| Questionable accounts            | Yes-Authority too budget driven                     | Acceptable                                   |

4.5.20 Almost all respondents agree that the current audit problems have had a major impact on the work of the Council although in some of the departments themselves there has been little or no impact. It is clear most of the reputation damage has occurred at the corporate level.

4.5.21 When asked to comment on the Commission's view that there has been a failure to give the audit a high enough corporate priority in the Council, 6 out of the 10 respondents agreed with the view.

| Overall View  | Result    |
|---|-----------|
| Agree there was a failure to give the audit sufficient priority | 6         |
| Disagree-priority given to the process                          | 1         |
| Resourcing issue  | 2         |
| Don't know  | 1         |
| <b>Total</b>  | <b>10</b> |

4.5.22 When respondents commented on the Commission's overall approach, 6 out of the 10 expressed some sort of concern over the Commission's approach; 2 interviewees out of the 10 felt that the Commission's approach is acceptable. Other comments were made of "co-operation needed" and "relationship issues had a bearing."

4.5.23 So while 60% of respondents expressed concern about the Commission's approach to the audit, the same number agreed that there has been a failure to give the audit sufficient priority in the Council.



## 5 Financial Management – current performance

### 5.1 *Securing stewardship*

- 5.1.1 Through interviews and reviewing information and documentation, a view can be formed on how the Council performs in relation to the aspect of “securing stewardship”.

#### ***Internal controls***

- 5.1.2 Basic internal controls are in place to ensure fit and proper stewardship of funds and assets, although the Statement of Internal Control needed some adjustment on its implementation in 2003/04 (as borne out in the Annual Audit inspection).
- 5.1.3 Whilst most of the internal audit reports into financial systems, procedures and controls give a clean bill of health, there is one recurring theme – that of previous recommendations not being timely acted upon.

#### ***Closure of Accounts***

- 5.1.4 For closedown of accounts there is the “Pack” sent to all staff, informing them of the overall timetable and their responsibilities in the process. There is also an “internal” timetable listing all the tasks – each allocated to a member of staff – and the latest version takes account of the risk and even the length of time for each task. Monitoring of the timetable takes place on a weekly basis and any tasks not completed on time are followed up vigorously. In discussions it appeared that this was the aim, but not always true in practice, due to the other priorities of the 2004/05 accounts.
- 5.1.5 Major issues highlighted in monitoring are fed up to SMT as appropriate and there is also monitoring and consideration of the 2004/05 final accounts action plan (from District Audit) as a guide for what needs to be done to improve.
- 5.1.6 The decreasing timescales for the production and approval of financial accounts has been challenging, but staff feel well prepared to meet these deadlines.
- 5.1.7 The additional resource brought in to assist in closure of accounts has reviewed working papers and overall processes in light of how excellent authorities operate – these findings will be incorporated into current procedures wherever possible.
- 5.1.8 Working papers are now all online wherever possible (some source reports and documentation will need to remain in hard copy). There are clear lead schedules for all statements and notes to the accounts. Some cross referencing and indexing of the working papers needs development, but in the main, there is a clear audit trail from a figure in a financial statement through to the system reports that provide hard evidence of component figures.
- 5.1.9 There are no arrangements for “dry run” closedown exercises in place, but the Financial Services Business Plan states aims to go down this route and develop Balance Sheet Management reports as well.
- 5.1.10 There is still regular contact with external audit on progress and any changes in requirements (although clearly most discussions have centred on the 2004/05 accounts). Relevant staff attend technical updates and seminars



and conferences where appropriate, although there is a feeling that there is often not time to reflect on what has been learnt or how to implement the changes necessary.

- 5.1.11 It has been both interesting and worrying to observe the levels of working time that key staff are spending on the final accounts process – some in excess of 60 hours per week (including weekend working). There is obvious commitment to making 2005/06 a success in terms of compliance, but there must be a detrimental effect to both work/life balance for individuals and to the organisation.

## **5.2 Supporting performance**

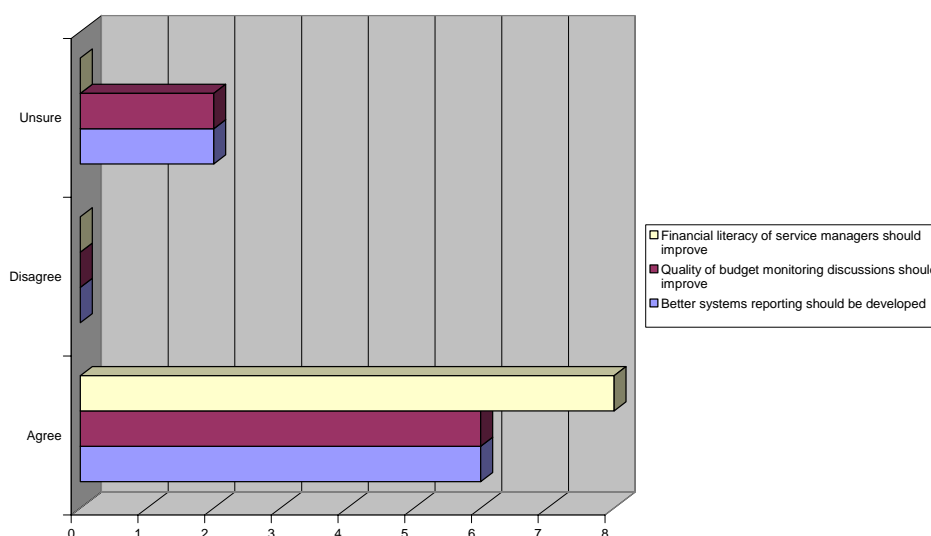
### ***Budget preparation and financial planning***

- 5.2.1 Budgets are prepared on an incremental basis, but also make use of outturn and forecasting information to a certain extent. They are prepared over a long planning period (June to February) and take account of Council priorities, legislative requirements and financial constraints (i.e. limited Council Tax increases).
- 5.2.2 Levels of carry forward are also included in the budgetary process, with formal mechanisms for approval, although compliance with clearing or addressing underspends is not particularly well developed.
- 5.2.3 The process covers both Revenue estimates and the Capital Programme. There is a prioritisation process for Capital schemes, although this is fairly recent and it is unclear how effective the evaluation is.
- 5.2.4 There are plans to develop challenge mechanisms for growth and new initiatives (together with existing activities), but nothing operates in practice at present.
- 5.2.5 The high levels of underspending suggest that more realistic estimates are required, coupled with effective monitoring of performance.
- 5.2.6 Long term planning extends to three years and the Medium Term Financial Plan appears to be a quite “static” document. The establishment of a Strategic Financial Planning Group, with both officer and elected member representation, has worked well and there are clear moves to improve:
- Financial forecasting
  - Performance Management and reporting
  - Alignment of budgets with local priorities

### ***In year monitoring and forecasting***

- 5.2.7 Monthly reports are sent out to service managers for the budgets that they hold. The reports are exported from the Financial Information System (FIS) and then adjusted and manipulated into the correct format. The summary reports do not show gross expenditure and income, but this has been recognised as something that needs to improve (it was highlighted in the Use of Resources assessment). The reports do distinguish between budgets that are directly and indirectly controlled, as well as showing any internal recharges separately. Further details on variance analysis are included as a separate part of the report, with key figures and commentary.

- 5.2.8 These FIS reports are supplemented by a face to face meeting with the appropriate member of the Finance team.
- 5.2.9 Any significant variances from planned expenditure/budget are discussed and justified, where necessary. Discussions with finance staff indicate that there is a high level of reliance on them in these meetings, even to the extent that they are expected to explain the reasons for variances, in some instances.
- 5.2.10 Budgets and reports are still prepared on a functional basis, although there are plans to move towards priority-led budgeting. Also, there are some simplistic links with performance management, but ostensibly, FIS reports remain very much financial management information reports.
- 5.2.11 Overall, forecasting of in-year expenditure remains basic and very much budget-led. Some commitment accounting is carried out, although our review has found that not much action takes place to ensure compliance.
- 5.2.12 For carry forwards, there is no formal mechanism for taking action on carry forward requests – some examples go over several years. There is some monitoring of unspent carry forwards as part of monthly monitoring, although there was no evidence of “punitive” action being taken.
- 5.2.13 The Financial Services Business Plan makes reference to plans to introduce more Balance Sheet monitoring and reporting during the financial year, but other pressures (e.g. 2004/05 accounts) have meant that this has yet to be put into practice.
- 5.2.14 The key issue over many years has been the relatively high levels of underspend on service activities. This is the case for both revenue and capital expenditure. Staff from within the finance function are adamant that through the current monitoring procedures, service managers (and indeed elected members) do not get “surprises” and are alerted of potential underspends well in advance of the end of the financial year.
- 5.2.15 There are some links between financial information and performance management in that reports tie in identification of high risk areas and the impact on performance of financial performance. However, this process is under review in the current financial year.
- 5.2.16 The consolidated views of finance staff on key issues relating to in year monitoring are shown below:



### **5.3 Enabling transformation**

#### **Structure of Finance Function**

- 5.3.1 How the Council's Finance function has been organised has changed several times over recent years (as a result of corporate restructures) and the present incarnation has been in place since the end of February 2006.
- 5.3.2 The elevation of the previous Head of Finance post to Corporate Director level has resulted in one of subordinate posts now overseeing both accountancy and systems & development support functions. This post should have the capability of acting as conduit between the finance function and Senior Management Team, as well as a clear leadership and control role – bringing two important elements of financial management together.
- 5.3.3 However, from discussions, it became apparent that in some cases, the chain of command is occasionally being circumvented, and the Corporate Director is being consulted directly (or even getting involved with) day to day technical issues. One key factor in this is that the office of the Corporate Director is adjacent to the Accountancy team and easily accessible.
- 5.3.4 Reviewing the latest job descriptions and person specifications, their ethos, language and objectives are to be commended. However, it is unclear how the content of these documents translate into practical roles and responsibilities and several had clear “generic paragraphs” inserted. Indications are that they will be reviewed in the light of recent restructures and potentially amended and refined.

#### **Financial management in projects / initiatives**

- 5.3.5 The finance function is represented on major project groups and staff have definite roles and involvement in the majority of significant capital schemes. A clear example of this is Carlisle Renaissance. Discussions show that the presence of finance staff is rarely an afterthought and there are proactive measures being taken to ensure robust business cases (in terms of financial information and project management).
- 5.3.6 The majority of representation is carried out by the Director of Corporate Services and there are concerns that her influence is being spread thinly over a large number of initiatives. There is scope for better delegation (where appropriate) and more selective representation.
- 5.3.7 The Council appears keen to be involved in (and indeed lead) many new initiatives (e.g. Carlisle Renaissance, Learning City, etc.) and those interviewed felt that this provided additional burdens on already stretched resources.
- 5.3.8 For capital schemes, a prioritisation model is in place, but its use is still being refined. Consequently, the Council has significant underspends and slippage on its schemes, whilst continuing to bring new schemes forward. Indications are that whilst a “fallow year” would be a good idea to allow the backlog of works and schemes to be cleared, no plans have been made for this as yet.

#### **5.4 Additional issues / findings**

##### ***Perception of Finance in the wider organisation***

- 5.4.1 Since the majority of personnel in the finance function have been with the Council for a long period of time, there is a good level of support displayed throughout the organisation. This has come to the fore with the 2004/05 final accounts issue.
- 5.4.2 The view is that the finance function can be relied upon to support service managers and the quality of advice and support (e.g. through the monthly monitoring meetings) is felt to be adequate and what is needed. However, there is some concern over existing reporting not being fit for purpose (at both member and officer level).
- 5.4.3 There is sympathy for the strain on resources caused by the new Civica system and the final accounts issues, but there is an expectation that the levels of service delivery and quality of services offered can and will increase once attention and resources are focused on “the day job” once again.

#### **5.5 Stakeholder views on general Financial Management competency**

- 5.5.1 Questionnaires were used to canvass views on the general financial management of the Council and also a structured scoring system based on the CIPFA financial management model helped arrive a stakeholder view of the three progressive financial management styles (securing stewardship, supporting performance and enabling transformation).
- 5.5.2 The structured scoring system was only used for the leader of the Council (representing the views of Members) and the senior management officials because they were deemed to have the in-depth knowledge required to adequately score against the good practice statements.
- 5.5.3 The views of the Audit Commission were also sought along with other Members by way of questionnaire and interview.

##### ***Audit Commission***

- 5.5.4 The views of the Commission are set out in the following table:

| Question  | Response   |
|---|--|
| View on overall financial management of the Council | Concerns exist over budgeting arrangements   |
| Views on current level of underspend?               | The Council do not use forecasting techniques  |
| Gershon savings shortfall?                          | Although not yet audited, there is a significant shortfall against the planned savings |

- 5.5.5 According to the Commission, it appears that an element of zero based budgeting exists for staff costs, but non-staff costs are incrementally based. The Council do not use forecasting techniques when producing budget statements but compare to the budgets initially set.

- 5.5.6 The Commission go on to say that variance analysis is very poor with variances not properly explained on the variance analysis sheet. The format of financial reports often fails to show a clear linkage between service committee reports and external reporting (as a result, service department reporting does not always match external financial reporting). Also, the final outturn mentioned in Council financial reports does not always match with the final accounts position.
- 5.5.7 The Commission supplied IPF with a full list of underspends for capital and Revenue.
- 5.5.8 The evidence gathered from the Commission does point to problems with the existing budgeting, monitoring and forecasting arrangements although these are not unusual in the local authority sector.
- 5.5.9 The Commission also point to a potential shortfall against the planned Gershon savings and this is an area the Council should now review.

***View of Members and Senior Management Team Members***

- 5.5.10 Some more extensive questioning was asked of members and senior officials. The responses are reproduced below:

| Budgeting in the Council (under spends)?  | Quality of Financial Reporting?                          | Quality of Financial Advice?                                  | Importance given to financial issues?  | Overall view on financial management?   |
|---|--|---|--|---|
| Bad Programming   | Problematic  | Reactive  | Important  | No problems   |
| Bad programming   | Good   | No complaints   | Reactive   | Could improve   |
| Bad programming   | No use   | Reactive  | Limited  | Below average   |
| Profiling could be better   | Information needs to improve                             | Director of Corporate resources does her best to be proactive | Better now-improving   | Could do better   |
| Underspend culture exists   | Should be shorter and clearer                            | Reactive-needs to change                                      | Still reactive but getting better  | Its getting better  |
| Habitual underspending is symptomatic of poor financial planning and overambitious objectives | Needs not met – better links with performance are needed | Reactive (though unsurprising due to current pressures)       | Senior officers and Members need to become more proficient in financial management | Adequate fro an average district council (but Carlisle does not wish to be “average”) |
| Improper profiling  | Difficult to understand                                  | Not questioned until now                                      | Important  | Considered good until now   |

| Budgeting in the Council (under spends)? | Quality of Financial Reporting? | Quality of Financial Advice?       | Importance given to financial issues? | Overall view on financial management? |
|--|---------------------------------|------------------------------------|---------------------------------------|---------------------------------------|
| Relaxed programming                      | Difficult to understand         | Good-helpful                       | Councillor training needed            | Not bad                               |
| Bad programming                          | Difficult to understand         | Mixed                              | Questionable                          | Considered good until now             |
| Bad programming                          | Difficult to understand         | Difficult to know questions to ask | Needs better management               | Good                                  |

5.5.11 There was almost unanimous agreement that poor programming and profiling is leading to the current underspends in the Council. It could be said there is almost a culture of underspending! This coupled with financial reports that are difficult to understand in the eyes of most Council stakeholders, mixed views on the proactive nature of any financial advice and a reactive approach to financial issues in the Council, generally point to a discipline that needs to improve. It is interesting to note that some respondents feel that overall financial management in the Council was “considered good until now,” while others consider it “good” or “not bad.”

5.5.12 In summary, Council stakeholders feel that the financial management in the Council is of an okay standard but could be improved.

## 6 Financial Management – Analysis and comparisons

### 6.1 *Securing Stewardship*

#### ***Internal Controls***

- 6.1.1 The highlighted issues relating to the Statement of Internal Control have been addressed and have not arisen in the 2004/05 audit. The mechanisms now in place are felt to be adequate and fit for purpose.
- 6.1.2 Key issues around performance relate more to culture than to compliance with process and procedures.
- 6.1.3 There needs to be more emphasis on implementing recommendations and initiatives, rather than moving onto planning new ones.

#### ***Closure of accounts / financial reporting***

- 6.1.4 There are clear signs of commitment to improving processes (and indeed some improvements), but more can be done.
- 6.1.5 The final accounts timetable needs to be monitored as a priority and clear action needs to be taken on any issues or delays that might arise. Reporting on progress is important for motivation and to highlight areas to focus on. Other authorities produce reports that indicate how many tasks are complete and what tasks are outstanding.
- 6.1.6 Attending and accessing technical update events and seminars is commendable, but arrangements need to be in place to allow what has been learnt to be put into practice.

#### ***Professionalism and development of staff***

- 6.1.7 Discussions and review have shown that there is a good culture for promoting professional development and recognition of the need to be technically proficient and up to date on accounting standards and legislation.
- 6.1.8 There seems to be a clear issue that many of the new concepts and requirements are being implemented (or planned), but no additional time or resources (i.e. beyond the day job) are made available. This can hinder service improvement and there is a need for some “breathing space” in order that all the basics are in place.

### 6.2 *Supporting Performance*

#### ***In year monitoring and forecasting***

- 6.2.1 Commitment accounting should be more robust and widely used than at present – it is important in determining at an early stage how well a service is performing (or spending) and can be used to develop more accurate and timely forecasting. This could help to eliminate some of the high levels of underspend that are occurring in some areas.



- 6.2.2 Whilst regular financial information monitoring and reporting is well established within the Council, there is more that can be done to create links between financial information and:
- Performance Management information
  - Risk Management
  - Asset Management information
- 6.2.3 All of these aspects can be monitored and acted upon and it is important to bring out the links between activity and cost – understanding the cost drivers of a particular service or activity, for example.
- 6.2.4 More attention is also needed on ensuring that feeder systems interface effectively with financial information systems in order to reduce errors and cut down on time spent manually (or otherwise) inputting data. It is important that this becomes an essential feature of all future evaluations for procurement and implementation of new systems.

### **6.3 Enabling Transformation**

#### ***Structure of finance function***

- 6.3.1 For an organisation of its size and nature (i.e. the services that it provides), the Council has an appropriate structure for its finance function. There is good representation on the Senior Management Team (as befits the role of a Section 151 officer) and there are arrangements for deputy s151 officers in place as well.
- 6.3.2 Whilst there is not the flatter structure for middle management that was in place previously, the current structure provides good levels of control and the potential for good two-way communication up and down the organisation.
- 6.3.3 Delegation and effective levels of knowledge management will be essential for this structure to work effectively and it is important that links in the chain are not circumvented (for whatever reason).
- 6.3.4 With the extraordinary workload burden that the finance function is currently facing, it is not easy to assess whether the current structure and establishment has the capacity to deliver services effectively.
- 6.3.5 However, comparisons with other local authorities of a similar size and nature suggest that the technical accounting capability of the finance function should be strengthened. Whilst the number of CCAB qualified staff within the Council is relatively high, it should be noted that many of these are in positions that are either strategic or outside of the accountancy function itself.
- 6.3.6 The impact of the additional member of staff brought in to assist with final accounts is evidence of how one further CCAB qualified member of staff (with the right level of experience) can provide clear service improvement.
- 6.3.7 There is need for a reassessment of burden and workload once things calm down after dealing with the final accounts and ensuring the full implementation of the financial information system.



### ***Financial management in projects / initiatives***

- 6.3.8 Whilst the Council is doing better than some other local authorities in ensuring that financial issues are given due regard in ad-hoc projects and initiatives, more is needed than just a watching brief by the section 151 officer. Real technical guidance and “added value” advice is what is needed if these new schemes are to succeed and be implemented effectively.
- 6.3.9 Representation on projects needs to be spread wider to help boost confidence in finance staff, assist professional development and succession planning, as well as adding elements of resilience and objectivity to project participation (i.e. not all the shoulders of one individual).
- 6.3.10 Clearly there needs to be effective systems of communication and knowledge management to ensure that the impact and outcomes of any projects or initiatives can be put into the wider context of financial management throughout the organisation.

## **6.4 Other issues / comparisons**

### ***Perception of Finance in the wider organisation***

- 6.4.1 Whilst it is encouraging to see the good level of support for the finance function in the wider organisation, there is still the issue that stakeholders are generally happy with the level of service they receive, but unaware of what could potentially be offered.
- 6.4.2 As borne out by the Use of Resources assessment and comparison with arrangements in similar local authorities, the nature of advice and service offered by a finance function can and should focus more on adding value rather than simplistic forecasting and production of information – a shift from “administrators” to “trusted advisors”.
- 6.4.3 Many service managers’ reliance on the finance function for “hand holding” on many issues, including budget monitoring, is testament to the need to improve financial literacy across the organisation. An aspirational situation to aim for would be “self-service” reporting for service managers – allowing finance staff to add value through interpretation, support and advice.
- 6.4.4 Finance staff are not making sufficient use of the capability that the new Financial Information System can offer. It is accepted that the failure of the Bank Reconciliation module has diverted attention and resources from effective implementation and refinement of the new system, but as soon as practicable, there needs to be focus on getting reporting tools to produce user-defined reports. This is in order to free up more time and resources for accountants to provide useful financial advice and guidance, rather than manipulate spreadsheets.
- 6.4.5 By making use of improvement tools (such as the CIPFA Financial Management model – which the Council has already purchased) the Council can assess where it wants to be in terms of financial management and service delivery and can develop a clear plan for improvement and action. In addition, maximising the capability of existing reporting tools within information systems and allowing users input into what reports they would like to receive can produce significant benefits in terms of cutting down on time

spent manipulating spreadsheets and can reduce any potential dual input or formula errors in the reports.

***Relationships, capacity and capability of key positions***

- 6.4.6 From discussions and meeting the finance personnel, it became clear that the new structure for the finance function does require some time to bed down and it will be important to see how it operates in a “steady state” (i.e. once the 2004/05 accounts and FIS issues are sorted out).

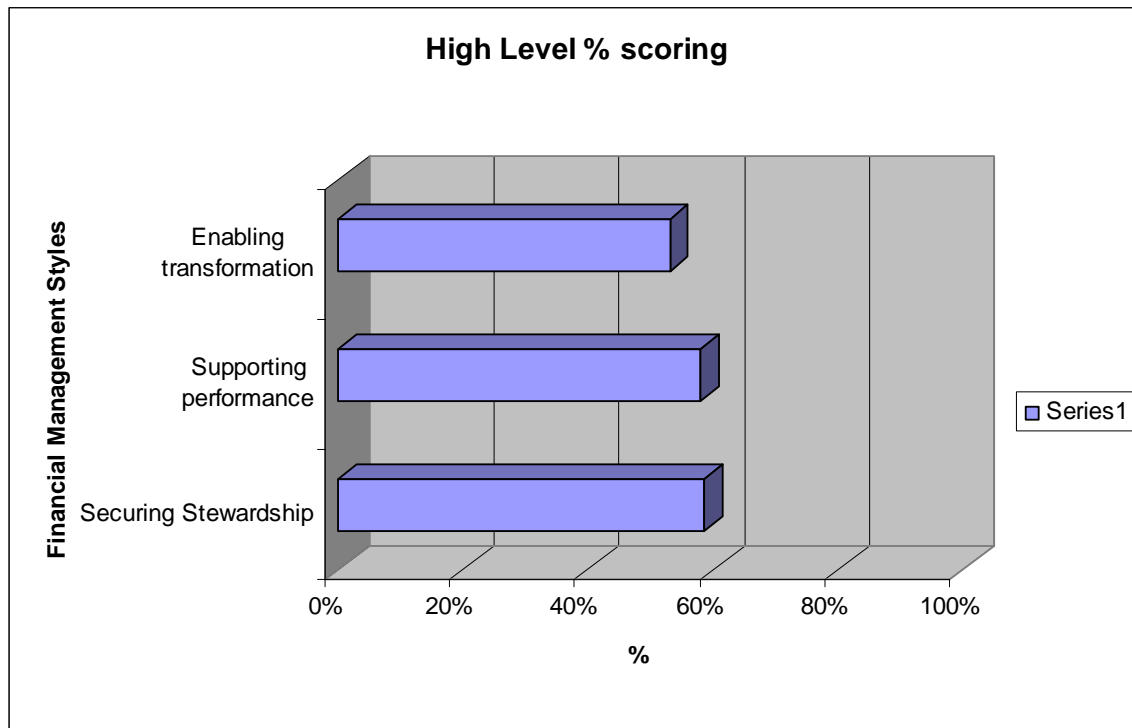
**6.5 *Stakeholder views on Financial Management***

***CIPFA Financial Management model scoring***

- 6.5.1 The CIPFA Financial model is a diagnostic tool used to establish the financial management competency of a public sector organisation based on 42 good practice statements.
- 6.5.2 The organisation is assessed against 3 styles of financial management using 5 management dimensions (Leadership, People, Processes, Stakeholders and Results).
- 6.5.3 Not all 42 good practice statements were used. It is normal practice for these to be “culled” in relation to the particular audience at which they are aimed.
- 6.5.4 Two separate set of statements were used. One set was aimed at Members (the Leader of the Council) while the second set targeted at SMT members. A full list of the good practice statements is shown at Appendix B.
- 6.5.5 The model requires a score on a range of 0-4 to be entered against each statement using a number of supporting questions to guide the participant. The key to the scoring system is shown here using a “traffic light” system.

| Colour | Class                            | Score     |
|--------|----------------------------------|-----------|
| Green  | Robust, Strong,<br>Best in Class | 3.0 – 4.0 |
| Amber  | Adequate                         | 2.0 – 2.9 |
| Red    | Weak to Poor                     | 0.0 – 1.9 |

6.5.6 The high level results of the exercise are shown below:



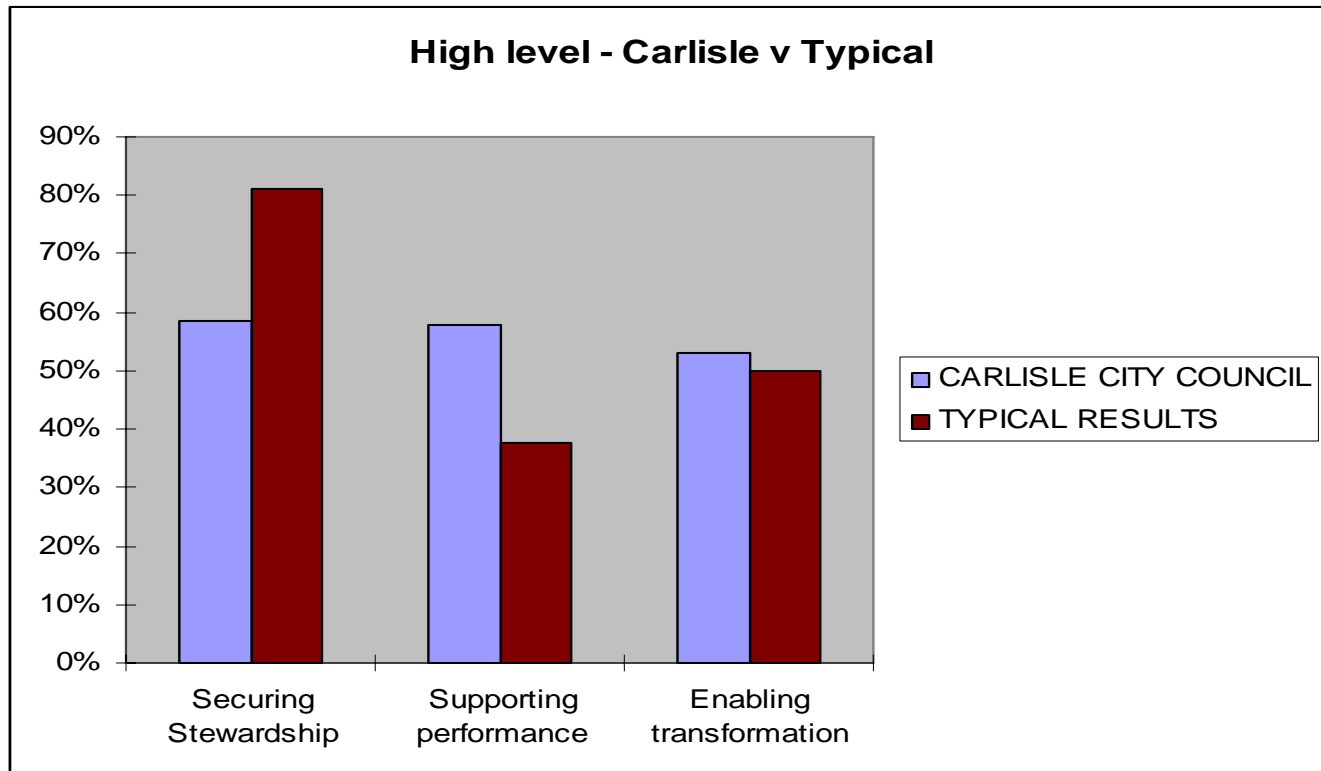
6.5.7 This is represented in more detail in the following table and is adjusted for rounding:

| OVERALL AVERAGE SCORING | Leadership | People | Process | Results | Stakeholders | TOTAL |
|-------------------------|------------|--------|---------|---------|--------------|-------|
| Securing Stewardship    | 3          | N/A    | 3       | 1.5     | 3            | 2     |
| Supporting performance  | 2          | 2      | 2       | N/A     | 2            | 2     |
| Enabling transformation | 2          | 2      | 2       | N/A     | 2            | 2     |
| TOTAL AVERAGE SCORE     |            |        |         |         |              | 2     |

6.5.8 A typical “average” local authority could expect to score in the following ranges:

| TYPICAL RESULTS<br>OVERALL AVERAGE SCORING | Leadership | People | Process | Stakeholders | TOTAL |
|--|------------|--------|---------|--------------|-------|
| Securing Stewardship                       | 4          | 2      | 4       | 3            | 3     |
| Supporting performance                     | 2          | 1      | 2       | 1            | 2     |
| Enabling transformation                    | 3          | 2      | 1       | 2            | 2     |

6.5.9 Comparison against typical “average” performance can now be shown in the graph below.



6.5.10 It can be seen that the Council does not score well when compared to the typical stewardship score and demonstrates the need for real improvement in this area. In contrast, supporting performance and enabling transformation is better than typical.

## 7 Conclusions and recommendations

### 7.1 External Audit Issues

#### ***Conclusions of Finance views on the Annual Audit process***

- 7.1.1 There is very much a feeling that the Council cannot take all the blame on the 2004/05 accounts issue – there needs to be an understanding that even the Audit Commission should not be regarded as totally beyond reproach.
- 7.1.2 There is a deep level of commitment in the finance function to ensure:
- Quality of working papers is of the highest standard
  - Contingency measures will be in place for any future systems changes (e.g. parallel running) to ensure accounting requirements and controls are met
  - The relationship with External Audit can improve and everyone can “move on” from the 2004/05 issues

#### ***Conclusions of Stakeholder views on the Annual Audit process***

- 7.1.3 There is no doubt the 2004/05 audit has been an extremely challenging, frustrating and energy sapping experience for all those concerned.
- 7.1.4 While evidence exists that the Audit Commission are pedantic, inconsistent and frustrating to deal with, there is no doubt they have legitimate concerns about the audit process in Carlisle City Council.
- 7.1.5 There might be some intangible evidence of relationship issues between the Audit Commission District Auditor and the Director of Corporate Services in the Council, although there is no evidence of a general heavy handed approach in the other Cumbrian authorities or of serious relationship concerns.
- 7.1.6 The Council must begin to take its stewardship role extremely seriously and ensure that not only are sufficient technical and manpower resources directed towards the annual audit but that full priority is given corporately to this annual process and not seen purely as a finance department necessity.

### 7.2 Financial Management

- 7.2.1 Review analysis and comparison with others shows that the Council should not be unduly worried about the state of its financial management arrangements.
- Many other district councils have issues with overspending and underspending
  - Financial literacy needs to improve, along with increased ownership of financial management and audit
  - There needs to be a “backing off” from new initiative to allow focus on basic elements of stewardship and financial control

### ***Internal Controls***

- 7.2.2 With the rising prominence of the Statement of Internal Control, it is important that proper regard and attention continues to be given to it. There also needs to be a change in culture in the Council as a whole that means that any recommendations from inspections or reviews (be it internal audit, external audit or consultants) are acted upon in a reasonable timeframe.

### ***Closure of accounts / financial reporting***

- 7.2.3 More attention needs to be paid to the overall process by the organisation as a whole. It is important to realise that it is not solely a “finance” issue, but the entire organisation (and particularly senior management and elected members) have key responsibilities.
- 7.2.4 Maximising the benefits of a relationship with external auditors should be a main priority. Closer working can allow concepts and new requirements to be discussed well in advance of the year-end.
- 7.2.5 Best use should also be made of disclosure checklists (from CIPFA or from the Audit Commission themselves) wherever these are available. One caveat is that care must be taken not to go down the route of a “tick box” mentality with satisfying audit requirements acting as the primary driver in the final accounts process.
- 7.2.6 We would also advocate a “dry run” of closedown, at the end of Quarter 3, for example. This approach is aligned with the Council’s intention to develop better (regular) cash flow and balance sheet management reports.
- 7.2.7 With the long hours being input by staff into the process at present, serious consideration needs to be given to either strengthening establishment on a permanent basis or looking at providing additional resources to assist in closing the accounts (i.e. addressing peaks and troughs of workload).

### ***Professionalism and development of staff***

- 7.2.8 More thought is needed with regard to succession planning – although staff have been with the Council for a long period of time, there is no guarantee that this will continue. Indeed the Council may seek to get some “new blood” into the finance function, filling any gaps in technical expertise and providing objective views on current practices.
- 7.2.9 Another key development issue is knowledge management amongst finance staff. This can help resilience (particularly in times of peak workload) and can allow staff to develop, gaining local knowledge along the way.
- 7.2.10 A worrying trend in district councils is a move away from CIPFA trained staff to other CCAB qualifications. This is fine as long as any gaps in knowledge or public sector experience are addressed in a robust and supportive manner.

### ***Budget preparation and financial planning***

- 7.2.11 There is need to introduce more challenge into processes and to ensure that all input is verified to move away from the culture of underspending that has been allowed to develop across the council

- 7.2.12 Medium term financial planning needs to become a more dynamic process rather than a static document. It could become more of an interactive tool to better assist and inform the budget process.

***In year monitoring and forecasting***

- 7.2.13 Service managers need to improve their financial literacy and play a far more active role in monitoring their budgets. This should free up accountancy resources to allow the quality of financial advice to improve.
- 7.2.14 One key plank in this improvement will be the development of effective reporting (user defined where possible) – making use of the improved reporting tools and capability of the new financial information system.

***Structure of the Finance function***

- 7.2.15 Comparisons and review show that additional input of technical resources into the Financial Services establishment can bring about improvement in service delivery.
- 7.2.16 This is borne out by the positive impact of the employment of a temporary resource and also the high level of hours being worked by existing staff to bring closure of accounts to a conclusion.
- 7.2.17 A thorough review of the current structure and - more importantly- current allocation of roles and responsibilities is essential in the near future to ensure increased effectiveness. However, this should not be done until workload pressures have returned to a “steady state” (i.e. the 2004/05 accounts and the Bank Reconciliation issues have been concluded).

***Financial management in projects / initiatives***

- 7.2.18 Whilst Finance is held in good regard and is actively involved in new corporate initiatives, the highlighted issues (and even gaps in some cases) in the basic stewardship aspects of financial management suggest that the focus should return to getting the basics right.
- 7.2.19 In a period of introspection, the issues can be addressed (and it should not be too difficult to achieve this), providing a much firmer foundation on which to build up the “supporting performance” and “enabling transformation” aspects of financial management.
- 7.2.20 By moving forward in this way, the Council can be even more effective and look to bring about innovation with lower risk.

***Perception of Finance in the wider organisation***

- 7.2.21 One positive thing to come out of the 2004/05 accounts issue has been the opportunity to review how the Finance function (and indeed financial management, generally) is regarded in the Council.
- 7.2.22 It has acted as a “wake up call” for the function and can allow proper attention to focused on how financial services should be provided, what can be done to improve performance and how resources can be allocated to bring about that improvement.

- 7.2.23 It has made stakeholders acutely aware of what is currently on offer and what could be potentially available. It has also focused minds on the fact that the organisation as a whole (and everyone within it) has a responsibility for financial management.

***Stakeholder views/conclusions on general Financial Management competency***

- 7.2.24 The stakeholder view paints a picture of an “okay” financial management operation but one that is now perhaps being questioned because of the recent audit problems.
- 7.2.25 Substantial work needs to be done addressing the below average stakeholder rating. This means:
- Giving the Audit process high priority;
  - Overhauling existing reporting systems to ensure that they meet users needs;
  - Moving from a reactive to a proactive financial management style;
  - Reviewing the existing budgeting systems and placing greater emphasis on accurate profiling/programming; and
  - Introducing proper forecasting techniques to the budgetary process
- 7.2.26 The Council should consider rolling out the CIPFA FM model tool to help drive improvement in these areas.
- 7.2.27 Efforts in this area will result in a substantially improved financial management operation.

**7.3 Overall conclusions**

- 7.3.1 It is unclear at this point about the final outcome of the 2004/05 final accounts situation, but it is hoped that there will be no qualifications and a reasonable result for all concerned. What is important is that valuable lessons are learnt from this issue, namely:
- The benefits of a mutually supportive relationship with external audit
  - An understanding that even the auditors are not beyond reproach
  - The need for contingency measures in any major change, systems or otherwise
- 7.3.2 On more general financial management, the view is that the Council is no better and no worse than the majority of authorities of its size and demography – namely that reliance can be placed on arrangements for financial management, but performance, service delivery and effectiveness can still be greatly improved. There are specific areas that the Council can focus on, but in the main, the key changes needed for improvement are cultural and include:
- An increased sense of ownership across the whole organisation in relation to financial management



- Better financial literacy for senior managers and elected members
- A shift in perception in the wider organisation – from viewing the finance function as administrators to regarding them as “trusted advisors”

#### **7.4 Recommended actions**

- 7.4.1 To assist the Council in achieving improvement in financial management in a structured manner, that can easily be planned and monitored, we have developed a high level improvement plan that incorporates our recommendations. This is show in tabular form on the next few pages.

| Ref. | Action for improvement  | Benefits   | Suggested Responsibility | Indicative Timescale |
|------|---|--|--------------------------|----------------------|
| 1    | <b>Internal Controls</b>  |  |                          |                      |
| 1.1  | Change culture of inaction in response to recommendations by: <ul style="list-style-type: none"> <li>• Closer monitoring of recommendations from inspections (inclusion in business plans or even personal appraisal plans)</li> <li>• Developing punitive measures for non-implementation of agreed recommendations</li> </ul> | <ul style="list-style-type: none"> <li>• Moving focus from identifying issues and planning change to actual implementation and action</li> </ul>   | A Brown                  | December 2006        |
| 2    | <b>Closure of accounts / financial reporting</b>  |  |                          |                      |
| 2.1  | Refine closedown timetable <ul style="list-style-type: none"> <li>• Ensure close working with external audit</li> <li>• Ensure early consideration of changing requirements, material events or new accounting treatments</li> </ul>  | <ul style="list-style-type: none"> <li>• Changes are highlighted earlier and can be worked through in partnership</li> </ul>   | A Brown                  | December 2006        |
| 2.2  | Improve indexation of working papers: <ul style="list-style-type: none"> <li>• Make full use of disclosure and audit checklists</li> <li>• Ensure a clear audit trail from a figure on the face of the statements down to source reports/documentation</li> </ul>   | <ul style="list-style-type: none"> <li>• Makes audit process simpler and easier</li> <li>• Allows focus on key issues <b>before</b> audit</li> <li>• Structured approach that can be easily updated from year to year</li> </ul> | A Taylor                 | January 2007         |
| 2.3  | Improve final accounts process: <ul style="list-style-type: none"> <li>• Carry out "dry run" closedown at end of Quarter 3</li> </ul>   | <ul style="list-style-type: none"> <li>• Highlights changes and issues well in advance</li> <li>• Helps with move towards cash flow and</li> </ul>   | A Taylor                 | October 2006         |

| Ref. | Action for improvement  | Benefits   | Suggested Responsibility | Indicative Timescale |
|------|---|--|--------------------------|----------------------|
|      |   | balance sheet reporting  |                          |                      |
| 3    | <b>Professionalism and development of staff</b>   |  |                          |                      |
| 3.1  | Establishment of knowledge management systems: <ul style="list-style-type: none"> <li>• Development and maintenance of procedure notes</li> <li>• Increase level of job rotation (or job shadowing)</li> <li>• Sessions on roles and processes as part of regular management team meetings (or forums)</li> <li>• Cascade learning points from training or external events</li> </ul> | <ul style="list-style-type: none"> <li>• Sharing of knowledge and best practice</li> <li>• Improves resilience of finance function</li> <li>• Can improve job satisfaction</li> <li>• Aids professional development</li> </ul> | A Brown                  | December 2006        |
| 3.2  | Encourage continuing professional development: <ul style="list-style-type: none"> <li>• Maximise benefit of corporate CPD registration</li> <li>• Encourage increasing knowledge / training / experience of public sector finance issues (esp. local authorities) for non-CIPFA CCAB qualified staff</li> <li>• Ensure time is made available for CPD activities</li> </ul>           | <ul style="list-style-type: none"> <li>• Development of staff</li> <li>• Up to date technical knowledge</li> <li>• Improved resilience</li> </ul>  | S McGregor               | September 2006       |
| 3.3  | Encourage innovation and initiative by: <ul style="list-style-type: none"> <li>• Supporting staff suggestions for change (as appropriate)</li> </ul>  | <ul style="list-style-type: none"> <li>• Motivation and development of staff (aids succession planning)</li> <li>• Addresses capacity issues for more</li> </ul>   | A Brown                  | October 2006         |

| Ref. | Action for improvement   | Benefits  | Suggested Responsibility | Indicative Timescale |
|------|--|---|--------------------------|----------------------|
|      | <ul style="list-style-type: none"> <li>• Delegate responsibility for trialling changes / new concepts</li> <li>• Encouraging representation on initiative / project teams by more junior staff</li> </ul>  | senior staff  |                          |                      |
| 4    | <b>Budget preparation and financial planning</b>   |   |                          |                      |
| 4.1  | Introduce more challenge into the budgeting process by: <ul style="list-style-type: none"> <li>• Developing “decision conference” approaches where members and senior officers can consider priorities and growth bids</li> <li>• Improve public consultation in the budgeting process</li> <li>• More stringent measures on continuing budgets (especially in areas of underspend)</li> <li>• Developing Zero based budgeting techniques for areas (possibly on a rolling programme)</li> </ul> | <ul style="list-style-type: none"> <li>• Closer alignment of budgets with priorities</li> <li>• Improved dialogue with stakeholders (where possible)</li> </ul> | A Brown                  | December 2006        |
| 4.2  | Improve forecasting to avoid underspends by: <ul style="list-style-type: none"> <li>• Increased use of commitment accounting</li> <li>• Stronger links with performance management – looking at activity as drivers of cost</li> </ul>   | <ul style="list-style-type: none"> <li>• More accurate estimating</li> <li>• Strengthening links between financial and non-financial information</li> </ul>     | S McGregor               | August 2006          |
| 4.3  | Addressing the “underspend culture” by: <ul style="list-style-type: none"> <li>• Limiting carry-forwards (thresholds and time limits)</li> </ul>   | <ul style="list-style-type: none"> <li>• Reduces incentive to delay or defer spending</li> </ul>  | A Brown                  | November 2006        |

| Ref. | Action for improvement   | Benefits  | Suggested Responsibility | Indicative Timescale |
|------|--|---|--------------------------|----------------------|
|      | <ul style="list-style-type: none"> <li>Introducing tougher justification for carry forwards – reviewing criteria for evaluation</li> <li>Introduce targets with punitive measures as appropriate</li> </ul>  |   |                          |                      |
| 5    | <b>In year monitoring and forecasting</b>  |   |                          |                      |
| 5.1  | Develop clearer links with performance management, risk management and asset management. This can be done through: <ul style="list-style-type: none"> <li>using unit costs for activity</li> <li>linking activity levels with budgets/spend</li> <li>linking key PIs with spend</li> </ul> | <ul style="list-style-type: none"> <li>Better understanding of cost behaviour</li> <li>Aids forecasting</li> <li>Demonstrates links more clearly to stakeholders</li> </ul> | A Brown                  | December 2006        |
| 5.2  | Improve commitment accounting by: <ul style="list-style-type: none"> <li>Ensuring all purchase orders entered on FIS</li> <li>Ensuring all goods and services ordered have a purchase order number</li> </ul>  | <ul style="list-style-type: none"> <li>More accurate forecasting</li> <li>Better monitoring of planned spend</li> <li>Fewer “surprises”</li> </ul>                          | S McGregor               | September 2006       |
| 5.3  | Develop reporting capability by: <ul style="list-style-type: none"> <li>Making full use of Crystal Reports</li> <li>Training staff in Crystal where necessary</li> <li>Running workshops / sessions to establish what users would wish to see in their reports</li> </ul>                  | <ul style="list-style-type: none"> <li>Less accountancy input into producing reports</li> <li>Reports focused on users’ needs</li> </ul>                                    | S McGregor               | October 2006         |

| Ref. | Action for improvement   | Benefits  | Suggested Responsibility | Indicative Timescale  |
|------|--|---|--------------------------|---|
| 6    | <b>Structure of finance function</b>   |   |                          |   |
| 6.1  | <ul style="list-style-type: none"> <li>Detailed review of all job descriptions and person specifications</li> </ul>  | <ul style="list-style-type: none"> <li>Ensure documents are relevant and useful for the roles they describe</li> <li>Amendments can reflect changes to service levels and responsibilities</li> </ul> | A Brown                  | December 2006   |
| 6.2  | <ul style="list-style-type: none"> <li>Assessment of workload / burden on each role within the finance function</li> <li>Reallocation of tasks and responsibility where appropriate</li> </ul>   | <ul style="list-style-type: none"> <li>More even, balanced and appropriate allocation of workload</li> <li>Determine sensible groupings of tasks (to match skills sets where possible)</li> </ul>     | A Brown                  | September 2006<br><br>(once 2004/05 accounts and Bank Rec solved) |
| 6.3  | <ul style="list-style-type: none"> <li>Detailed analysis of pattern of workload – establishing peaks and troughs</li> <li>Determine whether permanent increase in establishment or use of temporary resources at key times is best option</li> </ul>   | <ul style="list-style-type: none"> <li>Improved knowledge on when and how to allocate resources</li> </ul>  | S McGregor               | October 2006  |
| 7    | <b>Financial management in projects / initiatives</b>  |   |                          |   |
| 7.1  | <ul style="list-style-type: none"> <li>Carry out a status review (and reality check) on all current projects and initiatives</li> <li>Assess priorities and develop a “deferral strategy” where resources will be directed to improving basic stewardship aspects as an interim measure</li> </ul> | <ul style="list-style-type: none"> <li>Gives a clear picture on where resources are being employed and the impact of reducing these to concentrate on “basic” issues</li> </ul>                       | A Brown                  | September 2006  |

| Ref. | Action for improvement  | Benefits   | Suggested Responsibility | Indicative Timescale |
|------|---|--|--------------------------|----------------------|
|      | <ul style="list-style-type: none"> <li>Ensure that a risk management approach is taken in doing this</li> </ul>   |  |                          |                      |
| 7.2  | <ul style="list-style-type: none"> <li>Where appropriate, delegate representation on project groups to lower management levels</li> </ul>                     | <ul style="list-style-type: none"> <li>Address capacity issues at more senior management level</li> <li>Improve staff development</li> </ul> | A Brown                  | October 2006         |
| 7.3  | <ul style="list-style-type: none"> <li>Develop formal knowledge management mechanisms to circulate progress and issues on projects and initiatives</li> </ul> | <ul style="list-style-type: none"> <li>Improve resilience</li> <li>Improve staff knowledge and development</li> </ul>                        | S McGregor               | October 2006         |

**Audit Commission Questionnaire**

**IPF's commission - Update on latest position**

**Audit Commission view of the recent history of problems with the accounts**

**The Accounts**

- *Inadequate supporting working papers*
- *Technical Errors*
- *Lack of Support by senior management for the audit process*
- *Poor co-operation by Council staff*
- *Failure to give the audit process a high priority*
- *Failure to carry out agreed audit adjustments*
- *Extent of audit project planning*
- *Bank Reconciliation difficulties*

**Annual Statement of Internal Control**

**Role of Internal Audit**

- *Mitigating circumstances*

**Financial Management**

- *Opinion on overall financial management of the Authority*
- *Pattern of continual underspends (capital and revenue)*
- *Shortfall against planned Gershon savings*



**Meeting with Members : Questionnaire**

- *Background on Interviewee*
- *Historical problems with late closure of the accounts (since 2001).*
- *Bank Reconciliation difficulties-arrangements at time of system changeover*
- *Quality of Reporting from Director of Corporate Services and SMT on this issue*
- *Lack of support by senior staff for the audit process and failure to give the audit process a high priority (view of Audit Commission)*
- *How have Members dealt with the issues with the Audit Commission. What are your views on the approach taken by the Commission?*
- *Audit Commission have raised issue of a pattern of continual underspends in capital and revenue.*
- *General quality of financial reporting from the Director of Corporate Services*
- *General view on overall financial management of the Council*
- *Views on the importance given to financial issues in the Council both at Officer at Member level.*

**Meeting with SMT: Questionnaire**

- *Background on SMT member*
- *Historical problems with late closure of the accounts (since 2001) allayed to current bank reconciliation issues. Give a flavour of the impact on the Council and your own Department.*
- *Lack of support by senior staff for the audit process and failure to give the audit process a high priority (view of Audit Commission)*
- *What are your views on the approach taken by the Commission?*
- *Audit Commission have raised issue of a pattern of continual underspends in capital and revenue. Does this affect your own department? What is your view of the overall budgeting approach in the Council?*
- *Quality of Financial Reports your Department receives from the Finance team. Do the reports meet your needs?*
- *Quality of the financial advice given to you by the Director of Corporate Services. Is it proactive or reactive?*
- *Views on the importance given to financial issues in the Council both at Officer at Member level.*
- *General view on overall financial management of the Council*

## IMPROVING FINANCIAL MANAGEMENT AND EFFECTIVENESS IN PUBLIC SERVICE ORGANISATIONS – THE CIPFA FM MODEL

### THE MODEL IN SUMMARY

#### LEADERSHIP

##### SECURING STEWARDSHIP

- L1** There is a clear framework of financial accountability throughout the organisation.
- L2** The organisation plans how resources are allocated to different services and activities and monitors that money is spent accordingly.

##### SUPPORTING PERFORMANCE

- L3** The organisation has developed financial management policies to underpin sustainable finances, and reviews performance against them.
- L4** The corporate business plan is integrated with financial planning and influences resource allocation.
- L5** Financial management supports good strategic decision making and performance management.

##### ENABLING TRANSFORMATION

- L6** Financial management and governance arrangements encourage wide-ranging input to develop future goals and customer focus.
- L7** Financial management strategies are based on present and future business needs. They support the change agenda and a culture of innovation, improvement and development, balancing control and flexibility.
- L8** The organisation is ambitious in its strategic goals and realistic in its delivery plans.

#### PEOPLE

##### SECURING STEWARDSHIP

- P1** The need for financial competencies is identified and met.
- P2** There are sufficient skilled finance staff to meet business needs.

##### SUPPORTING PERFORMANCE

- P3** Managers know when and how to access financial advice.
- P4** There are active efforts to equip the organisation with the financial management competencies it needs to realise its goals.
- P5** Finance staff have the skills to analyse financial issues and offer options and advice.

##### ENABLING TRANSFORMATION

- P6** Financial literacy is diffused throughout the organisation.
- P7** The organisation develops and sustains its capacity to enable financial management to shape and support its transformational programme.

## PROCESS

### SECURING STEWARDSHIP

- PR1** There are proper arrangements for internal control.
- PR2** Proper arrangements are in place to identify and manage key business risks.
- PR3** Proper arrangements are in place to prevent and detect fraud and corruption.
- PR4** There are proper arrangements for provision of internal audit.
- PR5** Budgets are soundly based.
- PR6** Managers are accountable for managing their budgets.
- PR7** Budget monitoring and forecasting reports ensure 'no surprises' & inform active budget management.
- PR8** There are proper arrangements in place for partnership working.
- PR9** Financial information systems meet users needs.
- PR10** Financial accounting and reporting meets regulatory and professional standards.
- PR11** Specialist financial services (e.g. creditor payments, income collection, payroll, pensions administration and cash management) are accurate, timely and efficient.

### SUPPORTING PERFORMANCE

- PR12** A medium term planning process sustains business and financial performance.
- PR13** Value for money is the responsibility of all managers and finance staff.
- PR14** Procurement processes deliver value for money.

### ENABLING TRANSFORMATION

- PR15** Financial management processes support organisational change agendas.
- PR16** Internal processes are radically re-engineered when appropriate

## STAKEHOLDERS

### SECURING STEWARDSHIP

- S1** There is confidence in the integrity of the organisation's financial conduct.
- S2** Customers/service users are given clear information about the service they will receive and are treated consistently.

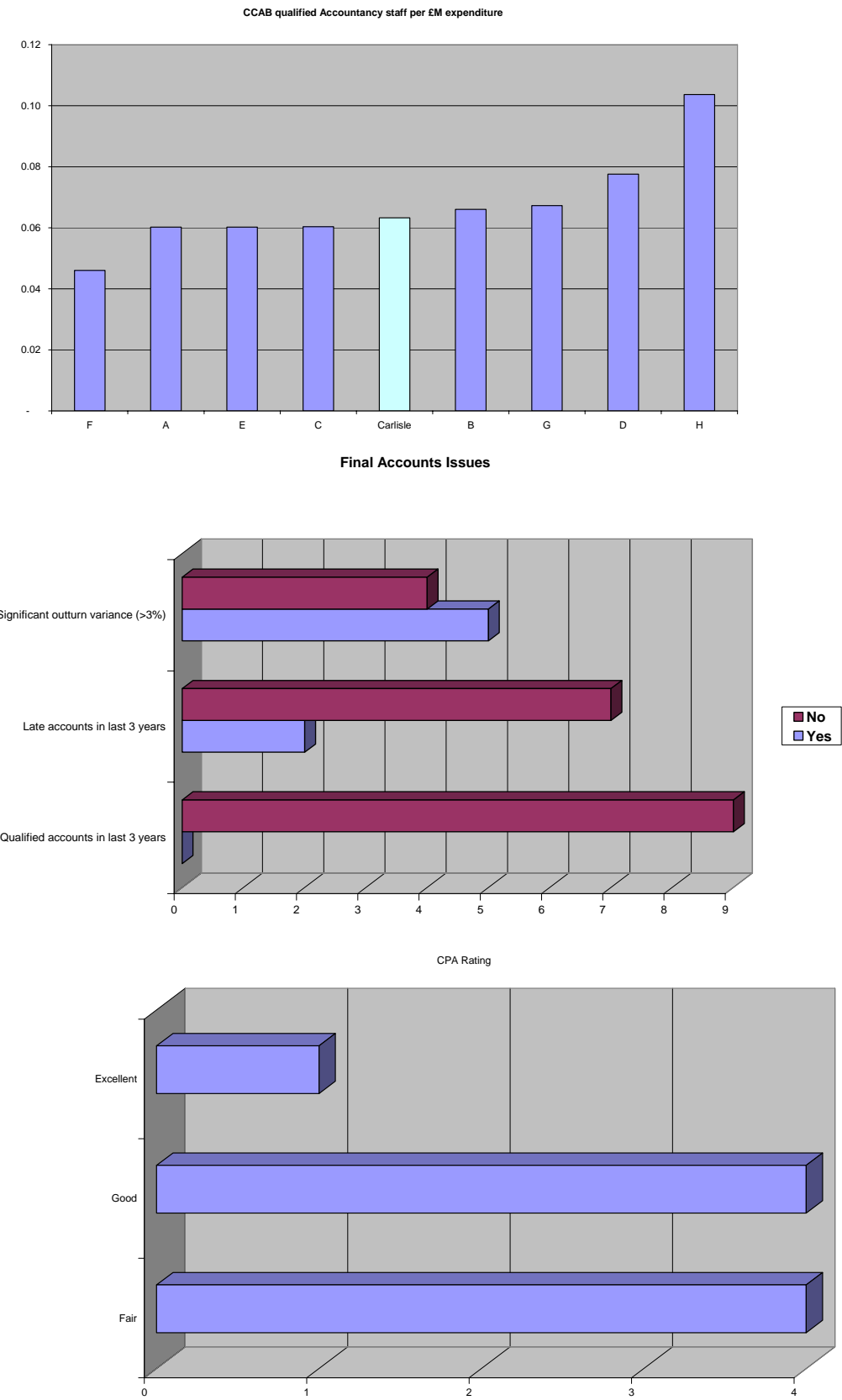
### SUPPORTING PERFORMANCE

- S3** There is public confidence that the organisation delivers value for money (vfm).
- S4** There is equity in the treatment of customers/service users.
- S5** Internal financial services are organised to give their customers a value added service.
- S6** Financial services to the public and internally are customer focused.

### ENABLING TRANSFORMATION

- S7** Customers and service users can bring influence to bear on key financial management policies, including resource allocation and tax decisions.
- S8** The service is user centered and there is individualised treatment of customers.

Comparator Authorities – Typical Statistics



**Financial Management Questionnaire**

|                          |  |
|--------------------------|--|
| Authority name           |  |
| Main contact             |  |
| Email address            |  |
| Contact telephone number |  |

|  |  |
|--|--|
| CPA Rating (latest)                                |  |
| Date of latest CPA inspection                      |  |
| Use of Resources overall final assessment (1 to 4) |  |
| Financial Reporting                                |  |
| Financial Management                               |  |
| Financial Standing                                 |  |
| Internal Control                                   |  |
| Value for Money                                    |  |

|   | Yes | No | Comments |
|---|-----|----|----------|
| Have your accounts been qualified in the last 5 years?  |     |    |          |
| Has there been late sign off issues for final accounts in the last 5 years?                                   |     |    |          |
| Have there been significant levels (i.e. 3% or more) of underspend / overspend on budget in the last 5 years? |     |    |          |

|  |  |
|--|--|
| Gross Total Expenditure for 2006/07 (£000)   |  |
| Number of CCAB qualified accountants working in accountancy section (excluding Strategic Managers/Directors) |  |
| Role holding section 151 / 114 responsibilities (e.g. Director of Finance, Head of Finance, etc.)            |  |