

# **Use of Resources Auditor Judgements**

**Carlisle City Council**

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

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## Introduction

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

**Table 1 Standard scale used for assessments and inspections**

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

The overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 15 March 2007.

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

## Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level**

<b>Key lines of enquiry (KLOEs)</b>	<b>Score 2006</b>	<b>Score 2005</b>
<b>Financial reporting</b>	<b>1</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
1.2 The Council promotes external accountability.	2	1
<b>Financial management</b>	<b>2</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
2.2 The Council manages performance against budgets.	2	1
2.3 The Council manages its asset base.	2	2
<b>Financial standing</b>	<b>3</b>	<b>2</b>
3.1 The Council manages its spending within the available resources.	3	2
<b>Internal control</b>	<b>2</b>	<b>2</b>
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	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	2
<b>Value for money</b>	<b>2</b>	<b>2</b>
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	2	2

## Theme summaries

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

**Table 3 Summary of findings and conclusions by theme**

<h3>Financial reporting</h3> <p><b>Theme score 1</b></p>	
<p><b>Key findings and conclusions</b></p> <p>The 2005/06 financial statements were prepared to statutory and agreed audit timetable and included a complete set of financial statements, disclosures and notes. The accounts had a number of areas where disclosures were not SORP compliant and they contained a significant number of errors.</p> <p>Greater efforts to produce a more comprehensive package of working papers continued in 2005/06 with improvements noted in the level of working papers available at the start of audit compared to the previous year. However, there is still scope to improve evidencing of figures and reasoning to support accounting treatment and an adequate level of performance.</p> <p>Progress made in responding to auditor queries, however further improvement in understanding and responding promptly to accounts queries is required.</p> <p>Arrangements improved this year so that the most recent annual audit letter was published on the Council's website. Committee papers are made available on a timely basis. Arrangements to place the most recent published accounts (audited accounts) on the website are established.</p> <p>Summary accounts have been published although could be improved by including commentary of performance against budget. Consideration is being given to consulting wider stakeholders on the need for an annual report.</p>	
<p><b>Improvement opportunities</b></p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Ensure that the accounts submitted for audit are 'presented fairly' and contain only minimal errors.</p> <p>Continue to improve the standard of working papers to help support the figures and accounting treatment within the accounts.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>Consult with stakeholders on the need for an annual report.</p>

## Financial management

**Theme score 2**

### Key findings and conclusions

The corporate business plan incorporates stakeholder and partner consultation, efficiency improvements, the revenue implications of capital projects/known developments and service developments. Risk assessment (including partnership activity) and sensitivity analysis remain limited.

The full implications of key strategies such as HR upon the MTFs are still developing and it is not clear how the MTFs key messages across the three year period are communicated to other stakeholders, particularly partners.

Improvements are being considered in terms of reviewing budgets annually in light of the reasons for, and consequences of, the previous year's outturn, a detailed review of carried forward amounts and links to the medium-term financial strategy. The resource implications of delivering the Medium Term Financial Plan on an annual basis are being reviewed and work is ongoing to clarify priorities as part of the development of the 2007-2012 Corporate Improvement Plan.

Improved procedures, guidance and training is required so that soundly based project appraisals, business plans and affordability tests are produced for new policy and capital developments. The Council needs to evidence that investment and disposal decisions are based on thorough option appraisal and whole life costing.

The Council should regularly test all its financial systems to ensure that their processes are secure. A key control in this area is the timely production of monthly balanced traditional bank reconciliation. Now that monthly bank reconciliations have been produced Internal Audit should regularly test them.

The Council has recently reviewed its practices and procedures in respect of partnerships, including its role in the financial monitoring of partnerships, and their implementation should see further progress being made in this area.

Improvements have been made in terms of the repairs backlog which has been reported to Members and identification of proposed action to tackle the backlog.

There is no evidence of current local performance measures that evaluate asset use in relation to corporate objectives.

<b>Financial management (continued)</b>	
<b>Improvement opportunities</b>	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>Improve the MTFS by developing risk assessments and sensitivity analysis in business planning.</p> <p>Improve the links between the MTFS and key strategies such as HR.</p> <p>Ensure there are appropriately evidenced project appraisals, business plans and affordability tests for new policy and capital developments.</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Ensure that internal audit regularly review the bank reconciliation in detail.</p> <p>Regularly review the financial performance of partnerships, link to outputs, and ensure the results are shared with partners and acted upon.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Develop a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.</p> <p>Ensure that investment and disposal decisions are based on thorough option appraisal and whole life costing.</p>

## Financial standing

Theme score 3

### Key findings and conclusions

The Council sets a balanced budget linked to cost pressures and council tax levels. The budget report includes a positive assurance statement on the adequacy of reserve levels and reserves are monitored.

There has been a policy in place for a number of years on the level of reserves. The Council should take the opportunity to review this in detail to ensure that reserve levels remain appropriate, and if they are exceeded, the Council should consider the cost and benefits of holding balances at this level, and report this to Members.

The Council continues to keep its spending within budget. Further improvements are required to demonstrate that underspending is identified, anticipated and acted upon within the year to make best use of available resources.

The treasury management strategy is in accordance with CIPFA requirements with good arrangements in respect of monitoring of income collection and arrears with effectiveness of recovery actions considered as part of recent revenues review.

### Improvement opportunities

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

Review current policy on reserves to ensure that reserve levels remain appropriate. If they are exceeded, the Council should consider the cost and benefits of holding balances at this level, and report this to Members.

Improve the process to ensure that underspending (and overspending) is acted upon to maximise best use of available resources.

<h2 style="margin: 0;">Internal control</h2> <p style="margin: 0;"><b>Theme score 2</b></p>	
<p style="margin: 0;"><b>Key findings and conclusions</b></p> <p>Corporate Resources Overview and Scrutiny Committee is responsible for reviewing corporate risks on a quarterly basis with the Audit Committee being responsible for overseeing and challenging the adequacy of the risk management framework. Relevant Members and the senior management team have had risk management training although unclear as to what assessment has been made as to training requirements for other staff.</p> <p>The Council is working towards linking risks in the risk register to corporate objectives with arrangements in place to ensure the risk management process will be reviewed and updated at least annually. The Council has recently strengthened governance arrangements for partnerships. The risk management process needs to specifically consider risk in relation to significant partnerships and provide assurances about the management of those risks.</p> <p>Arrangements are in place for the annual review of the effectiveness of the systems of internal control (SIC) with greater involvement of Members this year and improved clarity over the sources of assurance to support the SIC.</p> <p>The Council has accepted proposals from Marsh Consultancy to help with the development of a new plan / strategy for Business Continuity Management. The Council should ensure that the plan is put in place as soon as possible and then reviewed on a regular basis. Work is ongoing in respect of reviewing and updating procedure notes so that all procedure notes will be complete and up to date.</p> <p>In January 2007 the Council produced traditional bank reconciliations for each month from April 2006 to December 2006. Although we have not reviewed them, we believe that it is a positive move which now needs to form part of the Council’s ongoing key monthly internal control arrangements.</p> <p>The Council has in place codes of conduct for Members and staff, a Whistleblowing policy and a Fraud, Theft and Corruption response plan. However, there is no overall pro-active counter fraud and corruption work plan based on a proper risk assessment of all functions of the Council.</p>	
<p style="margin: 0;"><b>Improvement opportunities</b></p>	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Identify relevant staff needing training and guidance to enable them to take responsibility for managing risk within their own working environment.</p> <p>Ensure, particularly around complex partnerships, that risks are being actively managed.</p>

<b>Improvement opportunities</b>	
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Continue to update procedure notes/ manuals for all key financial systems.</p> <p>Develop a new business continuity plan which is promptly implemented and reviewed on a regular basis.</p> <p>Ensure that the Council has appropriate governance arrangements in place for each of its significant partnerships.</p> <p>Continue to produce timely monthly traditional bank reconciliations and ensure these are reviewed by a senior officer.</p>
<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>	<p>Communicate the whistleblowing policy to parties contracting with the Council.</p> <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>

## Value for money

### Theme score 2

#### Key findings and conclusions

The Council is relatively high spending and there are connections between high expenditure and high performance. This is not comprehensive and high performance is not demonstrated across all service areas. There are some positive trends where improvement in performance is made alongside increased cost efficiency.

Increased investment has been targeted at priority areas and improvement trends are being generated as a result e.g. benefits, homelessness and waste.

Efficiency targets have been set for the Council and are subject to regular monitoring and investigation with targets currently being exceeded. Overall targets are set but processes are starting to develop to identify particular areas for efficiency gains.

The capital programme is well connected to corporate priorities and the projects board monitors programme delivery. Recent improvements to the monitoring information should assist further development, currently there is some slippage against project timetables and the overall annual programme.

Corporate processes do not show strong links between cost, activity and performance information including the quality of services. The evaluation of the accessibility of services across localities and for vulnerable groups in communities is not developed. There is increasing connection between financial and performance information within investigations of efficiency gain or service improvement and quarterly seminars support the process.

Procurement processes are developing and spending patterns have been reviewed. Collaborative procurement arrangements continue to be explored but have not yet secured significant efficiency and quality gains.

#### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

Improve the evaluation of service quality and cost factors to target relative improvement in VFM, including the effectiveness of increased investment.

KLOE 5.2 The Council manages and improves value for money.

Improve the availability and use of corporate intelligence on equity of access to services and variation in locality performance and need.  
Ensure the best application of resources by reviewing profiles of underspending at corporate and service level.

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

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

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

KLOE	Summary of criteria
<b>Financial reporting</b>	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meet the needs of a range of stakeholders is published and their views are considered in deciding whether to publish an annual report.
<b>Financial management</b>	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month-end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.

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<b>KLOE</b>	<b>Summary of criteria</b>
<b>Financial standing</b>	
3.1	Collection and recovery of material categories of income is monitored.
<b>Internal control</b>	
4.1	Appropriate staff are trained in risk management.
4.2	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.
4.2	Arrangements for carrying out the functions of an audit committee are effective.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004).
4.2	Governance arrangements are in place for significant partnerships.
4.3	The Council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.