

Use of Resources

March 2006



# **Use of Resources Audit Score Feedback**

**Chorley Borough Council**

**Audit 2005-2006**

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

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

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
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## Introduction

- 1 The annual use of resources (UoR) assessment evaluates how well councils manage and use their financial resources. It is a more stringent test than the auditor scored judgements that formed part of the comprehensive performance assessment (CPA) framework up until 2004. The scope of the assessment has also been widened.
- 2 The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes.
- 3 Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale.

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

- 4 The overall score for use of resources will be reported to the Council by the Audit Commission on 13 March 2006. The scores for Chorley Borough Council for the five themes are outlined overleaf.

## Summary scores for each theme

Overall, Chorley Borough Council is performing well on its use of resources.

<b>Key lines of enquiry (KLOE)</b>	<b>Score</b>
<b>Financial reporting</b>	<b>2</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	2
1.2 The Council promotes external accountability.	2
<b>Financial management</b>	<b>3</b>
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly-based and designed to deliver its strategic priorities.	2
2.2 The Council manages performance against budgets.	3
2.3 The Council manages its asset base.	3
<b>Financial standing</b>	<b>3</b>
3.1 The Council manages its spending within the available resources.	3
<b>Internal control</b>	<b>2</b>
4.1 The Council manages its significant business risks.	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	1
<b>Value for money</b>	<b>3</b>
5.1 The Council currently achieves good value for money.	3
5.2 The Council manages and improves value for money.	3

## Theme summaries

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

### Financial reporting

<b>FINANCIAL REPORTING</b> <b>Overall score 2</b>	
<b>Key findings and conclusions</b>	
<p>A satisfactory and reasonably supported set of accounts have been presented for audit, with good basic processes in place to make accounts available on a very timely basis and to publicise summary accounts. Although the accounts did contain a material error in each of last two years, these were isolated instances relating to SoRP compliant technical issues.</p> <p>Need to introduce a process of consultation with a range of stakeholders on content and format of future summary accounts. Consider the benefits of producing an annual report in a user-friendly format.</p>	
<b>Improvements needed to move to performing strongly</b>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Complete and cross reference the working paper checklist to electronic working papers along with a predictive analytical review.</p> <p>Develop the planned approach to achieving WGA (Whole of Government Accounts) deadlines in the future, with further evidence of the necessary re-engineering of processes.</p> <p>Improve the QA arrangements to ensure Statement of Accounts is fully SoRP compliant and free from material and non trifling errors.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>Consult with stakeholders on summary accounts and then publish a format in response to that consultation. The summary should include an explanation of key financial information which is understandable to the public and available in a wide variety of formats.</p> <p>Compile an annual report which is user-friendly and available in a wide variety of formats.</p>

## Financial management

### FINANCIAL MANAGEMENT

Overall score 3

#### Key findings and conclusions

The Council has taken effective action to ensure that its medium-term financial strategy (MTFS), budgets and capital programme are soundly-based and are adequately designed to deliver its strategic priorities. Further improvements to the Council's financial management arrangements can be made through incorporating the new community plan and other internal plans into the future MTFS to assist in the delivery of its strategic priorities.

Performance is actively managed against budgets and the Council performs well on managing its asset base, and the capital strategy is being updated to reflect current priorities.

#### Improvements needed to move to performing strongly

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.

Council needs to prepare regular cash flow forecasts during the year.  
Ensure new community plan priorities are incorporated within the updated MTFS.  
Corporate business plan needs to include a three-year sensitivity analysis on revenue and capital assumptions.  
MTFS needs to be linked into other internal strategies and model balance sheets and cash flow over three years, which is agreed with partners and other stakeholders.  
Council needs to regularly review FM arrangements to ensure they are fit for purpose and proactively manage any changes from future wider developments.

KLOE 2.2 The Council manages performance against budgets.

Review financial performance of the Council's partners.  
Deliver regular financial management training for members and non-financial officers.  
Produce accurate profiled financial monitoring reports for all budget holders ten days post month-end.  
Link operational activity-based cost driver indicators and risk assessments in budget monitoring reports.

<b>Improvements needed to move to performing strongly</b>	
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Performance measures and benchmarking should be used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities, and the results shared with stakeholders.</p> <p>The Council needs to further develop an approach for the co-ordination of asset management information and its integration with relevant organisational financial information.</p>



## Financial standing

<b>FINANCIAL STANDING</b> <b>Overall score 3</b>	
<b>Key findings and conclusions</b>	
<p>In common with most authorities, the Council operates within tight budgets. The Council has a good track record of managing it's spend within budget, linking the level of reserves against the financial risks it faces. Minor improvements can be made on monitoring debtor income collection and the effectiveness of recovery arrangements. Strong performance can be secured through members monitoring of financial health indicators.</p>	
<b>Improvements needed to move to performing strongly</b>	
KLOE 3.1 The Council manages its spending within the available resources.	Members need to monitor key financial health indicators and the Council should consider opportunity cost of reserve levels against benefits accrued.

## Internal control

<p><b>INTERNAL CONTROL</b> Overall score 2</p>	
<p><b>Key findings and conclusions</b></p>	
<p>The Council does have well-performing arrangements to manage its significant business risks largely achieved through the integration of risk management into its performance management and business planning framework. Although risk management is considered within each of the major partnerships, more work is required through formulating a partnership RM policy framework. To secure strong performance on managing risks broader staff and member RM-related training is required.</p> <p>There are sufficient basic controls, strategies and policies in place to give the Council a well-performing regulatory framework, although there are no formalised arrangements for regular review of this documentation. There are arrangements to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. Members are involved in the process which monitors systems of internal control. Some formalisation and development of existing procedures will be required before advancement to strong performance. However, some important elements have still not been embedded to ensure probity and propriety in the conduct of the Council's business such as an adopted whistle blowing policy. Partnership arrangements need to be developed in this area. The approach to promote and ensure probity and propriety in the conduct of its business needs to be more proactive.</p>	
<p><b>Improvements needed to move to performing strongly</b></p>	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Adopt a formal assurance policy framework to manage partnerships risks. Formalise member arrangements through agreed terms of reference and regular reporting on corporate risks and ensure appropriate RM training for all members not already trained.</p> <p>Ensure risks in relationship to partnerships are formulated into a policy.</p> <p>Ensure risk management is embedded into the new performance management system including the appropriate capture and management of emerging strategic risks.</p> <p>The Council needs to consider how to be explicit in considering the upside of risks in its decision-making arrangements through to its day-to-day management of its activities.</p> <p>RM needs to be explicitly linked to policy review.</p>

<b>Improvements needed to move to performing strongly</b>	
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Introduce a formal procedure for the annual review of basic regulatory documentation.</p> <p>Extend the Audit Committee's terms of reference to more clearly specify its risk and governance remit and to support this with more awareness training.</p> <p>Put agreements in place for all the Council's significant partnerships.</p> <p>Provide improved evidence that compliance with standing orders, standing financial instructions and the scheme of delegation is monitored by management, with any breaches identified and appropriate action taken.</p> <p>Ensure the assurance framework is fully embedded in the Council's business processes.</p> <p>Set up an audit committee which is constituted as a full committee of the Council and is independent of both the executive and scrutiny functions.</p> <p>Take steps to ensure that the audit committee chair has received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime.</p> <p>The standing orders, standing financial instructions and scheme of delegation should make specific reference to partnerships.</p>

<b>Improvements needed to move to performing strongly</b>	
<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>Produce a whistleblowing policy which is issued to members, staff and made available to third parties on the Council's website.</p> <p>Introduce a register of interests for officers along with arrangements to review them to ensure appropriate action is taken were disclosures raise issues.</p> <p>Assess standards of conduct, including how effectively members are complying with the code of conduct, the number and type of complaints received, and takes action as appropriate.</p> <p>Develop a strong counter fraud and wider ethical governance culture which is supported and promoted by members and senior officers.</p> <p>Undertake proactive counter fraud and corruption work which is determined by a formal risk assessment.</p>

## Value for money

### VALUE FOR MONEY

Overall score 3

#### Key findings and conclusions

Costs for major services are at or below average compared with other district councils providing similar levels of service, allowing for the local context. The Council's major service areas are typified by above average levels of performance and comparatively high levels of customer satisfaction. In overall terms, there is a positive relationship between costs, spending and levels of resident satisfaction.

The Council understands the underlying reasons why its costs and spending patterns differ from nearest neighbours and there is evidence that these reflect policy decisions of elected members. Significant resources have been redirected and re-aligned to support key priorities. However, structures and processes for assessing the wider VFM of policy decisions for the whole community are not yet clear.

Information on costs and how these compare to others and to the quality of services achieved is being used to review and challenge VFM corporately and in major service areas. However, benchmarking of costs and service quality is not yet being used consistently throughout all services as a means of challenging costs, performance and VFM both currently and over time.

Links between spending, investment and the Council's corporate priorities are evident within day-to-day operational arrangements, and demonstrable improvement has been achieved in priority areas. However, there is not yet an agreed definition of what VFM means at Chorley BC. Service-based VFM assessments are not routinely undertaken and VFM targets are not widely set, suggesting that VFM considerations have not yet been fully integrated by all services into day-to-day management arrangements.

The Council has recognised the importance of Business Process Transformation (BPT) in securing improvements in service delivery and VFM. It reviewed its key processes in 2004 and a programme of priority areas was identified for BPT. There is evidence that this approach has helped to focus greater attention and resources on delivering efficiency improvements, particularly in relation to back office functions. Best value and other reviews have led to improvements in performance and VFM across a range of priority services.

Major variations between budget and spend to date are highlighted through the existing corporate financial monitoring reports. However, reports do not necessarily report on wider VFM issues, nor do they bring together information on costs and quality. The Council has still to fully integrate regular VFM monitoring into its existing performance management arrangements.

<b>Key findings and conclusions</b>	
<p>Members have agreed a programme of savings and efficiency gain targets linked to priorities. An efficiency statement is in place that sets out some detailed work streams and efficiency targets. The Council has identified a need to further develop its existing structures for monitoring and reviewing efficiency savings and is in the process of implementing initiatives to address identified areas of weakness.</p> <p>The Council understands the full short and long-term costs of its actions and there is evidence that it is taking account of these when evaluating options and making policy decisions. Capital projects are clearly and consistently appraised against the Council's priorities, the MTFP and its capital investment strategy. There is evidence that recent procurement and other spending decisions take account of full long-term costs and are supported by business cases to help guide and support further decision-making.</p> <p>More effective procurement practices are currently being developed and implemented by the Council so that VFM from procurement can be more clearly demonstrated at both strategic and transaction cost levels. There are some good examples of how wider procurement, including opportunities for joint and partnership procurement, are being used by the Council to improve service performance, quality and VFM. There is awareness that, in addition to cost, quality and VFM are relevant to procurement decisions.</p> <p>There is evidence that the Council is making effective use of IT as a means of managing and improving VFM in its internal management processes, back office functions and frontline service delivery.</p>	
<b>Improvements needed to move to performing strongly</b>	
<p>KLOE 5.1 The Council currently achieves good value for money (VFM).</p>	<p>Benchmarking information on costs and quality of services achieved currently and over time needs to be used consistently throughout all services and corporately as a means of challenging performance and VFM.</p> <p>VFM considerations need to be integrated by all services into their day-to-day operational management arrangements. Clear VFM targets are needed for senior managers and members to assess VFM and monitor its achievement.</p> <p>Structures and processes for assessing the wider VFM of policy decisions for the whole community need to be formalised.</p>

<b>Improvements needed to move to performing strongly</b>	
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>Bring together information on costs and quality of services in regular reporting to members.</p> <p>Ensure full integration between all of the Council's key strategies to enhance effective performance management arrangements.</p> <p>Strengthen structures for monitoring and reviewing efficiency savings.</p> <p>Develop comprehensive and effective procurement practices so that VFM from procurement can be more clearly demonstrated at both strategic and transaction cost levels.</p>