

Use of Resources

March 2007



# **Use of Resources Auditor Judgements 2006**

**Chorley Borough Council**

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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 Table 1 outlines the scale on which judgements will be made for each theme which has been standardised by the Audit Commission across inspection and performance assessment frameworks.

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**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 16 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. Appendix 1 provides further guidance on assessing embeddedness and achieving strong performance.
- 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 2. 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 Chorley Borough Council are outlined overleaf. A summary setting out our key findings in relation to each theme and key areas for improvement is also provided.

## Use of resources judgements

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

The Council is continuing to perform well across all financial and internal control themes with emerging strong performance on achieving VFM

<b>Key lines of enquiry (KLOEs)</b>	<b>Score 2006</b>	<b>Score 2005</b>
<b>Financial reporting</b>	<b>3</b>	<b>2</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	2
1.2 The Council promotes external accountability.	3	2
<b>Financial management</b>	<b>3</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
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	3	3
<b>Financial standing</b>	<b>3</b>	<b>3</b>
3.1 The Council manages its spending within the available resources.	3	3
<b>Internal control</b>	<b>3</b>	<b>2</b>
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	1
<b>Value for money</b>	<b>4</b>	<b>3</b>
5.1 The Council currently achieves good value for money.	4	3
5.2 The Council manages and improves value for money.	3	3

## Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in Table 3. Improvement opportunities are also included and have been prioritised at the Council's request using the following criteria.
- High – improvement required to maintain the current level of performance;
  - Medium – improvement required to improve upon the current level of performance; and
  - Low – recommended improvement that does not affect the level of performance.

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

<h3>Financial reporting</h3> <p><b>Theme score 3</b></p>
<p><b>Key findings and conclusions</b></p> <p>Financial statements were produced within deadlines and were subject to robust member scrutiny.</p> <p>On receipt of the first draft of accounts on 29 June 2006 our initial review identified a significant movement year on year, on housing cost of services within the General Fund which highlighted a £12.5m error. The error was reported back in time for amendment before initial Accounts Committee approval and a recommendation was made in the Annual Governance report to introduce more robust analytical review pre audit submission.</p> <p>Whilst there were a small number of non-trivial errors, these had no bottom line impact and following amendment, an unqualified opinion was issued. Arrangements to promote external accountability have been strengthened in recent years, and the Council is now performing well on financial reporting. Specific improvements since the 2005 assessment include:</p> <ul style="list-style-type: none"> <li>• financial statements supported by working papers in electronic format; and</li> <li>• publication of annual report, following stakeholder consultation.</li> </ul>

<b>Improvement opportunities</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 the working papers requirements checklist, including analytical review procedures and CIPFA's SORP disclosure checklist. <i>(Medium)</i></p> <p>Develop arrangements to ensure all additional requests from the auditor are responded to promptly in accordance with agreed deadlines. <i>(Medium)</i></p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>Continue to promote external accountability in line with recent activities to demonstrate arrangements are fully embedded. <i>(Medium)</i></p>



## Financial management

Theme score 3

### Key findings and conclusions

The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. Medium term financial planning is due to be further developed in 2007/08 through improved linkages to other internal strategies and plans.

The asset base and performance against budgets are actively managed, although arrangements to review the financial performance of significant partnerships are yet to be introduced. The Council has recently begun to use cash-flow monitoring to inform short and long-term investment decisions and plans to produce a development programme to provide regular training on financial issues for relevant non-finance staff. Other improvements since the 2005 assessment include:

- MTFS more clearly driven by the corporate strategy;
- Internal Audit review of partnership arrangements, including financial performance;
- Flexible reporting tools of Radius financial system enabling design of specialist reports; and
- Training on financial issues provided for members.

Improvements on managing the Council's asset base in 2006 include the:

- output based property services outsourcing contract designed to deliver improved service quality and vfm;
- review of AMP and maintenance programmes have been more closely aligned with annual business planning processes; and
- development of some vfm and other performance targets set out in the Property Services contract to help evidence vfm and wider service improvement.

### Improvement opportunities

KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.

Build sensitivity analysis into the development of the corporate strategy and gather more explicit evidence of stakeholder consultation. *(Medium)*  
State revenue implications of capital investment plans more explicitly in the MTFS. *(Low)*  
Develop linkages between the MTFS and other internal strategies and plans as appropriate, eg human resources, IT. *(Medium)*

<b>Improvement opportunities</b>	
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Review financial performance of partnerships on a regular basis and link to outputs, sharing results with partners and ensuring corrective action is taken where necessary. <i>(High)</i></p> <p>Further develop budget monitoring arrangements through the use of risk assessment techniques and by relating them, where appropriate, to operational activity indicators that are lead indicators of spend. <i>(Medium)</i></p> <p>Test financial systems on a regular basis to ensure report outputs are timely, accurate, reliable, and clear, in a convenient format to be readily understood by their recipients. <i>(Medium)</i></p> <p>Review effectiveness of Cabinet and the leadership it provides with regard to financial management, taking appropriate action to address areas of weakness. <i>(Medium)</i></p> <p>Further develop 'traffic light' system (or similar) to focus Cabinet on key variances, supported by evidence of corrective action. <i>(Medium)</i></p> <p>Provide Cabinet with accrued financial monitoring reports, particularly on significant balance account items, at appropriate key points during the year. <i>(Medium)</i></p> <p>Further develop financial information systems that meet user needs by consulting with users, and providing them with advice and training. <i>(Medium)</i></p> <p>Profile savings and efficiency gains over the year and provide members with monitoring information throughout the period to ensure their achievement. <i>(Medium)</i></p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Continue to develop and implement a suite of vfm targets and other measures of performance to evaluate how the asset base is contributing towards objectives and improvement priorities. <i>(Medium)</i></p> <p>Integrate meaningful cost and performance information in relation to corporate assets into routine financial and performance reporting. <i>(Medium)</i></p>

## Financial standing

Theme score 3

### Key findings and conclusions

Working to tight budgets, the Council has robust arrangements in place to maintain its financial standing. The Council has a good track record of staying within budget and maintaining reserves within levels that have been based on a thorough understanding of its needs and risks. Performance monitoring reporting to members has developed strongly since the 2005 assessment.

### Improvement opportunities

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

Adopt the four clauses in Section 5 of the CIPFA Code of Practice for Treasury Management in the Public Services, the treasury management policy statement, as recommended in Section 6, and review compliance with the recommendations in Section 7 concerning the creation of treasury management practices. *(Medium)*

Continue to develop arrangements to recover arrears, based on the age profile of debt. *(Medium)*

Monitor prudential indicators, following the decision to fund part of the capital programme from prudential borrowing on a more regular basis. *(Medium)*

## Internal control

Theme score 3

### Key findings and conclusions

Risk management has been evolving and improving over several years and continues to be embedded throughout the organisation. Work is under way to develop the risk management arrangements in relation to partnerships.

The Council has been quick to strengthen arrangements to promote and ensure probity and propriety in the conduct of its business, although further work is required to embed these arrangements.

Robust arrangements are in place to maintain a sound system of internal control and these have been further enhanced by updating the terms of reference of the Audit Committee to comply with recent CIPFA guidance. Work is also ongoing to establish appropriateness of governance arrangements for all significant partnerships. Further improvements since the 2005 assessment include:

- Internal Audit review of partnership arrangements, including risk management and of arrangements for registers of disclosure;
- the Council has started to consider positive risks (opportunities) as well as negative risks (threats);
- member reporting template amended to more explicitly demonstrate formal consideration of legal issues and arrangements to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful;
- whistle blowing policy adopted and communicated to staff;
- ethical governance workshops run for members and officers to raise standards of ethical behaviour and support and promote a strong counter fraud culture; and
- officers reminded of the need to disclose gifts or hospitality or any personal interests.

### Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.

Continue to implement recent Internal Audit review to further enhance risk management arrangements within significant partnerships through the development of joint risk registers etc. *(Medium)*

Continue to review provision of risk management awareness training for staff and members on a regular basis, especially for those with specific responsibility for risk management. *(Medium)*

<b>Improvement opportunities</b>	
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Establish appropriateness of governance arrangements for all significant partnerships and review on a regular basis. <i>(High)</i></p> <p>Ensure standing orders, standing financial instructions and the schemes of delegation are reviewed on a regular basis, updating them as necessary. <i>(High)</i></p> <p>Formalise explicit monitoring of compliance with standing orders, standing financial Instructions and the scheme of delegation by management. <b>(High)</b></p> <p>Fully embed the assurance framework in the Council's business performance management processes. <i>(Medium)</i></p> <p>Ensure corporate involvement in and ownership of the process for preparing the SIC can be demonstrated. <i>(Medium)</i></p> <p>Ensure the Audit Committee can demonstrate it is embedded through the impact of its work. In that it provides effective challenge across the Council, including independent and explicit assurances on the risk management framework and associated internal control environment to members and the public. <i>(Medium)</i></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>Assess standards of conduct, including how effectively members are complying with the code of conduct, the number and type of complaints received and whether appropriate action has been taken. <i>(Medium)</i></p> <p>Review registers of interests and of gifts and hospitality on a regular basis to ensure members and staff are making appropriate disclosures. <i>(Medium)</i></p> <p>Further develop proactive counter fraud and corruption work, determined by a formal risk assessment, which is adequately resourced. <i>(Medium)</i></p>

## Value for money

Theme score 4

### Key findings and conclusions

#### **KLOE 5.1 The Council currently achieves good value for money**

Overall costs for key services are not significantly higher than other council's providing similar levels and standards of service allowing for the local context. Chorley's expenditure per head is either reducing or not increasing at the same rate as nearest neighbours in 10 of the 14 expenditure areas. Meaningful comparison with other councils has been undertaken on a range of priority services.

The Council delivers a range of services in line with statutory duties and local needs. There is generally a positive relationship between costs and the range, level and quality of services achieved. High performance (and resident satisfaction) is evident in key priority service areas. AC PI pack 2005/06 shows absolute improvement in 64 per cent of comparable PIs (60 per cent in 2004/05), and 71 per cent of all BVPIs have achieved or exceeded target. Resident satisfaction with council services remains high in priority areas.

The Council has a well managed capital programme linked to priorities, with most projects completed on time and within budget. Where capital resources are invested, there are identifiable improvements in service delivery. The Council has provided a number of notable practice examples in areas such as access to services, Buckshaw Village regeneration and local procurement arrangements to demonstrate how it is achieving good value for money for local residents.

There is evidence that full long term, whole of life costs are taken into account when making key policy decisions.

#### **KLOE 5.2 The Council manages and improves value for money**

Scope for improving cost-effectiveness is kept under review and some effective internal structures and processes for reviewing and improving value for money are in place.

Achieving and improving vfm is integral to the Council's new VFM Strategic Framework although elements of the new approach are not yet fully embedded within wider business planning and improvement processes. There is a need to develop a specific programme of vfm studies to support the new approach.

There is evidence that targets are being used 'intelligently' to reflect potential for improvement within Directorates and to support priority areas. BVRs and other service reviews have resulted in some significant service improvements and efficiencies in priority areas. However, benchmarking information is not yet routinely being used to compare costs and performance or to assess VFM throughout all services. A Benchmarking Strategy has recently been developed to enable more robust comparison of both performance and cost.

### Key findings and conclusions

Information on costs and quality includes some information on equity across the whole community. LPSA targets and partnership approach has focused on joint community analysis, planning and procurement approaches as a means of obtaining detailed information on equity.

The Council has sought to integrate efficiency review into its wider performance management approach through closer integration of efficiency targets and business planning processes. Outturn efficiency savings have been achieved over the last three years and clearly linked to a wider VFM approach rather than just cost savings.

Comprehensive, more effective procurement practices have been developed and implemented by the Council so that vfm from procurement can be more clearly demonstrated at both strategic and transaction cost levels. The Council has achieved 14 of the 17 milestones set out in the National Strategy for Procurement.

The Council can demonstrate improvements in value for money from its recent strategic procurement exercises. Options for joint procurement have been explored and there is evidence of joint working with the LSP and other partners to improve value in a number of areas.

The Council has developed a more strategic approach to seeking external funding and is implementing its External Funding Strategy. It has a successful track record of securing external funding and for using funding to deliver required outcomes and increased value for local residents.

### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

None.

KLOE 5.2 The Council manages and improves value for money.

Develop a specific programme of vfm studies to support the new VFM Strategic Framework and embed the new approach within wider planning and improvement processes. *(Medium)*

Implement the new Benchmarking Strategy throughout all services and corporately to enable more robust comparison of both performance and cost. *(Medium)*

## 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. It also shows whether arrangements are currently in place.

KLOE	Summary of criteria
<b>Financial reporting</b>	
1.1	<p>Requests for information from audit are dealt with promptly.</p> <p>All additional requests from the auditor were responded to promptly in accordance with any agreed deadlines. <i>(Not in place)</i></p>
1.2	<p>Summary financial information that meets the needs of a range of stakeholders is published.</p> <p>The Council can demonstrate that it is considering the views of a range of stakeholders in making its decision whether to publish an annual report. <i>(In place)</i></p> <p>The council publishes summary financial information that meets the needs of a range of stakeholders. <i>(In place)</i></p>
<b>Financial management</b>	
2.1	<p>There are arrangements for monitoring cash flow.</p> <p>The Council undertakes cash-flow monitoring which is used to inform short and long-term investment decisions. <i>(Not in place)</i></p>
2.1	<p>The medium-term financial strategy is communicated to staff and stakeholders.</p> <p>The key messages from the council's medium-term financial strategy are communicated to staff and stakeholders as appropriate. <i>(In place)</i></p>



KLOE	Summary of criteria
2.2	<p>Profiled financial monitoring reports are produced within ten days of the month-end.</p> <p>The Council produces accurate and meaningful profiled financial monitoring reports for all budget holders within ten working days of the month end. <i>(Not in place)</i></p>
2.2	<p>The financial performance of significant partnerships is reviewed.</p> <p>The financial performance of significant partnerships is regularly reviewed, linked to outputs, and the results shared with partners and acted upon. <i>(Not in place)</i></p>
2.2	<p>There is a training programme in place for members and staff on financial issues.</p> <p>There is a regular training programme providing training on financial issues for members and relevant non-finance staff. <i>(Not in place)</i></p>
2.3	<p>A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.</p> <p>A member has been allocated portfolio responsibility for the council's asset management.</p> <p>The council has developed a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.</p>
<b>Financial standing</b>	
3.1	<p>Collection and recovery of material categories of income is monitored.</p> <p>The Council sets and monitors targets for all material categories of income collection and recovery of arrears, based on age profile of debt. <i>(Not in place)</i></p>
<b>Internal control</b>	
4.1	<p>Appropriate staff are trained in risk management.</p> <p>All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment. <i>(Not in place)</i></p>

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KLOE	Summary of criteria
4.2	<p>Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.</p> <p>The procedure notes/manuals for key financial systems are reviewed and updated as appropriate. <i>(Not in place)</i></p> <p>The standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate. <i>(Not in place)</i></p>
4.2	<p>Governance arrangements are in place for significant partnerships.</p> <p>The Council has a business continuity plan in place which is reviewed on a regular basis. <i>(In place)</i></p> <p>The Council has identified its significant partnerships and has appropriate governance arrangements in place for each of them. <i>(In place)</i></p> <p>The Council has arrangements in place to ensure that it has a sound system of internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems. <i>(In place)</i></p>
4.3	<p>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.</p> <p>The Council is proactive in raising the standards of ethical conduct among members and staff, including the provision of ethics training. <i>(In place)</i></p> <p>The Council can demonstrate that counter fraud and corruption work is adequately resourced. <i>(Not in place)</i></p>