

Use of Resources Auditor Judgements 2007

Copeland Borough Council

Audit 2006/07

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Introduction

- 1 The Use of Resources (UoR) assessment evaluates how well councils manage and use their resources. The assessment is carried out each year and focuses on the importance of strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This is the third assessment we have undertaken at Copeland Borough Council. Our assessment is based on the key lines of enquiry for 2007. These include new requirements for councils as part of the Commission's approach to phasing in those elements that need more lead in time and to supporting improvement by gradually raising the standard of the assessment. The period assessed for 2007 has also been aligned with the financial year 2006/07. Councils may, however, provide evidence that becomes available after the end of the financial year, to demonstrate their arrangements are working effectively and are embedded.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale. This scale is used across its 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 |

- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2007, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
- 5 The five theme scores for Copeland Borough Council are outlined overleaf. These scores are still subject to confirmation by our national quality control process. This seeks to ensure consistency across all suppliers and on a national basis. Consequently we are informing you that the scores reported here may change as a result of national quality control and should not be taken to be final. Following completion of national quality control, the Commission will notify you of your Council's overall score for use of resources and supporting theme scores. This is scheduled for 10 December 2007.

- 6 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

| Key lines of enquiry (KLOEs) | Score 2007 | Score 2006 |
|---|------------|------------|
| Financial reporting | 1 | 3 |
| 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. | 1 | 3 |
| 1.2 The Council promotes external accountability. | 2 | 2 |
| Financial management | 2 | 2 |
| 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. | 2 | 2 |
| Financial standing | 2 | 2 |
| 3.1 The Council manages its spending within the available resources. | 2 | 2 |
| Internal control | 2 | 2 |
| 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 | 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 | 2 |
| Value for money | 2 | 2 |
| 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 the following tables.

Financial reporting

Table 3

| |
|---|
| Theme score: 1 |
| Key findings and conclusions |
| <p>The financial statements were prepared in accordance with the statutory and agreed audit timetable and included a set of financial disclosures and notes.</p> <p>The accounts submitted for audit did not present fairly the activities of the authority. This was because the authority experienced problems in producing the Statement of Recognised Gains and Losses (STRGL) as this was a new requirement for 2006/07. The STRGL had to be amended to take account of a number of material errors (£1.6m) to ensure that it was in accordance with the Statement of Recommended Practice (SoRP).</p> <p>Following the production of the amended STRGL this highlighted an error in the previous years accounts (£1.5m) requiring a prior period adjustment.</p> <p>In addition the authority failed to properly reconcile its 'Adjustment A' calculation. A further material amendment to the accounts (£2.3m) was required following additional audit work.</p> <p>The procedures in place for the internal review of the accounts prior to presentation for audit were therefore not up to an adequate standard for 2006/07.</p> <p>There is still scope for the authority to further promote external accountability and public reporting of financial information.</p> <p>Arrangements are in place to ensure that the most recent published accounts (audited accounts) and annual audit letter are on the authority's website.</p> |

| Improvement opportunities | |
|--|---|
| KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. | <p>Ensure that the accounts presented for audit are free from material and non trivial errors.</p> <p>Introduce robust internal quality assurance procedures to improve the quality and timeliness of the financial statements and associated working papers.</p> |
| KLOE 1.2 The Council promotes external accountability. | <p>Identify all relevant stakeholders and undertake meaningful consultation on the need for summary accounts or an annual report and what format would be most suitable.</p> |

Financial management

Table 4

| |
|---|
| Theme score: 2 |
| Key findings and conclusions |
| <p>The links between the Medium Term Financial Strategy (MTFS) and the new Corporate Plan 2007-2012 are still being developed. There is a particular need to ensure stakeholder priorities are considered more fully. The Council's priorities and strategies need to be formally assessed for their impact, in order to comply with duties under the equalities legislation in relation to race, gender and disabilities.</p> <p>There have been changes during the year following the introduction of the new performance management system and delegation of budgets to service managers in an effort to link budgets more closely to strategic and service priorities.</p> <p>A new financial system was put in place from 1 April 2007 and this should provide additional functionality to manage the financial and other systems of the Council.</p> <p>Asset management is in place but performance measures and benchmarking need to be introduced and used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.</p> |

| 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. | <p>The MTFS and Corporate Plan need to be further developed to provide clarity on the links to key strategies (including Human Resources, Workforce Development, Information Technology) and Stakeholder Priorities.</p> <p>Ensure that equality impact assessments are completed for all policy areas.</p> |
| KLOE 2.2 The Council manages performance against budgets. | <p>Further developments are taking place with respect to linking budgets to priorities and delegation of budgets. The Council needs to ensure that robust budgetary control procedures become fully embedded. The appropriate officers and members should receive budget monitoring information throughout the year that is accurate, relevant, understandable, consistent with underlying records, and as up-to-date as possible when reported.</p> <p>The new financial system should help develop predictive budgets with clearer sensitivity, option and risk analysis. It should also include links to service indicators and the corporate priorities and objectives.</p> <p>The Council also needs to further develop its financial monitoring of the performance of partnerships (linked to outputs) and the results need to be shared with partners and acted upon.</p> <p>The Council also needs to introduce more robust procedures for the monitoring and control of grant funding.</p> |

| Improvement opportunities | |
|--|--|
| KLOE 2.3 The Council manages its asset base. | <p>Use local performance measures to assess to what extent asset use is contributing to the achievement of corporate objectives.</p> <p>Ensure that the asset management plan provides strategic and forward looking goals showing how land and buildings will be used to deliver corporate priorities in the future.</p> <p>Ensure that accurate information on the efficiency, effectiveness and values of assets is held, to support decision making on investment and disinvestment in assets.</p> |

Financial standing

Table 5

| | |
|--|---|
| Theme score: 2 | |
| Key findings and conclusions | |
| <p>The Council set a balanced budget for 2006/07 linked to cost pressures and council tax levels.</p> <p>Financial reserves are considered to be adequate and key financial health indicators are monitored and reported to members.</p> <p>The Council has kept its 2006/07 spending within budget with a small surplus at the year end against the revised budget.</p> <p>The effectiveness of actions, costs and the opportunity cost of slow income collection and debt recovery are not evaluated within current monitoring arrangements.</p> | |
| Improvement opportunities | |
| KLOE 3.1 The Council manages its spending within the available resources. | <p>Monitoring information should be available that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly.</p> <p>Ensure that targets for income collection and recovery of arrears stretch performance and their achievement is monitored, with appropriate corrective action taken during the year to achieve the targets.</p> |

Internal control

Table 6

| | |
|---|--|
| Theme score: 2 | |
| Key findings and conclusions | |
| <p>The Council has developed a system of Member involvement in reviewing the Statement of Internal Control (SIC) and its underlying source evidence.</p> <p>An audit committee was established in 2006 and it delivers the core functions as expected by CIPFA. The challenge now is to provide effective leadership and challenge on key issues for the Council such as financial reporting and financial management.</p> <p>A Risk Management Strategy was approved in 2006 and the Council has started to demonstrate a good risk management culture and member involvement. The process now includes regular monitoring reports. Risk assessment is also being built into budget and investment decisions.</p> <p>The Council has set up emergency contact information and links to the Cumbria wide Civil Contingencies website on its own web pages. The Council's business continuity processes have also been the subject of an ongoing review in order to produce a comprehensive Business Continuity Plan (BCP) for the Council. However, as reported last year the Council does not yet have a robust BCP in place that has been fully tested.</p> <p>Complaints around standards of conduct are monitored, but no formal review has taken place of how effectively members comply with the code of conduct.</p> <p>The Council has introduced a new Confidential Reporting Code (Whistle blowing) and the Council is in the process of incorporating reference to this Code within all new contract documentation.</p> <p>The Council does not currently have a partnership register or protocol in place that could help to identify and mitigate potential risks associated with partnership working.</p> <p>Procedure notes and manuals are in place for key financial systems although there are no arrangements in place to ensure that they are reviewed on at least an annual basis.</p> | |
| Improvement opportunities | |
| KLOE 4.1 The Council manages its significant business risks. | <p>Provide refresher risk management training to relevant staff to continue the development of a good risk management culture.</p> <p>Ensure that partnership risks are identified and actively managed.</p> |

| Theme score: 2 | |
|--|---|
| KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control. | <p>The system of review and examination of the SIC and its underlying evidence needs to continue to develop. In particular, it needs to be more challenging and needs to ensure that it is fully inclusive by mapping the Council's corporate / strategic objectives to the controls, risks and assurances in place.</p> <p>Ensure that the Audit Committee provides effective leadership and challenge on key issues for the Council such as financial reporting and financial management.</p> <p>Regularly review procedure notes and manuals for key financial systems and update as required.</p> <p>A comprehensive business continuity plan for the Council needs to be in place and be fully tested as soon as possible.</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>The Council needs to demonstrate a more proactive counter fraud and corruption culture by using a formal fraud and corruption risk assessment.</p> <p>The Council needs to ensure that the Confidential Reporting Code is widely promoted and this should include those contracting with the Council.</p> |

Value for money

Table 7

| |
|---|
| Theme score: 2 |
| Key findings and conclusions |
| <p>The Council has improved its position in comparative costs so that it is not significantly higher than other councils, but this has not been matched by improvements in the relative performance of services.</p> <p>Service improvement has been variable and there are areas of slow progress. The Council is identifying areas of under-performance and is investing in these activities.</p> <p>The capital programme is well monitored and generally satisfactorily managed. The new corporate plan should ensure better links to priority areas in the future.</p> <p>The Council is progressing well towards having clear information on costs and comparative information. However, this is not yet used in a comprehensive manner to review VFM within services and corporately. Information on the quality of services and the experience of users and communities is not integrated into reviews of service effectiveness.</p> <p>Efficiency savings are being achieved and there are processes established to generate plans for future efficiency gains.</p> <p>Procurement arrangements are developing through a review process. The commitment to collaborative projects, for example through the Cumbria procurement initiative has started but this is yet to make an impact.</p> |

| Improvement opportunities | |
|---|---|
| KLOE 5.1 The Council currently achieves good value for money. | <p>The council should continue to examine spending and expenditure and ensure value for money is achieved by comparing these to relative changes in service standards and performance.</p> <p>The council should further develop its approach to procurement in order to improve its position on value for money.</p> |
| KLOE 5.2 The Council manages and improves value for money. | <p>Develop clearer information to evaluate the quality and accessibility of services.</p> <p>Evaluate the impact on users within business plans and option appraisals for spending decisions.</p> |

Use of resources 2008

- 8 The Commission consulted on the changes to the key lines of enquiry for 2008 during April to June 2007. The Commission's response to the consultation can be found on its website. The key lines of enquiry for 2008 reflect some of the changing priorities for councils as they respond to the major challenges facing them and the higher expectations of them. Making further improvements in efficiency will be critical for councils in responding to: the changing demographic profile of communities, increasing public expectations of public services and expected constraints on funding from Government.
- 9 The key lines of enquiry give more emphasis, mainly at level 4, to areas such as: sustainability, working in partnership and using IT to secure service and value for money improvements; strategic asset management and joint procurement. These areas signal the changes which will be given more emphasis in the use of resources assessment under Comprehensive Area Assessment, the new performance framework for local services.
- 10 The Commission has published its key lines of enquiry for 2008 on its website and there is an annotated version of the key lines of enquiry available which show all the changes from 2007. To assist the Council in pin pointing the changes I have summarised them in Table 8.

Table 8 Changes to the UOR key lines of enquiry 2008

The key changes to the assessment are summarised here.

| KLOE | Level | Summary of change |
|-----------------------------|-------|--|
| Financial reporting | | |
| 1.1 | 2 | An unqualified opinion in the published statements. |
| 1.2 | 2 , 3 | Published information is available to the public in a timely way and in accessible formats in compliance with duties under the equalities legislation. |
| 1.2 | 4 | The annual report or similar document includes information and analysis about a council's environmental footprint. |
| Financial management | | |
| 2.1 | 2 | The impact of strategies is assessed for their impact to comply with duties under the equalities legislation in relation to race, gender and disabilities. |

| KLOE | Level | Summary of change |
|---------------------------|---------|--|
| 2.3 | 3 | The asset management plan provides strategic and forward looking goals showing how land and buildings will be used to deliver corporate priorities. The council holds accurate information on the efficiency, effectiveness and values of assets, to support decision making on investment and disinvestment in assets. |
| 2.3 | 4 | Asset management and planning is fully integrated with business planning |
| 2.3 | 4 | Asset management is used as an enabler of change. The management of assets is integrated with other local public agencies to identify opportunities for shared use of property and to deliver cross-sector, cross-agency and community-based services to users. |
| 2.3 | 4 | Asset management includes challenge as to whether all assets are fit for purpose, provide value for money and deliver corporate priorities. The council rationalises its holding of property. |
| Financial standing | | |
| 3.1 | 3 | The approved level of balances is adhered to; the council's financial standing is sound and supports the achievement of its long term objectives. |
| 3.1 | 3 | Targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets. |
| Internal control | | |
| 4.1 | 4 | Reports which support strategic policy decisions and initiate major projects require a risk assessment which includes an appraisal of the impact on sustainable development. |
| 4.2 | 3 | Effective scrutiny function to ensure challenge and improve performance |
| 4.2 | 2, 3, 4 | 'Statement of internal control' has been replaced with 'governance statement' |
| 4.2 | 4 | Evidence of the viability of significant contractors' / partners' business continuity plans. |
| 4.3 | 2 | Preparation for the role of the standards committee in local investigations and determination. |
| 4.3 | 3 | Publicising the work of the standards committee |

| KLOE | Level | Summary of change |
|------------------------|---------|---|
| 4.3 | 3, 4 | Enhanced standards for whistle blowing arrangements, demonstrating employees of contracting organisations are aware of the arrangements and staff have confidence in them. |
| 4.3 | 4 | Application forms have fair processing notification permitting data sharing for prevention and detection of fraud and corruption. |
| Value for money | | |
| 5.1 | 2,3,4 | Descriptors for capital programming have been strengthened by including references to the outcomes of a well managed capital programme, i.e. projects are completed on time, to budget and deliver outcomes which are fit for purpose (and for level 4 – transform services for users and citizens). |
| 5.2 | 2,3,4 | Understanding unit and transaction, as well as, overall costs. |
| 5.2 | 2, 3, 4 | Data quality arrangements should be reliable (level 2) or exemplary (level 4), and including at level 4, an agreed approach with partners. Auditors will rely on the findings of the data quality audit for this descriptor |
| 5.2 | 2, 3, 4 | The descriptor which assesses community needs and impact of decisions on diverse communities has been revised to better reflect statutory requirements on equality impact assessments. It also makes it clearer that reducing inequality in outcomes ought to be integral to a council's drive to improve VFM. |
| 5.2 | 2, 3, 4 | Demonstrating improvements in value for money by tracking performance over recent years. |
| 5.2 | 2, 3, 4 | More emphasis on stronger, longer-term, full cost evaluation, including (at levels 3 and 4) consideration of environmental and social in its assessments of costs and benefits in decision making. |
| 5.2 | 2, 3, 4 | Improving value for money through partnership working, with an understanding of resources at the disposal of partnerships and planned outcomes. There are opportunities to improve value for money (reduce costs or improve outcomes) through better partnership working. Performance reflects differing levels of engagement with partners to improve outcomes. |

| KLOE | Level | Summary of change |
|-------------|--------------|---|
| 5.2 | 2, 3, 4 | Use of ICT to improve services, value for money and access to services. |