

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER

H175

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING

27 January 2009

USE OF RESOURCES ASSESSMENT

1. **PURPOSE OF REPORT**

1.1 To present the Use of Resources Assessment report from the external auditors for 2007/08.

2. **RECOMMENDATIONS**

2.1 That the Committee note the overall Use of Resources assessment for 2007/08 and the areas where improvements have been achieved or are required.

2.2 That appropriate actions by officers are implemented for the 2008/09 assessment to maintain and improve individual areas of the assessment.

3. **FINANCIAL IMPLICATIONS**

3.1 No direct financial implications.

4. **RISK MANAGEMENT**

4.1 This report is associated with Significant Business Risk No. 7 – Financial, Performance and Risk Management. Key risks are set out in the table below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
The Council fails to maintain or improve on key elements of the Use of Resources criteria.	Low	Marginal	Management Action Plans either exist or are being prepared to address key criteria requirements. As in previous years, however, there are a number of significant areas where the tests for 2008/09 are more demanding.

5. **KEY INFORMATION**

5.1 A report on the Use of Resources assessment by PKF, our external auditors, is attached at Appendix A. The Council cannot promote it's scores, specifically with the media or the press until all scores have been published nationally by the Audit Commission

- 5.2 As a result of a lot of work by officers, an overall assessment of 3 has been achieved. This is despite the position on the Accounts for 2007/08, which only received a level 1 score. This has been fully considered by the Committee and a Management Action Plan agreed.
- 5.3 Further explanations will be provided on some of the individual scores at the meeting so that Members have a clear understanding on the reasons and background to the scores and why changes have arisen.
- 5.4 At the last meeting of the Committee it was agreed that an update on progress in relation to that plan would be provided. It is relatively early in this year's process for substantive progress to have been made. However, the following should be noted:
- Ongoing discussions have taken place with PKF to clarify and emphasise the Council's views on the difficulties experienced last year
 - Agreements have been reached on a number of key issues relating to the future management of audit services
 - The Corporate Finance Team have met with the Chief Executive to ensure there is a clear understanding on the approach to the closing and auditing of the 2008/09 Accounts
 - Further detailed discussions will be held with PKF at the next quarterly meeting, later today.
- 5.5 In terms of actions on other areas of the Use of Resources Assessment, PKF will be providing a further report for officers on improvements that the Council need to make. This will be extremely helpful in terms of prioritising actions that are needed during 2009, especially as we need to be able to demonstrate that such improvements/arrangements are in place by the 31 March 2009.
- 5.6 Appendix B of PKF's report briefly outlines the approach to Audit Commission assessments from 2009 onwards. This is based on taking a much broader view of the Council's approach and arrangements. In reality, however, there are a lot of detailed requirements that lie beneath those broad headings that require consideration and action.
- 5.7 Further reports will be submitted to the Committee on progress on the 2009 requirements throughout the year.

6. **APPENDICES**

A – PKF Use of Resources Report 2007/08.

7. **BACKGROUND PAPERS**

None.

CONTACT: Barry Hunter
Director of Finance

E-MAIL: barry.hunter@babergh.gov.uk



Accountants &
business advisers

Babergh District Council

Use of Resources Key Lines of Enquiry 2007/08

January 2009

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1 Executive summary

Introduction

- 1.1 The Use of Resources judgements focus on the importance of having sound and strategic governance and financial management arrangements to ensure that resources are available to support the Council's priorities and improve services.

Summary of scores

- 1.2 The Council has achieved an overall Use of Resources score of "3" or **performing well**. The table below shows the movement in the five key lines of enquiry (KLOE) theme scores since the Audit Commission's 2006/07 assessment:

	Financial reporting	Financial management	Financial standing	Internal control	Value for money
2007/08	2	2	3	3	3
2006/07	3	3	3	2	3

- 1.3 Changes at sub-theme level are set out in the table at Appendix A.

Overall conclusion

- 1.4 The Council has achieved an overall Level 3 score for Use of Resources, based on an average of the separable theme scores shown above. There has been an increase in Internal Control but a decrease in Financial Reporting and Financial Management.
- 1.5 The improvement in the Internal Control score was a result of addressing recommendations raised in the previous report, including improved scheduling of the Overview and Scrutiny (Stewardship) Committee programme to cover accounts and audit reporting areas and progress with the disaster recovery arrangements. Auditor discretion was applied in awarding the sub theme score for anti-fraud and standards and the Council needs to re-consider its process for assessing fraud risk to make the process more robust and consider wider cumulative knowledge such as outcomes from Internal Audit reviews, as opposed to relying purely on Heads of Service.
- 1.6 The decrease in Financial Reporting was primarily due to two material errors being identified during the course of the audit and other matters reported in our ISA260 report to the Overview and Scrutiny (Stewardship) Committee. An action plan has been prepared by management to improve arrangements going forward.
- 1.7 The decrease in Financial Management was because Equality Impact Assessment reviews, which were a new requirement for 2007/08, were undertaken post 31 March 2008 and therefore could not be taken into account in this assessment.
- 1.8 An Action Plan for reinforcing and improving arrangements will be prepared and provided to officers. The Action Plan is not intended to be an all-encompassing, definitive solution to maximising arrangements at the Council. It cannot, and does not purport to, provide a complete picture of the actions required to ensure comprehensive coverage of future use of resources requirements under Comprehensive Area Assessment. It is for the Council to determine, based on its own priorities and resources, the best way forward. This should reflect the changing focus of the new Use of Resources assessments, with the increased emphasis on demonstrable *outcomes* being needed to secure higher (Level 3) scores.

Acknowledgement

- 1.9 We would like to thank the Council for the assistance provided to us in the course of this work.

2 Context

- 2.1 The Use of Resources judgements focus 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. It covers the five key lines of enquiry (KLOE) themes listed within the Executive Summary.

Scoring and self assessment review

- 2.2 Each judgement area consists of a number of KLOE and areas of audit focus and evidence. For the first four themes the criteria include elements that are indicated as 'must haves' for that level and have been introduced to phase in those criteria where achievement is considered to be more demanding, or requires significant investment, and lead in time for authorities. The general requirement is that failure to meet any of these "must have" criteria would prevent that level being achieved for the KLOE.
- 2.3 The value for money aspect does not use "must have" criteria but is based on "best fit" as this is not underpinned by an equivalent body of professional standards and guidance, making the assessment necessarily more judgemental in nature.
- 2.4 The Council completed a self assessment of its arrangements for the period, and prepared evidence to support its conclusions.
- 2.5 We have used the self assessment evidence, supplementary evidence, our knowledge of the Council, enquiries of officers and Members and comparative performance data to score each assessment criteria using the descriptors for different levels of performance to determine which most closely matches the Council's performance. The overall Use of Resources score is based on combining auditors' scores for each of the areas covered on the following scale:

Level	Performance
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

Quality assurance and consistency

- 2.6 Draft assessment scores are subject to a number of quality assurance processes to ensure consistency on a local, regional and national basis.
- 2.7 Internally, PKF operates a quality assurance forum where individual auditor judgements are compared, contrasted and challenged across the PKF district council portfolio. This is complimented by a pan-Suffolk consistency forum attended by the appointed auditors of all district councils in Suffolk to provide another layer of challenge and comparison, with the aim of achieving consistency in approach and assessment across audit suppliers.
- 2.8 Finally, the scores and assessment are reviewed by national Quality Assurance Panels formed by the Audit Commission, providing risk based challenge using indicators such as use of auditor discretion and rapid change.

Appendix A – KLOE scores

Theme and Key Line of Enquiry	2007/08 Score	2006/07 Score
1.1 <i>Annual accounts</i>	1	3
1.2 <i>Promotion of external accountability</i>	3	2
1 Financial Reporting	2	3
2.1 <i>Medium term financial strategy, budgets and capital programme</i>	2	3
2.2 <i>Managing performance against budgets</i>	3	3
2.3 <i>Managing the asset base</i>	2	2
2 Financial Management	2	3
3.1 <i>Managing spending within available resources</i>	3	3
3 Financial Standing	3	3
4.1 <i>Managing significant business risks</i>	3	2
4.2 <i>Maintaining a sound system of internal control</i>	3	2
4.2 <i>Arrangements to promote and secure probity and propriety</i>	3	3
4 Internal Control	3	2
5.1 <i>Current achievement of good value for money</i>	3	3
5.2 <i>Managing and improving value for money</i>	2	2
5 Value for Money	3	3
Overall	3	3

Appendix B – Use of resources KLOE from 2009

Theme and KLOE	
Managing finances	
1.1	Planning for financial health
1.2	Understanding costs and achieving efficiencies
1.3	Financial reporting
Governing the business	
2.1	Commissioning and procurement
2.2	Use of information
2.3	Good governance
2.4	Risk management and internal control
Managing resources	
3.1	Natural resources ¹
3.2	Strategic asset management ¹
3.3	Workforce

- 1.1 From 2009 the Use of Resources assessment will form part of the Comprehensive Area Assessment and will also feed into other relevant performance assessments. It will be structured into three overall themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people.
- 1.2 The scores for each theme will still be based on the scores reached by auditors on underlying KLOE. However, the KLOE will be more broadly based than the current KLOE and embrace wider resource issues. There will also be greater focus on value for money achievements, outputs and outcomes rather than on processes.
- 1.3 This approach will promote consistency and demonstrate that all organisations within a CAA area are being treated in exactly the same way and to the same standards.
- 1.4 The approach to the use of resources work will be on a risk basis and draw on evidence available from previous years where relevant. Once an initial baseline assessment of performance has been established for each KLOE, auditors will apply risk-based planning to focus on areas of significant change, and high performing organisations can expect to have less work undertaken on use of resources than at poorly performing organisations.
- 1.5 Further information is available on the Audit Commission's website at www.audit-commission.gov.uk.

¹ This KLOE is not specified for district councils for 2008/09