

# **Use of Resources Auditor Judgements 2006**

**Torridge District Council**

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
- auditors may report aspects of their work widely to the public and other key stakeholders.

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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- any third party.

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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 was 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 Torridge District 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>2</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.	3	2
<b>Financial management</b>	<b>2</b>	<b>1</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	1
2.2 The Council manages performance against budgets.	2	1
2.3 The Council manages its asset base.	1	1
<b>Financial standing</b>	<b>3</b>	<b>1</b>
3.1 The Council manages its spending within the available resources.	3	1
<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>1</b>	<b>1</b>
5.1 The Council currently achieves good value for money.	1	1
5.2 The Council manages and improves value for money.	2	1

## 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**

<b>Financial reporting</b>	
<b>Theme score 2</b>	
<b>Key findings and conclusions</b>	
The financial statements were produced within deadlines but contained material error. After amendment an unqualified opinion was issued. Openness and accountability are areas in which the Council has been strengthening its arrangements. Access to the financial statements and annual audit and inspection letters is provided on the Council's website.	
<b>Improvement opportunities</b>	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Improve the quality control arrangements for producing the financial statements to ensure that financial reporting requirements are met and supporting working papers are of high quality.
KLOE 1.2 The Council promotes external accountability.	There is a need to publish summarised financial information which reflects the accounts that will be produced this year. The information should be designed to be understandable and informative to stakeholders.

<b>Financial management</b>	
<b>Theme score 2</b>	
<b>Key findings and conclusions</b>	
The quality and integration of the medium term financial strategy with other policies and strategies has improved. The Council's budgets and capital programme are soundly based. Regular budget monitoring takes place and the outcome is shared with members. Management of the asset base is improving. The need to capture accurate and comprehensive asset data is recognised.	
<b>Improvement opportunities</b>	
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.	Robust business planning processes that provide links between the medium term financial strategy and a strategic plan need to be developed and embedded.
KLOE 2.2 The Council manages performance against budgets.	Links to performance information and the risk assessment identified in the medium term financial strategy need to be integrated into financial monitoring reporting.
KLOE 2.3 The Council manages its asset base.	Validation of the fixed asset records used to support the financial statements against the Terrier is in train but needs to be completed. Further development of asset records to meet rigorous financial reporting requirements which come into force this year is needed.

<h2>Financial standing</h2> <p><b>Theme score 3</b></p>	
<p><b>Key findings and conclusions</b></p> <p>The Council has consistently managed its spending close to target. Budget monitoring arrangements have strengthened since the last assessment with monitoring information routinely available to allow scrutiny at member level to take place regularly. The medium term financial strategy has only recently started to be used as a tool to direct and manage at a strategic level. This has resulted in a re-appraisal of the level of balances needed to manage financial risk.</p>	
<p><b>Improvement opportunities</b></p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Develop the link between the risk assessment in the medium term financial strategy and the actions required to reflect this in changes to the level of balances.</p>

## Internal control

Theme score 2

### Key findings and conclusions

Risk management processes are gradually becoming part of the day to day management of the Council. Generally the systems of internal control are sound nonetheless some organisational strain is evident in the operation of the systems as the Council implements its change programme. Arrangements to promote and ensure probity and propriety are in place. A counter fraud strategy and plan needs to be developed.

### Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.	An increase in member involvement and a review of effectiveness that measures the impact risk management has on strategic objectives would indicate further integration into the Council's day to day working practices.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	Strengthen arrangements to ensure that all legislative requirements are met. Review the operation of the audit committee function to improve its focus and effectiveness. Further develop the governance arrangements for partnerships.
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.	Develop a corporate counter fraud and corruption strategy and plan that captures the risks and how they are being addressed and resourced.

## Value for money

### Theme score 1

#### Key findings and conclusions

The overall costs of Torridge's services are amongst the highest spending of all similar district councils. Costs and performance levels for key services are not in line. The Council has invested in poorly performing services such as housing, planning and benefits and has re-engineered its processes with an emphasis on customers resulting in recent improvements but significant sustained improvements are yet to be seen. The Council has a well managed capital programme which is linked to its priorities. The Council's monitoring and reviewing of value for money is improving strongly from a low base although development of a value for money culture is still in its early stages. An underdeveloped performance management system has weakened the initial measurement of improvements. The Council's approach to procurement has progressed significantly in the last twelve months and there is a clear strategy and action plan although the Council's approach to joint procurement is underdeveloped.

#### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

Review services where performance is poor and where investment does not produce sustained significant improvement.

KLOE 5.2 The Council manages and improves value for money.

Improvements in the performance management system, benchmarking and monitoring equality and diversity need to be demonstrated. Joint procurement arrangements need to be progressed.

## 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.