

Use of Resources

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Last saved: 16/03/2006 09:53:00

# **Use of Resources Audit Score Feedback**

**Hastings Borough Council**

**Audit 2005/2006**

<b>Document Control</b>	
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Filename	HBC - UoR Audit Score Feedback

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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	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 at Hastings BC was **"3"** and this was reported to the Council by the Audit Commission on 13 March 2006. The scores for the five themes are outlined overleaf.

## Summary scores for each theme

<b>Key Lines of Enquiry (KLoE)</b>	<b>Score</b>
<b>Financial Reporting</b>	<b>3</b>
<b>Financial Management</b>	<b>2</b>
<b>Financial Standing</b>	<b>3</b>
<b>Internal Control</b>	<b>2</b>
<b>Value for Money</b>	<b>3</b>

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## Theme summaries

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

### Financial reporting

#### FINANCIAL REPORTING

Overall score 3

#### Key findings and conclusions

*The Council has a track record of preparing and publishing its accounts efficiently and in accordance with the statutory deadlines. The 2004/05 accounts provided to external audit were of a generally good standard with no material errors or mis-statements. We gave an unqualified audit opinion on the annual accounts for 2004/05 on 31st October 2005.*

*The Council has a strong commitment to openness in the conduct of its business. All cabinet, committee and the full council meetings have their agendas, minutes and reports published on the Council's website. The annual accounts are placed on the website after member approval, together with the Audit Commission's Annual Audit Letter as soon as possible after publication.*

*Member scrutiny of the statement of accounts is robust. To assist in this process, a clear explanatory report is provided interpreting the accounts and highlighting key issues for the benefit of members.*

*In common with most authorities, there is currently little stakeholder consultation prior to publishing the statement of accounts to ascertain whether they are content with the quantity and format of the information supplied.*

<b>Improvements needed to move to next level</b>	
KLOE 1.1 The accounts presented for audit contained only 'trifling' errors and misstatements which did not require reporting to those charged with governance or adjustment.	Some "non trifling" errors identified in the 2004/05 accounts. The quality of working papers was not exemplary.

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## Financial management

### FINANCIAL MANAGEMENT

Overall score 2

#### Key findings and conclusions

*The Council has in place a medium term financial plan which links with the Council's key strategic objectives and outlines the impact of capital expenditure and receipts on the Council's reserves. The medium-term financial strategy is based on the strategic requirements of the Council and its stakeholders, which take into account local improvement issues and national priorities.*

*A balanced Capital and Revenue budget has been agreed with budget holders and scrutinised by members, and the capital programme reflects the Council's key priorities.. The budget is input into the main accounting system in a timely manner, monitored quarterly and reviewed by senior officers. Budgets are revised annually, as part of the comprehensive "Priority I&E Review" (PIER) process, and clearly linked to the Medium Term Financial Strategy.*

*A good budget monitoring and reporting system is in place, with scrutiny of variances supported by a formal risk assessment process.*

*Whilst progress has been made towards producing an up to date asset register the 2004/05 accounts audit highlighted assets that were incorrectly classified.*

#### Improvements needed to move to next level

KLOE 2.1 The medium-term financial strategy models balance sheets and cash-flows over a minimum of 3 years.

The MTFS is used to produce a Revenue projection and a Capital projection, both of which are used to inform a cash-flow projection. However, these are not projected forward 3 years.

KLOE 2.2 The council manages performance against budgets.

There are currently problems with the accuracy of the data within the new financial system.

KLOE 2.3 The council manages its asset base.

The Council's asset register needs to be updated.

## Financial standing

<b>FINANCIAL STANDING</b> <b>Overall score 3</b>	
<b>Key findings and conclusions</b>	
<p><i>The Council maintains a sound system of overall financial control. Contributions to reserves are projected in order to balance annual budgets and linked to the Medium Term Financial Plan. The Council has agreed a reserves policy and Treasury Management Strategy.</i></p> <p><i>The level of reserves and balances is set as part of the budget setting process and included within the treasury management section of the budget book. Treasury management stats are reviewed weekly, and incorporated within the quarterly budget reports to Members.</i></p> <p><i>Based on the Corporate Plan, and associated Budget, debt is kept within the Affordable Borrowing Limit, and interest rates have been estimated for three future years. Monitoring of interest rates and market forecasts is explicitly stated as being a requirement. Both internal and external fund managers are utilised for investments. Linking this through to the MTFS indicates that this policy is both affordable and sustainable.</i></p> <p><i>Budgets are monitored throughout the year and reported to CMG on a quarterly basis. Appropriate action was taken in 2004/05 to respond to any budget variances as they arose</i></p>	
<b>Improvements needed to move to next level</b>	
KLOE 3.1 The council manages its spending within the available resources.	Need to evidence wider consideration and understanding by members of the opportunity costs of maintaining the present level of reserves and balances.

## Internal control

### INTERNAL CONTROL

Overall score 2

#### Key findings and conclusions

*The Council has made progress towards achieving comprehensive risk management arrangements in recent years. A risk management policy is maintained which is embraced by members. However, the risk register is out of date and the recommendations raised in the risk map in 2003 have not been implemented. Portfolio risk registers are not updated on an annual basis, but periodically in accordance with Internal Audit's cyclical audit programme.*

*Whilst some reports on strategic policy decisions and project initiation documents include a formal risk assessment, others do not (eg in respect of the street cleaning contract).*

*There is a strong Internal Audit function which has open access to senior management, and the legal implications of all key reports are considered by the Borough Secretary as required. A code of conduct is incorporated into the Constitution and an effective Standards Committee operates in accordance with the requirements of the Local Government Act 2000. Adequate arrangements are in place to investigate fraud and corruption, including a well advertised whistleblowing policy.*

*Members and Senior managers should embrace a commitment to review the ethical standards the Council operates within. The code of conduct is reviewed annually and appropriate registers are in place to record gifts and hospitality however such arrangements should be monitored and reviewed to ensure all officers are complying with the requirements. A recent review by internal audit indicated that registers are not up to date in all cases.*

*All systems defined by the Council as being business critical should be supported with detailed procedure notes.*

<b>Improvements needed to move to next level</b>	
<p>KLOE 4.1 The council manages its significant business risks.</p>	<p>Corporate business risks should be actively managed, including reporting to full council at least annually.</p> <p>Risk registers should be "owned" and kept up to date by service managers.</p> <p>Priority should be given to updating the risk map produced in 2003 as recommendations raised have not been addressed.</p> <p>All key strategic reports should incorporate a documented risk assessment.</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>Officers and Members should be reminded of the importance of maintaining up to date registers of interest and gifts &amp; hospitality.</p>

## Value for money

### VALUE FOR MONEY

Overall score 3

#### Key findings and conclusions

*Hastings is a relatively high spending authority per head of population by comparison with other nearest neighbours. The Council can however demonstrate that due to high levels of deprivation and other demographic data that higher spending is needed in many services. The Council is clearly aware of comparative costs, and can identify where higher costs can be attributed to services that are improvement priorities. The Council's self assessment demonstrated that it has clear information on its costs and how these compare to others, and recognises where it needs to improve outcomes in order to provide VFM. Overall the balance between costs and performance is positive.*

*Processes are in place for information on costs and performance to be collected and reviewed. The Council has two systems in place to review the VFM principles of individual services: PIER reviews and Best Value Reviews. Both processes can identify the achievement of cost savings and improvements in service delivery. Information is regularly reported to officers/members and challenged, and there is evidence of improved outcomes as a result of this process. Targets are applied in order to further achieve vfm, and efficiency savings can be demonstrated.*

*Procurement is being strengthened by the creation of a new procurement post, and there are good examples of collaborative working and partnership working in order to achieve efficiency savings and improve services. The Council's capital programme is robust, and is based on real lifecycle costings.*

*The Council is very self-aware of the areas which it needs to address and these are well-documented in its Improvement Plan and its Service Plans.*

#### Improvements needed to move to next level

KLOE 5.1 The council currently achieves good value for money.

Scrutiny reports could be more explicit in drawing out the link between increased cost allocation and performance improvements in specific service areas.

The external funding protocol is an example of good practice, but it would be timely to "relaunch" this to all relevant staff.

<p>KLOE 5.2 The council manages and improves value for money.</p>	<p>The Best Value Review process could be enhanced by establishing clear ownership for all action plans arising from reviews, and for ensuring that progress in implementing recommendations is regularly monitored.</p> <p>Benchmarking should be undertaken on a more systematic basis, to ensure it is clearly focussed on achieving specific objectives for individual services.</p>
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