

Local government

Consultation

February 2006



Use of resources

Consultation document – February 2006

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Introduction	2
Main changes being proposed	5
Consultation questions	11

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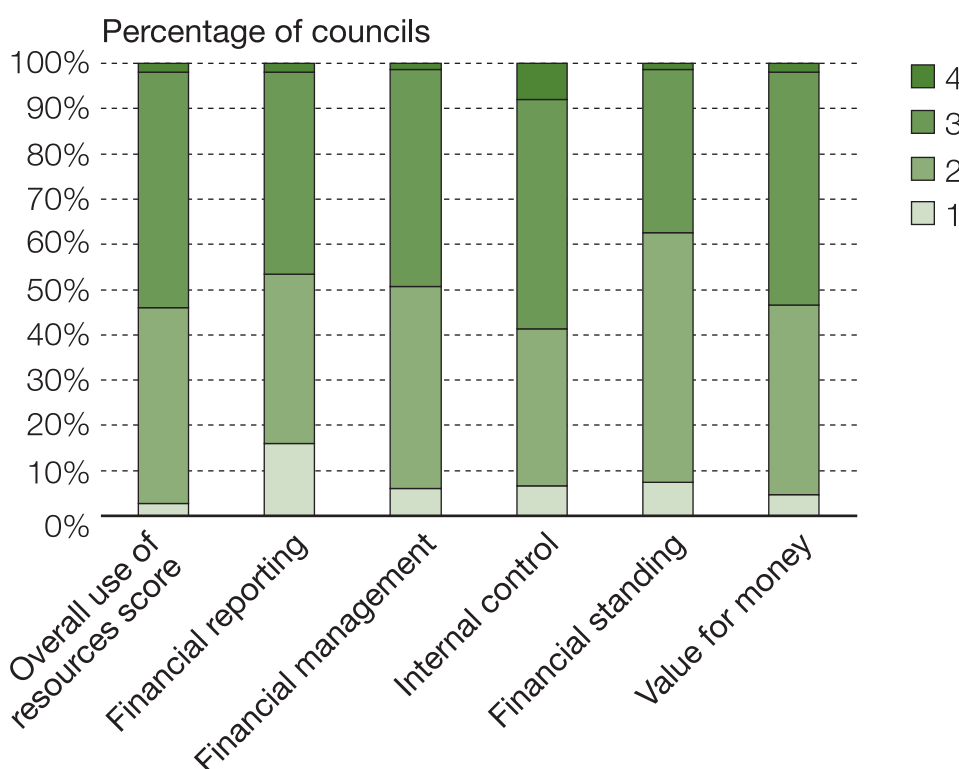
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1

Introduction

- 1 The use of resources assessment is an Audit Commission judgement about a council's performance in relation to five themes: financial reporting, financial management, financial standing, internal control and value for money. The assessment focuses on the importance of having sound, strategically focused financial management to ensure that resources are available to support a council's priorities and improve services. The five individual judgements combine to form a single overall judgement that applies to all councils and feeds into the Comprehensive Performance Assessment (CPA) categorisation for single tier and county councils.
- 2 The use of resources assessment was first carried out at single tier and county councils in late summer 2005 with judgements published in December 2005. For district councils, the assessments were carried out in winter 2005/06 and judgements will be published in March 2006.
- 3 The overall results for single tier and county councils in December 2005 showed that 98 per cent of these councils are performing at or above minimum requirements with over half performing well above minimum requirements. The breakdown of theme scores, however, shows that there is still significant scope for improvement (**Figure 1**). We will be drawing on the 2005 assessments in a forthcoming report, with further analysis of the results and examples of notable practice.

Figure 1
Single tier and county councils' use of resources scores in 2005



Source: Audit Commission

- 4 Following the first use of resources assessments at councils, the Audit Commission is undertaking a post-implementation review of how the assessment went, and is consulting with stakeholders. We have carried out an internal review based on feedback from auditors, councils and treasurers' representative groups about the first year's experience and as a result are proposing some changes to improve the assessment.
- 5 The CPA framework document¹ for single tier and county councils assumed a level of continuity in the key lines of enquiry (KLOE) and criteria year on year, with a commitment to undertake a review to ensure that the assessment remains 'reasonable and achievable'. We recognise that councils need a clear direction as to what is expected as a basis for forward planning. Consequently, the objective of the review is to refine and fine tune the methodology, ensuring that it is 'reasonable and achievable' without introducing major changes.

¹ CPA – The Harder Test, October 2005.

- 6 The methodology used at single tier and county councils has also been applied at district councils. We appreciate that district councils are not in a position to comment on the reporting part of the assessment which does not take place until the end of March. However we welcome any comments on the methodology itself and wish to learn from the experience of district councils about the way in which the assessment was carried out.
- 7 This document sets out our initial proposals to improve the methodology for the use of resources assessment and asks for comments on these and other suggestions for improvement.

Responding to this consultation

- 8 Responses to this consultation should reach us by 17 March 2006. Please send your response to **cpa@audit-commission.gov.uk** and clearly marked 'use of resources consultation'. Responses to the consultation questions set out at the end of this report would be particularly welcome. Information supporting this consultation and related issues is available on the Commission's website, **www.audit-commission.gov.uk**.

2

Main changes being proposed

9 Proposals relate to the following areas:

- changes to the criteria for judgement in light of feedback from stakeholders, and changes in legislation or professional guidance; and
- changes to the criteria for judgement in themes one to four (financial reporting, financial management, financial standing, internal control) that are identified as ‘must haves’ (ie, shown in bold type).

Proposed changes to criteria for judgement

- 10 We have reviewed whether any of the criteria need modification in the light of feedback from stakeholders, and changes in legislation or professional guidance. Our specific proposals are tracked in the attached key lines of enquiry document and summarised in **Table 1** below.

Table 1

Summary of proposed changes to criteria

This table summarises the proposed changes tracked on the key lines of enquiry.

KLOE	Nature of proposed modification
Financial reporting	
1.1	Make a clearer progression between levels of performance in relation to the quality of accounts approved and submitted for audit.
1.1	Delete the criterion at level three relating to earlier closedown of accounts as these deadlines are now in place.
1.2	Modify the need to consult with stakeholders in relation to establishing their requirements for an annual report and include consideration of whether to publish an annual report.
Financial management	
2.1	Modify the criteria relating to cash-flows from ‘preparing forecasts’ to ‘undertaking monitoring’ and replace three year models for cash flow with ‘resource requirements’.

KLOE	Nature of proposed modification
Financial management continued	
2.1	Expand consideration of financial management arrangements at level three to keeping under review capacity, resourcing and training needs of the financial services function.
2.2	Include at level four a criterion in relation to the Executive reviewing its effectiveness and the leadership it provides with regard to financial management.
2.2	Remove the requirement from level two in relation to profiling budgets.
2.2	Modify the requirement at level four for accrued financial reporting.
2.3	Modify the requirement in relation to responding to levels of backlog maintenance.
Financial standing	
3.1	Make clearer the distinction between levels of performance in relation to criteria regarding reserves and balances.
3.1	Clarify that criteria in relation to collection and recovery are for material categories of income.
Internal control	
4.2	Include a 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	Include a criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004) and replace the reference to business critical systems with key financial systems in relation to ensuring procedures are documented.
4.2	Modify the criteria in relation to audit committees to reflect guidance issued by CIPFA in December 2005, and to place more emphasis on the impact and effectiveness of a council's arrangements.
4.3	Remove the criterion at level three in relation to seeking redress in cases of proven fraud or corruption and include ensuring instances of fraud are reviewed in order to strengthen internal control arrangements.

Value for money

5.1 and 5.2	Remove overlap between the two KLOE so that 5.1 is clearly focused on outcomes and 5.2 considers the capacity to manage and improve value for money. Some descriptors have accordingly been moved from 5.1 to 5.2.
5.1 and 5.2	Make the distinction between levels of performance clearer.
5.1 and 5.2	Include additional descriptors at level four to provide clearer information on assessment criteria and help promote excellence.

Changes to criteria in bold type ('must haves')

- 11 For the first four themes (financial reporting, financial management, financial standing and internal control) the criteria include elements that are shown in bold type and indicated with an asterisk. These represent 'must haves' for that level and were 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 those in bold type would prevent that level being achieved for that key line of enquiry. The descriptors are cumulative, for example a council that met criteria at level three could not be given a score of 3 unless it also met the criteria for level two.
- 12 When we published these for 2005 we indicated our intention to phase in the remaining criteria as 'must haves'. We have now reviewed the criteria and propose to upgrade some of them (highlighted in the attached document) to 'must have' status. This means that not meeting these criteria is likely to prevent the council achieving the score to which they relate, although auditors are able to exercise a degree of judgement to allow for exceptional circumstances. In proposing these changes we have considered the following:
- which criteria councils found to be most challenging in year one;
 - whether particular criteria reflected recent changes or developments in professional practice and councils had had sufficient time to adapt; and
 - whether the criteria are considered to be key to meeting performance at the relevant level.

- 13 At level four, performance is ‘well above minimum requirements’ and so we propose to continue with the approach that none of the criteria should be ‘must haves’ but will remain indicative of the performance expected at this level. This is because we do not want to narrowly prescribe performance at level four or to stifle innovation.

Table 2

Changes to criteria in bold type (‘must haves’)

This table summarises criteria that were previously included in the KLOE but were not in bold type and did not have ‘must have’ status, which are now proposed to have such status.

KLOE	Summary of criteria
Financial reporting	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meets the needs of a range of stakeholders is published.
Financial management	
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.
Financial standing	
3.1	Collection and recovery of material categories of income is monitored.

KLOE	Summary of criteria
Internal control	
4.1	Appropriate staff are trained in risk management.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
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.

- 14 These proposals for upgrading these criteria to ‘must have’ status are based on our experience in carrying out the first year’s assessments. If they were adopted for the 2006 assessments, the arrangements to which they relate would need to be in place at 31 March 2006 to be counted for this year. We are seeking views in each case on whether it is reasonable to upgrade the criteria for 2006 or give notice that they will be upgraded in 2007.

Streamlining the assessment

- 15 The first year’s assessments have provided a baseline against a new set of criteria. This inevitably required significantly more effort on the part of councils and auditors. At the same time, we were introducing a revised Code of Audit Practice, which takes full effect with the audit of the 2005/06 accounts. By incorporating the work required for the use of resources assessment with the new Code audit, we will ensure that every effort is made to integrate the two sets of responsibilities wherever possible. To help with this, the use of resources assessment will in future be more closely tied to the preceding financial year. Auditors will update the assessment to reflect any changes to arrangements in place at 31 March 2006. Evidence of the impact they have had from after the year end may be taken into account. For single tier and county councils, the timing of the assessment in 2006 will be broadly the same as in 2005.

Approach for district councils

- 16 The future CPA arrangements for district councils are currently under consideration, but the use of resources assessment will form part of the evidence available. There will be consultation on this framework in April 2006 and the timing of the use of resources assessment will be considered in that document.
- 17 We consider that the standards of financial management that apply to district councils should be the same as those for single tier and county councils. We have therefore applied the same criteria for all types of council. We do, however, recognise that district councils operate on a smaller scale and have less corporate capacity than single tier and county councils. We have addressed this through asking auditors to apply professional judgement about the context in which the criteria are applied. We are interested in the views of district councils about whether this is an appropriate approach.

Self-assessment

- 18 In the first year of use of resources we required councils to complete a self-assessment in relation to the value for money theme. This was necessary to enable councils to tell their own story of how they manage and improve value for money.
- 19 We appreciate that this requirement, while necessary, involved significant work. We do not consider that a completely new self-assessment will be required in 2006 if councils scored 2 or above for the value for money theme in 2005. An update on the original self-assessment with evidence of progress made will be sufficient.
- 20 Self-assessments were not required by the Audit Commission for the other themes in 2005 and this remains the case.

3

Consultation questions

- 21 Please answer the following questions in light of the experience of the first year: firstly the general questions, and then those relating to each theme that follows.

General questions

- 1 Overall, do you broadly agree with the proposed changes set out in this document?
If not, please say why not.

- 2 Do you agree with our proposals to streamline the assessment, in particular to align it more directly to the financial year?
Do you have any further suggestions?

- 3 In 2005, we provided detailed cost profiles to provide background information for councils and the Audit Commission in undertaking work in relation to the value for money judgement.
Have you any suggestions for improving this information?

- 4 We are proposing not to require a new self-assessment for the value for money element of use of resources in 2006 except for those councils scoring a 1 on that theme in 2005.
Do you agree with this proposal?

5 Please give below any other comments you wish to make about any aspect of the assessment and any suggestions you have for improving its ability to support the achievement of continuous improvement in councils' use of resources.

Questions on the key lines of enquiry and specific proposed changes

Financial reporting

6a Are the KLOE and their focus appropriate for this theme?

6b If not, why not?

6c What alternatives would you suggest?

7 Are the criteria for judgement appropriate?

7a If not, why not?

7b What alternatives would you suggest?

7c Are there any criteria in bold ('must-haves') which you think should not be (including those proposed as new 'must haves' for this year)?

7d If so, which ones and why?

7e Are there any criteria which should be in bold ('must-haves') but currently are not?

7f If so, which ones and why?

Financial management

8a Are the KLOE and their focus appropriate for this theme?

8b If not, why not?

8c What alternatives would you suggest?

9 Are the criteria for judgement appropriate?

9a If not, why not?

9b What alternatives would you suggest?

9c Are there any criteria in bold ('must-haves') which you think should not be (including those proposed as new 'must-haves' for this year)?

9d If so, which ones and why?

9e Are there any criteria which should be in bold ('must-haves') but currently are not?

9f If so, which ones and why?

Financial standing

10a Are the KLOE and their focus appropriate for this theme?

10b If not, why not?

10c What alternatives would you suggest?

11 Are the criteria for judgement appropriate?

11a If not, why not?

11b What alternatives would you suggest?

11c Are there any criteria in bold ('must-haves') which you think should not be (including those proposed as new 'must haves' for this year)?

11d If so, which ones and why?

11e Are there any criteria which should be in bold ('must-haves') but currently are not?

11f If so, which ones and why?

Internal control

12a Are the KLOE and their focus appropriate for this theme?

12b If not, why not?

12c What alternatives would you suggest?

13 Are the criteria for judgement appropriate?

13a If not, why not?

13b What alternatives would you suggest?

13c Are there any criteria in bold ('must-haves') which you think should not be (including those proposed as new 'must haves' for this year)?

13d If so, which ones and why?

13e Are there any criteria which should be in bold ('must-haves') but currently are not?

13f If so, which ones and why?

Value for money

14a Are the KLOE and their focus appropriate for this theme?

14b If not, why not?

14c What alternatives would you suggest?

15 Are the criteria for judgement/descriptors appropriate?

15a If not, why not?

15b What alternatives would you suggest?

16 Are the additional descriptors at level 4 helpful and appropriate?

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