

# **Use of Resources Audit Score Feedback**

**Sedgefield Borough Council**

**Audit 2004-2005**

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.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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.

### **Status of our reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Introduction</b>	<b>4</b>
<b>Summary scores for each theme</b>	<b>5</b>
<b>Theme summaries</b>	<b>6</b>
Financial reporting	6
Financial management	7
Financial standing	8
Internal control	9
Value for money	10

## 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	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

- 4 The overall score for use of resources will be reported to the Council by the Audit Commission on 13 March 2006. The scores for Sedgefield Borough Council for the five themes are outlined overleaf.

## Summary scores for each theme

Key Lines of Enquiry (KLoE)	Score
<b>Financial Reporting</b>	<b>3</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3
1.2 The Council promotes external accountability.	4
<b>Financial Management</b>	<b>3</b>
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3
2.2 The Council manages performance against budgets.	3
2.3 The Council manages its asset base.	3
<b>Financial Standing</b>	<b>4</b>
3.1 The Council manages its spending within the available resources.	4
<b>Internal Control</b>	<b>3</b>
4.1 The Council manages its significant business risks.	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3
<b>Value for Money</b>	<b>2</b>
5.1 The Council currently achieves good value for money.	2
5.2 The Council manages and improves value for money.	3



## Financial management

<b>FINANCIAL MANAGEMENT</b> <b>Overall score 3</b>	
<b>Key findings and conclusions</b>	
<p>The approach to financial management is strong. The Council has a history of spending within budget. There is an up to date corporate plan which clearly links to the comprehensive medium-term financial plan and other plans and strategies.</p>	
<b>Improvements needed to move to next level</b>	
<p>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>	<p>The MTFS needs to be developed to include joint plans agreed with partners and other stakeholders, and modelling of balance sheets and cashflow over three years.</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Planned introduction of traffic light system.</p> <p>Evidence that balance sheet areas are monitored on an ongoing basis.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Develop a clear understanding of partners/stakeholders, which should be fully involved in the communication process of asset management performance assessment.</p> <p>Develop an approach for co-ordinating asset management information and its integration with relevant organisational financial information.</p>

## Financial standing

<p><b>FINANCIAL STANDING</b>  <b>Overall score 4</b></p>	
<p><b>Key findings and conclusions</b></p>	
<p>Financial standing is good, there is a comprehensive medium-term financial plan linked to the corporate plan and to the annual budget. Target levels of reserves and balances are set and monitored by members. Income collection targets are set and monitored by members. The Council monitors the opportunity costs of maintaining its levels of reserves and balances and compared these to the benefits it accrues.</p>	
<p><b>Improvements needed to move to next level</b></p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>None.</p>



## Internal control

<b>INTERNAL CONTROL</b> <b>Overall score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council has a history of strong internal control. Internal audit comply with the CIPFA code of conduct for Internal Audit. Arrangements to support the SIC and give assurance to members are in place. Monitoring officer is proactive in his role in relation to standards of conduct.</p>	
<b>Improvements needed to move to next level</b>	
KLOE 4.1 The Council manages its significant business risks.	Further develop risk management arrangements to demonstrate that risk management is embedded in corporate business processes.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	Continue to review the need for a separate audit committee. Embed assurance framework in the Council's business processes.
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.	Continue to develop the counter fraud culture.

## Value for money

<b>VALUE FOR MONEY</b> <b>Overall score 2</b>	
<b>Key findings and conclusions</b>	
<p>Overall, council spending per head of population lies in the top quartile when compared to both districts nationally and with the CIPFA nearest neighbour comparator group. However, this is largely a reflection of the higher level of activity undertaken in line with stated priorities.</p> <p>The Council has strong monitoring and review arrangements and has increased investment in its performance management and corporate capacity. There are a range of examples of the Council addressing poor performance and delivering sustained improved outcomes for its communities.</p> <p>The Council has detailed action plans to monitor and deliver its Gershon efficiencies, but these are not sufficiently SMART. Cost information is available but baseline information is still being developed. Procurement arrangements are being strengthened and have produced savings on major ICT projects.</p>	
<b>Improvements needed to move to next level</b>	
KLOE 5.1 The Council currently achieves good value for money.	Continue to strengthen comparative cost and performance information.
KLOE 5.2 The Council manages and improves value for money.	Review the Gershon action plans to ensure they include SMART targets.