

# **Use of Resources Auditor Judgements**

**District of Easington**

**Audit 2007/08**

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**

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 0844 798 7070.

© Audit Commission 2008

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>Use of resources judgements</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        |
| Conclusion                         | 12        |
| Use of resources 2008              | 12        |
| <b>Appendix 1</b>                  | <b>13</b> |

## Introduction

- 1 The use of resources (UoR) assessment evaluates how well councils manage and use their resources. The assessment is carried out each year and focuses on the importance of strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This is the third assessment we have undertaken at District of Easington. Our assessment is based on the key lines of enquiry for 2007. These include new requirements for councils as part of the Commission's approach to phasing in those elements that need more lead in time and to supporting improvement by gradually raising the standard of the assessment. The period assessed for 2007 has also been aligned with the financial year 2006/07. Councils may, however, provide evidence that becomes available after the end of the financial year, to demonstrate their arrangements are working effectively and are embedded.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale. This scale is used across its 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     |

- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2007, which can be found on the Commission's website. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
- 5 The five theme scores for District of Easington are outlined overleaf.
- 6 This summary sets out our key findings in relation to each theme and key areas for improvement.
- 7 Attached at Appendix 1 are the changes to the use of resources key lines of enquiry for 2008. The improvement areas raised in this report do not cover the changes in requirements.

## Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level**

| <b>Key lines of enquiry (KLOEs)</b>   | <b>Score 2007</b> | <b>Score 2006</b> |
|---|-------------------|-------------------|
| <b>Financial reporting</b>  |                   |                   |
| 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.           | 3                 | 3                 |
| 1.2 The Council promotes external accountability.   | 3                 | 2                 |
| <b>Financial management</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                 | 3                 |
| 2.2 The Council manages performance against budgets.  | 3                 | 2                 |
| 2.3 The Council manages its asset base.   | 2                 | 2                 |
| <b>Financial standing</b>   |                   |                   |
| 3.1 The Council manages its spending within the available resources.  | 3                 | 3                 |
| <b>Internal control</b>   |                   |                   |
| 4.1 The Council manages its significant business risks.   | 3                 | 3                 |
| 4.2 The Council has arrangements in place to maintain a sound system of internal control.   | 3                 | 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                 | 3                 |
| <b>Value for money</b>  |                   |                   |
| 5.1 The Council currently achieves good value for money.  | 2                 | 2                 |
| 5.2 The Council manages and improves value for money.   | 3                 | 3                 |

## Theme summaries

- 8 The key findings and conclusions for each of the five themes are summarised in the following tables.

### Financial reporting

**Table 3**

|  |   |
|--|---|
| <b>Theme score 3</b>   |   |
| <b>Key findings and conclusions</b>  |   |
| The accounts were produced within deadlines, were presented fairly and only contained a small number of non-trivial errors. The accounts were subject to robust member scrutiny and an unqualified opinion was issued. The Council considered stakeholder views when deciding not to produce an annual report. |   |
| <b>Improvement opportunities</b>   |   |
| KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.   | Ensure that the accounts are supported by exemplary working papers. |

## Financial management

**Table 4**

|   |   |
|---|---|
| <b>Theme score 3</b>  |   |
| <b>Key findings and conclusions</b>   |   |
| <p>The Council has prepared and produced a comprehensive document which brings together all budgets and the medium-term financial strategy (MTFS) along with supporting reports. This provides better links between corporate priorities and the budget.</p> <p>The Council have made progress in relation to managing the asset base but plans in this area are not yet fully introduced and embedded.</p> |   |
| <b>Improvement opportunities</b>  |   |
| <p>KLOE 2.1 The council's medium-term financial strategy/plan, budgets and capital programme are soundly based and designed to deliver its strategic priorities</p>   | <p>Review the medium-term financial strategy to ensure that joint plans agreed with partners and other stakeholders are described in financial terms.</p> <p>Monitor financial plans and strategies in order to identify how they have contributed to the achievement of corporate objectives.</p>                  |
| <p>KLOE 2.2 The organisation manages performance against budgets</p>  | <p>Introduce a 'traffic light' system (or similar) to allow Members to focus on key variances, and provide evidence that these are acted upon.</p> <p>Ensure that savings and efficiency gains are profiled over the year and there is monitoring throughout the period by members to ensure their achievement.</p> |
| <p>KLOE 2.3 The Council manages its asset base.</p>   | <p>Continue to embed a backlog maintenance plan</p> <p>Continue to develop a set of local performance measures in relation to assets that link asset use to corporate objectives.</p>   |

# Financial standing

**Table 5**

|   |  |
|---|--|
| <b>Theme score 3</b>  |  |
| <b>Key findings and conclusions</b>   |  |
| <p>The Council’s financial reserves are sound and in line with its policy agreed by members. Spending is consistently maintained within budget. Income collection targets have been set and are monitored by Members. Target levels for reserves and balances have been set based on a risk assessment.</p> |  |
| <b>Improvement opportunities</b>  |  |
| <p>KLOE 3.1 The Council manages its spending within the available resources.</p>  | <p>Reporting of financial information and key financial indicators to Members should continue to be coordinated in order that challenging targets are set for income collection, levels of budget variances etc.</p> |

## Internal control

**Table 6**

|   |   |
|---|---|
| <b>Theme score 3</b>  |   |
| <b>Key findings and conclusions</b>   |   |
| <p>Risk management arrangements have been further strengthened by embedding arrangements whereby risks relating to significant partnerships are considered and assurances obtained about the management of those risks.</p> <p>A full review of Standing Orders was carried out in 2006 and staff are fully aware of the need to adhere to Financial Regulations.</p> |   |
| <b>Improvement opportunities</b>  |   |
| KLOE 4.1 The council manages its significant business risks.  | 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.  | <p>Ensure that there is specific reference in standing orders, standing financial instructions and scheme of delegation to partnerships.</p> <p>Regularly review and update Governance arrangements with respect to partnerships.</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>Specifically consider the risk of fraud and corruption in the council's overall risk management process.</p> <p>Ensure that there are periodic reviews of the effectiveness of the whistleblowing arrangements, and there are effective arrangements for receiving and acting upon disclosures from members of the public.</p> |

## Value for money

**Table 7**

|  |
|--|
| <p><b>Theme score 2</b></p>  |
| <p><b>Key findings and conclusions</b></p>   |
| <p>The council has made significant progress in a number of areas in terms of costs reduction and improved performance. This however is not consistent across all key services with housing performance being the biggest area where investment is not yet matched with outcomes and consistently strong performance.</p> <p>Costs do reflect council priorities decisions, housing, economic development and regeneration, environment community safety and public transport through the concessionary travel scheme, however performance does not still fully reflect the levels of investment being made. A number of key performance indicators in services such as planning, whilst improving, have still to move out of bottom quartile performance as do some of the key housing indicators.</p> <p>The council continues to embed the processes in place to improve VfM. The council demonstrates a good awareness of its costs, the reasons for those costs and actions to address areas of high costs and poor performance. It has an established BVR programme which takes particularly poorly performing services and analyses the problems and makes recommendations for improvement. This programme made improvements in 9 of the 11 areas selected for review during 2006/07.</p> <p>The council has integrated efficiency reviews into its performance management and is exceeding its targets for achieving at least the national cumulative efficiency review target of 7.5 per cent over three years. This is supported by arrangements for the processes underpinning the AES statement which complies with the DCLG's requirements.</p> <p>The council does take long term investment decisions which will impact on the whole of the community in line with the council's priorities and more recently following the settling of LGR what will not be the council's priorities.</p> <p>The council has made substantial progress in developing procurement and is successfully collaborating with other districts in the region to drive further efficiency savings via effective procurement route. In particular Easington is providing the strategic lead for Sustainable and e-procurement.</p> <p>There are many good examples where the council is working in partnership and procuring services through partnerships to deliver on its regeneration agenda for example East Durham Business support, East Durham Employability group.</p> |

|   |   |
|---|---|
| <b>Theme score 2</b>  |   |
| Learning skills council and a number of programmes.   |   |
| <p>The council, through its regeneration work, can demonstrate that it has a strategic approach to seeking external funding to help deliver its priorities. The work on regeneration clearly demonstrates that investment decisions are based on the longer term view as some investment will take several years before outcomes will be delivered. These decisions are also based on providing significant economic, social and environmental benefits across the whole community.</p> |   |
| <b>Improvement opportunities</b>  |   |
| <p>KLOE 5.1 The Council currently achieves good value for money.</p>  | <p>Continue to review both the level and prioritisation of community safety investment.</p> <p>Continue to develop the positive action being taken to address weaknesses in the provision of housing services. The Council is monitoring closely the impact of this action and early indications are that it is proving successful.</p> |

## Conclusion

- 9 The Council's performance demonstrates that it has continued to actively improve its performance in this area and is consistently above the minimum requirements and is performing well.

## Use of resources 2008

- 10 The Commission has published its key lines of enquiry for 2008 on its website. There is an annotated version of the key lines of enquiry available which show all the changes from 2007. This should assist you in pin pointing the changes. (For information the changes to the UOR key lines of enquiry have been summarised at Appendix 1). We will be reporting our scores and findings from our 2008 assessment to you at a similar time next year.
- 11 The Commission consulted on the changes to the key lines of enquiry for 2008 during April to June 2007. The Commission's response to the consultation can be found on its website. The key lines of enquiry for 2008 reflect some of the changing priorities for councils as they respond to the major challenges facing them and the higher expectations of them. Making further improvements in efficiency will be critical for councils in responding to: the changing demographic profile of communities, increasing public expectations of public services and expected constraints on funding from Government.
- 12 The key lines of enquiry give more emphasis, mainly at level 4, to areas such as: sustainability, working in partnership and using IT to secure service and value for money improvements; strategic asset management and joint procurement. These areas signal the changes which will be given more emphasis in the use of resources assessment under Comprehensive Area Assessment, the new performance framework for local services.

## Appendix 1

**Table 8 Changes to the UOR key lines of enquiry 2008**

The key changes to the assessment are summarised here.

| KLOE                        | Level | Summary of change  |
|-----------------------------|-------|--|
| <b>Financial reporting</b>  |       |  |
| 1.1                         | 2     | An unqualified opinion in the published statements.  |
| 1.2                         | 2, 3  | Published information is available to the public in a timely way and in accessible formats in compliance with duties under the equalities legislation.   |
| 1.2                         | 4     | The annual report or similar document includes information and analysis about a council's environmental footprint.   |
| <b>Financial management</b> |       |  |
| 2.1                         | 2     | The impact of strategies is assessed for their impact to comply with duties under the equalities legislation in relation to race, gender and disabilities.   |
| 2.3                         | 3     | The asset management plan provides strategic and forward looking goals showing how land and buildings will be used to deliver corporate priorities.<br>The Council holds accurate information on the efficiency, effectiveness and values of assets, to support decision making on investment and disinvestment in assets. |
| 2.3                         | 4     | Asset management and planning is fully integrated with business planning.  |
| 2.3                         | 4     | Asset management is used as an enabler of change.<br>The management of assets is integrated with other local public agencies to identify opportunities for shared use of property and to deliver cross-sector, cross-agency and community-based services to users.   |
| 2.3                         | 4     | Asset management includes challenge as to whether all assets are fit for purpose, provide value for money and deliver corporate priorities. The Council rationalises its holding of property.  |

| KLOE                      | Level | Summary of change   |
|---------------------------|-------|---|
| <b>Financial standing</b> |       |   |
| 3.1                       | 3     | The approved level of balances is adhered to; the Council's financial standing is sound and supports the achievement of its long term objectives.   |
| 3.1                       | 3     | Targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets. |
| <b>Internal control</b>   |       |   |
| 4.1                       | 4     | Reports which support strategic policy decisions and initiate major projects require a risk assessment which includes an appraisal of the impact on sustainable development.                  |
| 4.2                       | 3     | Effective scrutiny function to ensure challenge and improve performance.  |
| 4.2                       |       | 'Statement of internal control' has been replaced with 'governance statement'.  |
| 4.2                       | 4     | Evidence of the viability of significant contractors'/partners' business continuity plans.  |
| 4.3                       | 2     | Preparation for the role of the standards committee in local investigations and determination.  |
| 4.3                       | 3     | Publicising the work of the standards committee.  |
| 4.3                       | 3, 4  | Enhanced standards for whistle blowing arrangements, demonstrating employees of contracting organisations are aware of the arrangements and staff have confidence in them.                    |
| 4.3                       | 4     | Application forms have fair processing notification permitting data sharing for prevention and detection of fraud and corruption.   |

| KLOE                   | Level   | Summary of change   |
|------------------------|---------|---|
| <b>Value for money</b> |         |   |
| 5.1                    | 2,3,4   | Descriptors for capital programming have been strengthened by including references to the outcomes of a well managed capital programme, ie projects are completed on time, to budget and deliver outcomes which are fit for purpose (and for level 4 – transform services for users and citizens).  |
| 5.2                    | 2,3,4   | Understanding unit and transaction, as well as, overall costs.  |
| 5.2                    | 2, 3, 4 | Data quality arrangements should be reliable (level 2) or exemplary (level 4), and including at level 4, an agreed approach with partners. Auditors will rely on the findings of the data quality audit for this descriptor.  |
| 5.2                    | 2, 3, 4 | The descriptor which assesses community needs and impact of decisions on diverse communities has been revised to better reflect statutory requirements on equality impact assessments. It also makes it clearer that reducing inequality in outcomes ought to be integral to a council's drive to improve VFM.  |
| 5.2                    | 2, 3, 4 | Demonstrating improvements in value for money by tracking performance over recent years.  |
| 5.2                    | 2, 3, 4 | More emphasis on stronger, longer-term, full cost evaluation, including (at levels 3 and 4) consideration of environmental and social in its assessments of costs and benefits in decision making.  |
| 5.2                    | 2, 3, 4 | Improving value for money through partnership working, with an understanding of resources at the disposal of partnerships and planned outcomes.<br>There are opportunities to improve value for money (reduce costs or improve outcomes) through better partnership working. Performance reflects differing levels of engagement with partners to improve outcomes. |
| 5.2                    | 2, 3, 4 | Use of ICT to improve services, value for money and access to services.   |