

Use of Resources

March 2007



Use of Resources Auditor Judgements

Gateshead Metropolitan Borough Council

Audit 2006/2007

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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 have been 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 our Use of Resources assessment was reported to the Council by the Audit Commission on 1 December 2006.

- 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 considered whether relevant arrangements are 'embedded', that is they have been operating consistently with clear outputs and having an impact.
- 5 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.
- 6 In relation to future assessments, as outlined in the CPA framework documents for 2006 for single tier and county 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.

Use of resources judgements

- 7 The five theme scores for Gateshead Council are summarised below, followed by details of our key findings in relation to each theme and key areas for improvement. Overall, the Council's scores have improved significantly compared to last year's assessment, with three theme scores improving from a 2 to 3. In addition, we are aware that the Council is engaged in a major process of change and improvement, and that if the measures being implemented now are sustained and further embedded this will further strengthen arrangements.

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2006	Score 2005
Financial reporting	2	2
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers	2	2
1.2 The Council promotes external accountability	3	2
Financial management	2	2
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities	2	2
2.2 The Council manages performance against budgets	2	2
2.3 The Council manages its asset base	3	3
Financial standing	3	2
3.1 The Council manages its spending within the available resources	3	2
Internal control	3	2
4.1 The Council manages its significant business risks	3	2
4.2 The Council has arrangements in place to maintain a sound system of internal control	3	2
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
Value for money	3	2

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Key lines of enquiry (KLOEs)	Score 2006	Score 2005
5.1 The Council currently achieves good value for money	3	2
5.2 The Council manages and improves value for money	3	2

Theme summaries

- 8 The key findings and recommendations for the five themes are summarised below.

Table 3 Summary of findings and conclusions by theme

Financial reporting	
Theme score = 2	
Key findings and conclusions	
<p>Overall, the Council is performing adequately on financial reporting. The financial statements were approved by the statutory deadlines, which were brought forward by a further month this year. Working papers were supplied promptly and were of reasonable quality. All queries were satisfactorily answered but there were some delays in responding in a few cases.</p> <p>The accounts submitted for audit required a small number of significant adjustments mainly in respect of accounting for the value of council dwellings and accounting for insurance.</p> <p>In future, when the accounts are approved by Members, there is scope to develop the covering report by highlighting key issues for debate. This should promote more discussion at the Accounts Committee.</p> <p>The Council produce an annual report including summary accounts. Efforts have been made to make the financial information relevant to the needs of stakeholders.</p>	
Improvement opportunities	
<p>1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Improve quality control arrangements to ensure that the accounts presented for audit do not require significant adjustments.</p> <p>Respond more quickly and effectively to audit queries, in accordance with a newly agreed protocol.</p> <p>The covering report to Members should highlight key issues in the accounts.</p> <p>Consider ways of engaging Members more fully with the accounts, to encourage more rigorous scrutiny of the financial statements.</p> <p>Consider ways of providing stronger evidence of the scrutiny and challenge of the accounts that does take place.</p>

Financial reporting	
Theme score = 2	
1.2 The Council promotes external accountability.	The annual report should include a clear explanation of key financial information and technical terms.

Financial management

Theme score = 2

Key findings and conclusions

Overall, the Council is performing adequately on financial management. The Council has taken effective action over the past two years to ensure that its medium-term financial strategy, revenue budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets and the Council manages its asset base.

The MTFs published in November 2005 contained a brief summary of the financial requirements over the next three years but did not go into significant detail or provide clear links to service priorities and needs. There was no financial information on predicted levels of balances. Further financial information and links to strategic priorities should be made more explicit. Officers have sought to address this through the new MTFs approved by Members in December 2006. The impact of the new MTFs and the extent to which it has become embedded in the Council's processes will be considered as part of next year's assessment.

Although budget monitoring arrangements are sound, there is scope to improve the evidence maintained to support the processes followed; for example, budget monitoring reports could clearly prioritise variances or attach different levels of importance to them, and minutes of the key budget monitoring meetings could be taken.

Improvement opportunities

2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.

Although there are indications of a developing approach to the MTFs, this needs more time to be further embedded, including developing clearer links between corporate and service plans, other internal plans and strategies and the MTFs. We acknowledge that the latest version of the MTFs approved in December 2006 aims to address many of these concerns.

2.2 The Council manages performance against budgets.

Budget monitoring should be documented to show a clearer focus on high risk areas, relate to operational activity indicators and demonstrate evidence of a risk assessment. It would be helpful to strengthen the evidence available by producing minutes of the monthly finance meetings.

Financial management

Theme score = 2

2.3 The Council manages its asset base.

Develop a clear framework for describing and evaluating how Council assets contribute to the achievement of corporate and service objectives, including improvement priorities.
Implement arrangements for communicating the results of performance measurement and benchmarking to relevant stakeholders.

Financial standing

Theme score = 3

Key findings and conclusions

Overall, the Council has improved and is now performing well on financial standing.

Spending is contained within budget and the Council has demonstrated more clearly the basis for the level of reserves held.

The Council has strengthened and further embedded its monitoring of income collection, and identified and benchmarked the costs of collection and performance. Collection targets are set and closely monitored for all significant income streams.

Improvement opportunities

3.1 The Council manages its spending within the available resources.

The Council needs to sustain its efforts for continued improvement in performance in income collection, to reduce arrears levels.

Internal control	
Theme score = 3	
Key findings and conclusions	
<p>Overall, the Council has improved and is now performing well on internal control.</p> <p>There is a good risk management process in place, with arrangements clearly documented. There are risk registers maintained across the Council, and the links to corporate and service planning are being developed. Members are involved in the risk management process.</p> <p>The assurance framework to support the statement on internal control includes reporting by Internal Audit, a risk management update, a system of assurance statements from managers and other evidence.</p> <p>A monitoring system has been introduced to ensure that systems procedure notes are kept up-to-date.</p> <p>An Audit Committee has been established with appropriate terms of reference.</p>	
Improvement opportunities	
4.1 The Council manages its significant business risks.	The Council should continue to embed risk management in corporate business processes, for example, through enhancement of quarterly reporting to Members.
4.2 The Council has arrangements in place to maintain a sound system of internal control.	Provide training and support to Members of the Audit Committee to ensure it delivers its responsibilities fully and effectively.
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Demonstrate that a strong counter-fraud culture is in place across the Council, and carry out a formal review of arrangements on a more regular basis.

Value for money

Theme score = 3

Key findings and conclusions

Overall, the Council has improved and is now performing well on value for money.

Value for money is high on the Council's agenda.

There is a much stronger awareness of the costs and related performance of services. Where costs are high, performance is generally also very strong and linked to a priority area. Where performance is not strong there are plans to address either costs or underperformance.

The recent corporate assessment scored achievement as 3, reflecting in part the quality of outcomes achieved, including strong partnership working.

Work to deliver efficiencies and drive the value for money agenda is now showing sustained results, and there is a clear culture developing driving the need for efficiencies to be made so that resources can be redirected to priorities.

Difficult decisions are being taken, and efficiency targets are being achieved, for example, in procurement efficiencies, actions taken in social services and absence management.

Areas have been identified for review as part of a rolling programme to make efficiencies and improve overall value for money. Procurement has been improved significantly and is now assessed as meeting most of the requirements of the national procurement strategy.

Good use has been made of external funding to address local priorities and improve overall value for money.

Improvement opportunities

5.1 The Council currently achieves good value for money.

Further improvement needs to be demonstrated in some areas, such as planning, recycling, street cleaning and highways.

In other areas, such as elements of relatively high spend within children's and adult care services, action has been taken to reduce costs and strengthen performance, but the full benefits still need to be realised.

5.2 The Council manages and improves value for money.

In some areas, value for money is only now being addressed whereas the existence of issues has been known for some time.

More work is needed to ensure that there is equity in access to services across the whole community.

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
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	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems (new).
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) (new).
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.