



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# Use of Resources Auditor Judgements

Bury Metropolitan Borough Council

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AUDIT

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# 1 Introduction

The annual Use of Resources (UoR) assessment evaluates how well local authorities 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 Authority's priorities and improve services, covering five themes.

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 Authority's arrangements.

Judgements will be 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 the Use of Resources assessment will be reported to the Authority by the Audit Commission on 1 December 2006.

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 need to consider whether relevant arrangements are 'embedded' that is, they have been operating consistently with clear outputs and having an impact. 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.

In relation to future assessments, as outlined in the CPA framework documents for 2006, the status of a number of criteria will change to 'must have status'. In order for the Authority to sustain or to improve upon its current performance at the next assessment, it will need to take these criteria into consideration.

The five theme scores for Bury Metropolitan Borough Council are now outlined. The summary that then follows sets out our key findings in relation to each theme and key areas for improvement.

## 2 Use of resources judgements

The table below shows the Authority's score for the 11 Key Lines of Enquiry (KLOE) and the five themes.

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

Key lines of enquiry (KLOEs)	Score 2005	Score 2006
<b>Financial Reporting</b>		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	1	2
1.2 The Council promotes external accountability.	2	4
<b>Financial Reporting Overall</b>	<b>1</b>	<b>3</b>
<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.	2	2
2.2 The Council manages performance against budgets.	2	3
2.3 The Council manages its asset base.	1	3
<b>Financial Management Overall</b>	<b>2</b>	<b>3</b>
<b>Financial Standing</b>		
3.1 The Council manages its spending within the available resources.	2	2
<b>Financial Standing Overall</b>	<b>2</b>	<b>2</b>

## 2 Use of resources judgements (*continued*)

Key lines of enquiry (KLOEs)	Score 2005	Score 2006
<b>Internal Control</b>		
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	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.	2	2
<b>Internal Control Overall</b>	<b>2</b>	<b>2</b>
<b>Value for Money</b>		
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	2	3
<b>Value for Money Overall</b>	<b>3</b>	<b>3</b>

This table shows that the Authority has improved scores for five of the KLOE areas since the 2005 judgements. In two of these five areas the scores have improved by two levels. This indicates the progress made by the Authority in the year.

# 3 Financial reporting

## Financial Reporting

Theme Score: 3

### Key findings and conclusions

The Authority has improved its financial reporting score from level one in 2005, to level three in 2006. The key reasons for the improvement are that the Authority:

- received an unqualified audit opinion on the statutory accounts within the prescribed timescale;
- published an Annual Report after receiving feedback from the public that requested such a document; and
- demonstrated how its processes to consult the public on the type of information it produces for publication, which include feedback requests, Budget Roadshows and focus groups, impacted on the type of financial and performance information the Authority produced for 2005/06.

The accounts were presented to the members of the Audit Committee prior to the audit with a clear report from the Director of Finance and E-Government.

The accounts did contain more than a small number of non-trivial errors. All but one of these errors were amended, some of these adjustments leading to an increase in the deficit reported for the year,

On the whole the Authority's working papers were to the required standard. Where weaknesses were identified, these were rectified by officers in a timely manner.

### Improvement opportunities

KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.

- The Authority needs to improve its quality assurance process for the production of the accounts so that the risk of non-trivial errors arising is minimised,
- Working papers could be improved by ensuring that there are clear links to the account balances they support and by making further use of technology to share working papers.

KLOE 1.2 The Council promotes external accountability.

- To retain the maximum score on this KLOE the Authority should continue to consult stakeholders in respect of summary financial information and should publish relevant information accordingly.

## 4 Financial management

### Financial Management

Theme Score: 3

#### Key findings and conclusions

The Authority has improved its financial management score from level two in 2005, to level three in 2006. The key reasons for this are improvements in financial monitoring and asset management arrangements. To improve financial monitoring, during 2006/2007 the Authority has:

- introduced a new financial management system which has improved the timeliness of budget monitoring information;
- made more use of operational activity data and service performance information in the budget monitoring process;
- formalised arrangements around Star Chambers, where senior officers and members receive budget and non-financial information to review the performance of the department; and
- ensured progress on achieving savings is being monitored and reported.

The Authority approved a revised medium-term financial strategy (MTFS) in October 2006. Arrangements for medium terms financial planning have been strengthened, in particular by ensuring the MTFS:

- is linked to the Authority's strategic objectives
- models income and expenditure over a three year period
- contains explanations on how it is linked to other strategies and policies in place at the Authority.

The Authority was still unable to demonstrate a clear link between the internal resource allocation and its priorities. Going forward, the Authority has developed a Priority Investment Reserve for the 2007/2008 financial planning process which will enable a clearer demonstration of resource distribution and alignment.

The Authority approved a new Asset Management Plan (AMP) in July 2006. Arrangements are strengthened with the identification of the level of backlog maintenance and plans to address this issue included within the AMP. The Authority has further plans to reduce the level of backlog maintenance, such as the Schools Reorganisation and Office Accommodation Strategy, though these are not formally brought together within one plan. We have used our discretion to pass the Authority on level 3 asset management criteria even though the Asset Management Plan was not formally in place until July 2006.

## 4 Financial management *(continued)*

### Improvement opportunities

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.

- The Authority needs to demonstrate how internal resources allocation is driven by the Authority's priorities. The Priority Investment Reserve, which identifies resources being pooled and then reallocated to priority services on a stated rationale, should enable the Authority to achieve this.
- The Authority needs to ensure that the MTFS's key messages are communicated to staff and stakeholders in 2007 and going forward.

KLOE 2.2 The Council manages performance against budgets.

- To achieve the new level 2 "must have" criteria in 2007 the Authority needs to identify its significant partnerships and should monitor the financial performance of these on a regular basis.

KLOE 2.3 The Council manages its asset base.

- The Authority should ensure that all plans to address the level of backlog maintenance are brought together in one coherent strategy,
- The Authority should continue to develop more appropriate performance measures that consider the use of assets in relation to corporate objectives.



# 5 Financial standing

## Financial Standing

Theme Score: 2

### Key findings and conclusions

The Authority sets a balanced budget and has maintained overall spending within the revised estimate for the last four years.

The Authority has set a risk-based reserves strategy. Quantification techniques are used to inform the minimum level of reserves.

Historically the Authority has not routinely reported on or quantitatively monitored the level of reserves and balances in comparison to the target set. This has become significant as the Authority's reserve levels have declined and budgeted deficits have materialised over the last three years. During 2006/07 the Authority has started to comment on the level of reserves, but still does not quantitatively monitor whether the level of reserves and balances is in line with its policy. It is essential the Authority undertakes this monitoring to ensure its spending is being managed within its available resources.

The Authority monitors the effectiveness of debt recovery action in a number of ways, including benchmarking against other authorities and considering the costs of collection. The Authority has also demonstrated how this has led to changes in the methods of income collection.

### Improvement opportunities

KLOE 3.1 The Council manages its spending within the available resources.

- The Authority should carry out a quantitative assessment of the level of reserves in year to ensure that reserves do not fall below the minimum level of reserves set. This should be reported to Members along with the monitoring reports and narrative on reserves that are currently submitted.
- Monitoring of recovery of income should continue to ensure that the Authority meets the new 'must have' criteria.

# 6 Internal control

## Internal Control

Theme Score: 2

### Key findings and conclusions

Although significant progress in some areas of internal control has been made in 2006, the Authority has not been able to demonstrate that arrangements are embedded. A level two has been achieved meaning that there has been no overall movement in scores from 2005.

The Authority has updated its risk management processes:

- the Risk Management Strategy has been reviewed and updated;
- departmental risk registers have been updated and are now reviewed every two months by the Department Management Teams;
- a member group responsible for reviewing corporate risks has also been established (the Corporate Risk Management Group).

The departmental risk registers include generic risks from partnership working, though specific risks cannot be identified in all cases because the Council needs to identify all its partners and then establish the specific risks associated with these partnerships.

The CRMG has only met once since its creation, therefore members with responsibility for risk management have not received regular reports on corporate risks to ensure appropriate action is being taken. However, there is a set programme of review in place for the group going forward.

The Authority has put adequate arrangements in place to review and report upon the system of internal control. The Statement of Internal Control (SIC), which concludes on the adequacy of the system of internal control, is received and approved by the Audit Committee. Specific issues with the bank reconciliation have arisen again during 2005/2006 and continue into 2006/2007, with no formal reconciliation having been completed for this financial year and the imbalance on the 2005/2006 reconciliation still not resolved.

The SIC is based upon the assurance framework, however, the assurance framework does not map the strategic objectives to risks and then to controls and assurances. The risk management process does this to some extent, but it does not cover all of the internal controls in place. The Authority needs to strengthen the assurance framework and ensure that the review of the SIC becomes a regular quarterly process.

Arrangements in place to promote and ensure probity and propriety have been improved with the formal adoption of codes of conduct for Members and staff, gifts and hospitality guidance and an anti-fraud and corruption strategy. Weaknesses have been identified in the gifts and hospitality arrangements where departmental returns have been submitted to the wrong department. In addition, there are no established arrangements for the Monitoring Officer to review the declarations.

Internal Audit conduct a formal risk assessment for all work, which includes proactive fraud work. However, the arrangements to evidence this risk assessment for fraud are not clear.

## 6 Internal control *(continued)*

### Improvement opportunities

<p>KLOE 4.1 The Council manages its significant business risks.</p>	<ul style="list-style-type: none"> <li>• Risk management arrangements should be formally reviewed on an annual basis.</li> <li>• The approach to the inclusion of partnerships in departmental risk registers should be consistent across the Authority. Significant partnerships should be included with specific risks related to those partnerships identified and documented.</li> <li>• The Corporate Risk Management Group should meet and review the Authority's corporate risks on a regular basis.</li> </ul>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<ul style="list-style-type: none"> <li>• The Authority should ensure the assurance framework maps the strategic objectives to risks and then to controls and assurances.</li> <li>• The Authority should identify its significant partnerships and ensure that appropriate governance arrangements are in place to meet the 'must have' criteria for 2007. These arrangements should also be regularly reviewed.</li> <li>• The Authority should seek to ensure that the problems around the bank reconciliation processes are resolved to allow the Authority to fully demonstrate a sound system of internal financial control.</li> <li>• The Authority should continue to develop a business continuity plan</li> </ul>
<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>	<ul style="list-style-type: none"> <li>• The Authority should formally assess the standard of ethical conduct on an annual basis, The member's ethical survey will assist with this process.</li> <li>• The Authority should continue to develop the gifts and hospitality register arrangements to eliminate the identified weaknesses. Arrangements should also be made to ensure that the Monitoring Officer or her staff review these declarations.</li> <li>• A formal risk assessment should be undertaken and evidenced to inform Internal Audit's plan for proactive counter fraud and corruption work.</li> </ul>

# 7 Value for money

## Value for Money

### Theme Score: 3

#### Key findings and conclusions

Bury Metropolitan Borough Council continues to demonstrate that it is a “low cost, low spend” Authority, Overall costs and unit costs for key services demonstrate best value compared to other local authorities providing similar levels and standards of services. Unit costs for most service areas are in the lower quartile, key exceptions being housing services central services though these services were only slightly above average in comparison to other local authorities.

The Authority’s overall level of performance is above average with some areas of very high performance i.e. education.

The Authority's capital programme clearly reflects its corporate priorities. Only capital bids which clearly demonstrate how they will help to achieve key priorities are successful. The Authority has consistently incurred significant slippage against its capital programme in the last few years. We also identified that a significant portion of this slippage had not been identified through the capital monitoring arrangements that the Authority has in place.

The Authority has implemented two new processes for monitoring and reviewing VFM in 2006/07. The first is the introduction of quarterly Star Chamber meetings. These are now an integral part of the Authority’s financial and performance framework. At these meetings senior members and officers review finance, performance and VFM data including the VFM profiles produced by the Audit Commission. This helps the Authority to ensure that spending profiles are in line with performance levels. The second process is the introduction of a service assessment framework. This is a formal process to identify services that would benefit from an in-depth service review. The first of these reviews is complete and now being considered for action. The Authority now needs to demonstrate that action taken has resulted in improved service outcomes.

The Authority has developed a Procurement Strategy in association with the National Procurement Strategy Team (NPST). This robust development process ensured that the new strategy complies with good practice from the NPST as well as the Audit Commission. The Authority has been able to demonstrate numerous small examples of joint and e-procurement. These examples have realised a number of benefits including reduced costs, improved quality of products/services as well as environmental benefits.

## 7 Value for money *(continued)*

### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

- The Authority needs to take action to reduce unit costs for housing and central services so that they appear in or are close to the lower quartile. This would need to be achieved without reducing the quality of services currently provided by the Authority.
- The Authority should improve the quality of its arrangements to monitor progress against the capital programme. The Authority must ensure that any slippage is clearly reported as soon as possible.
- The Authority should demonstrate that it formally evaluates the outcomes from its capital programme. In order to do this, the Authority must set SMART objectives for the capital programme and formally assess these at the end of the year. It is also important for any such evaluation to show that the capital investment has resulted in significant improvements in service delivery, e.g. reduced service costs or improved quality of services.

KLOE 5.2 The Council manages and improves value for money.

- The Authority needs to demonstrate the effectiveness of the service assessment framework and star chamber process on a larger scale.
- The Authority should ensure the achievement and improvement of value for money is integral to the Authority's performance management arrangements.