

## **KEY LINES OF ENQUIRY – USE OF RESOURCES JUDGEMENT 2005/06**

### **1 SUMMARY**

- 1.1 This report summarises the main issues arising from the key lines of enquiry – use of resources judgement for 2005/06 carried out by the Council's external auditors, PKF and sets out how the action plan arising from the assessment will be implemented and monitored.

### **2 INTRODUCTION**

- 2.1 The Use of Resources judgement evaluates how well the Authority manages and uses its financial resources by scoring performance against 5 main themes:-
- Financial reporting
  - Financial management
  - Financial standing
  - Internal control
  - Value for money.
- 2.2 For each of these themes, there are a number of key lines of enquiry (KLOE) with descriptions of expected performance levels 2,3 and 4. The performance level which we can prove we match then provides the score for that KLOE. Appendix 1 shows the 5 themes and the component KLOE scores together with the scoring scale.

### **3 KLOE RESULTS**

- 3.1 On 20 April 2006, the former Finance and Procedures Overview and Scrutiny (FPOS) Committee considered the Annual Audit and Inspection Letter for 2004/05 which included the Council's overall Use of Resources score "2". Overall the Authority's arrangements were considered to be at minimum acceptable standards.

3.2 There were 4 areas where PKF judged the Authority to be falling short of the minimum level. The areas and planned action or action already taken are detailed below:-

Theme	PKF's Judgement	Actions
Financial Management	There is a lack of Member Committee in-year reporting or action plans being established for significant variances or overspends	<p>Budget Monitoring report to Policy, Finance &amp; Strategy Performance committee on 17 October and 18 January. Regular reports will then be made July, October and January. End of year performance will be reported with the Final Accounts.</p> <p>Reports will include actions for dealing with variances.</p>
Internal Control	<p>Risk management arrangements are in the early stages of implementation and fall short in terms of allocating responsibilities for individual risks and the formality of Member Committee involvement;</p> <p>The Authority has yet to establish separate Member Committee approval for the Statement on Internal Control (SIC), or</p> <p>put in place action plans to address significant weaknesses identified by the SIC or</p>	<p>Members reviewed the Corporate Risk Register in April.</p> <p>It has now been updated to include individual risk owners and evaluation of controls. SMT have been more fully involved in the process and an update will be reported to Policy, Finance &amp; Strategic Management on 17 October 2006</p> <p>The SIC was reported to and considered in detail by the first meeting of the Audit Committee on 7 June</p> <p>Action plans to be put in place or cross referenced to SIC. Progress on action plans to be reported to Audit Committee in January 2007.</p>

Theme	PKF's Judgement	Actions
	to determine what systems are business critical as a key pre-requisite for demonstrating that these are adequately documented, although it is known that procedure manuals for two core financial systems fall short of requirements in any event;	Business Continuity Group working group now set up to develop work already undertaken by Corporate Risk Group.  Housing Rents and Council tax procedure manuals now up to date.
Value for Money	The Authority has progress to make in establishing a complete and operational performance management framework, no benchmarking arrangements beyond those undertaken in support of external contracting and a limited track record of improvements from Best Value/service reviews.	A Performance Management framework is in place and being developed.  A VFM framework will be developed focusing on high level, risk based comparisons to identify areas for further work. Benchmarking exercises can be a heavy drain on resources so the timing will depend on resources available.

**4 ACTION PLAN MONITORING**

4.1 Following the report to FPOS in March, PKF and Officers have put together a detailed action plan with the aim of moving our overall score up to 3 (Appendix 2). Actions have been summarised into a timetabled programme of key milestones and targets and it is proposed that this summary will form the basis of monitoring. A copy of the full report has been placed in the Members' Library.

**5 RISK IMPLICATIONS**

5.1 If the Authority does not implement the actions agreed with PKF, there is a risk that not only will we not improve on our score, but scores in areas where we have been given the benefit of the doubt, may fall. The Use of Resources judgement will be taken into account in any future Comprehensive Performance Assessment.

5.2 In their report, PKF acknowledge that given the limited resources and corporate capacity of the Authority, it is sensible for the action plans to be

carefully prioritised against what can realistically be achieved and this will be carefully monitored over the timeline of the action plan. Priority will be given to the 4 areas outlined above and to those actions which ensure that existing scores are retained.

## **6 RESOURCE IMPLICATIONS**

- 6.1 PKF's report includes reference to the management of the finite resource available and recognises that there are significant resource implications in officer time for the Authority in implementing the detailed Action Plan.

## **7 RECOMMENDATION**

- 7.1 It is proposed that the Committee **RESOLVES**

- (1) To note that Officers are implementing a detailed Action Plan to improve the Use of Resources Judgement.
- (2) To agree that monitoring of the summarised Action Plan will be reported to Members as part of the regular monitoring of external audit's recommendations.

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### **Background Papers:-**

Use of Resources Judgement 2005/06 – PKF (June 2006)

Annual Audit and Inspection Letter 2004/05 - PKF (March 2006)

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Appendix 1KLOE scores

Theme and Key Line of Enquiry	Score
1.1 <i>Annual accounts</i>	2
1.2 <i>Promotion of external accountability</i>	2
<b>1 Financial Reporting</b>	<b>2</b>
2.1 <i>Medium term financial strategy, budgets and capital programme</i>	2
2.2 <i>Managing performance against budgets</i>	1
2.3 <i>Managing the asset base</i>	2
<b>2 Financial Management</b>	<b>2</b>
3.1 <i>Managing spending within available resources</i>	2
<b>3 Financial Standing</b>	<b>2</b>
4.1 <i>Managing significant business risks</i>	1
4.2 <i>Maintaining a sound system of internal control</i>	1
4.2 <i>Arrangements to promote and secure probity and propriety</i>	2
<b>4 Internal Control</b>	<b>1</b>
5.1 <i>Current achievement of good value for money</i>	2
5.2 <i>Managing and improving value for money</i>	1
<b>5 Value for Money</b>	<b>2</b>
<b>Overall</b>	<b>2</b>

The score is determined against the following scale:

Level	Performance
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