

# South Hams District Council

## CPA Use of Resources – Assessment Results

The Members  
South Hams District Council

April 2007

Ladies and Gentlemen,

**CPA – Use of Resources Assessment**

We are pleased to present the summary results of our assessment of the council's use of resources, which has been completed in accordance with the methodology and guidance issued by the Audit Commission. We hope that the information contained in this report provides a useful source of reference for Members.

Yours faithfully

PricewaterhouseCoopers LLP

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**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Introduction

## Introduction

We have completed our assessment of the council's use of resources in accordance with the methodology and guidance prescribed by the Audit Commission. The results have been subject to both internal and Audit Commission quality assurance arrangements, designed to ensure compliance with the methodology and guidance and to promote consistency of assessment between appointed auditors.

The tables in the next section set out the results of the assessment and highlight the areas for improvement based on the criteria devised by the Audit Commission. Each judgement area consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance levels 2, 3 and 4. These translate into the following assessments

- 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 Audit Commission determined the overall use of resources score by combining the auditor's separate scores for each of the themes covered, using a set of rules which they have previously published in their October 2005 report 'CPA – the harder test.

The Audit Commission formally advised authorities of the overall use of resources score on 15 March 2007. The council's score was 3, which was the same as last year. Our work identified a number of improvements to individual KLOE scores, which are highlighted in the report. Appendix 1 shows a comparison between the current and prior year KLOE scores.

# Assessment results

<b>Financial Reporting</b> <b>How good are the council's financial accounting and reporting arrangements?</b>		3
<b>Overview</b> <p>The production of the accounts is well managed from the centre and the accounts were produced a month earlier in line with the new accounts timetable. The council produced a complete set of accounts at the start of the audit, with comprehensive working papers. However, there were some adjustments which had to be subsequently made.</p> <p>South Hams DC publishes all relevant reports (including statement of accounts and audit reports) on its web site.</p>		
<b>Key Lines of Enquiry</b> <ul style="list-style-type: none"> <li>• The council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers</li> <li>• The council promotes external accountability.</li> </ul>		3 3
<b>Areas for Improvement</b> <ul style="list-style-type: none"> <li>• The council should continue to improve the working papers and supporting documentation produced across service areas. The council should ensure that the working papers and the first set of accounts, including the notes, are consistent.</li> <li>• There were errors identified during the audit which, although not considered material, were considered greater than trivial. All errors identified were adjusted by management. The quality of the accounts was good although improvements are still necessary.</li> <li>• Although the council produces a summary annual report, further work is required to achieve level 4. The annual report should be a stand-alone document which incorporates summary accounts and key financial information, which is designed to be understandable by members of the public.</li> </ul>		

## Financial Management

### How well does the council plan and manage its finances?

3

#### Overview

Members are presented with detailed information when setting the budget for the forthcoming year and members are provided with quarterly budget monitoring reports throughout the year.

The council uses profiled budgets which are approved before the start of the year and which are delegated to those responsible. The council regularly tests its financial systems to ensure their integrity.

The council has a corporate capital strategy and manages its asset base well. The council has embedded the annual maintenance and backlog maintenance plan, which was approved in the prior year.

#### Key Lines of Enquiry

- The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities
- The council manages performance against budgets
- The council manages its asset base

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#### Areas for Improvement

- Officers should continue to develop the medium term financial strategy, to specifically include the financial terms agreed with partners and other stakeholders. The strategy should also model its balance sheet and cash-flow over a minimum of 3 years.
- The Executive should formally review its effectiveness and the leadership it provides with regard to financial management, and should then take appropriate action to address areas of weakness.
- Although there are clear lines of budget monitoring reporting to members, the council does not currently produce fully accrued results or balance sheet information.
- The council setup a Gershon Group two years ago, which should ensure that efficiency gains are profiled over the year and regularly monitored.
- There is currently no evidence to support that performance measures and benchmarking are being used that link asset use to corporate objectives.. The council should look to evidence this in the future.

## Financial Standing

### How well does the council safeguard its financial standing?

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#### Overview

The council has historically managed to balance its total budget.

The council monitors its earmarked reserves to ensure that the optimum level is held to meet future commitments.

#### Key Lines of Enquiry

- The council manages its spending within the available resources

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#### Areas for Improvement

- The council needs to further evidence how members set challenging targets and monitor key financial health targets during the year. The council should also be able to evidence that it has a good track record of achieving these targets.

## Internal Control

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### How well does the council's internal control environment enable it to manage its significant business risks?

#### Overview

South Hams has made good progress in developing and embedding risk management.

South Hams followed best practice with officers and directors in compiling the statement of internal control with sign off and review of key elements of the statement by officers.

South Hams has good examples of protocols for officers and members which have been in place for some time. Detailed reviews of hospitality registers and registers of interest are made by the monitoring officer. The council should ensure that members continue to attend risk management training sessions to ensure they meet their responsibilities.

#### Key Lines of Enquiry

- The council manages its significant business risks.
- The council has arrangements in place to maintain a sound system of internal control
- The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business

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#### Areas for Improvement

- Further evidence is required to show that the senior officer and member who jointly champion and take overall responsibility risk, are actively embedding risk management throughout the council.
- The council needs to demonstrate that it has embedded risk management in its corporate business processes.
- The council needs to ensure it can evidence that it has appropriate governance arrangements in place for each of their significant partnerships.
- The council needs to ensure there is a sound system of internal financial control. There have been problems reconciling the bank and currently there is still an unresolved difference.
- To achieve level 4 the council will need to setup an audit committee that is independent of the executive function.
- The council needs to ensure that the 'assurance framework' is fully embedded in the council's business processes.
- The council needs to be able to demonstrate a strong counter fraud culture across all services.

## Value for Money

### Overview

The council has access to reliable information on costs and performance, internally through their Covalent system and externally through common cost comparisons with core groups. The council routinely reviews both costs and performance through a variety of committees and regular team meetings. Value for Money (VFM) is a key theme throughout.

The Audit Commission VFM profiles show that there is a positive relationship between costs and performance along with a sound understanding of areas that have high cost (due to investment). Overall costs are relatively low compared to nearest neighbours. Best Value and Value for money are evidenced by high performance but with overall spending low in comparison to the Core Group and Excellent (district) authorities. Low un-apportioned overheads show that costs are accurate and realistic. The council's performance is above average with 42% of performance indicators being in the best quartile and 79% having improved since 2003. There are some key services with a fairly high spend, but all, except one, have equally high performance ratings.

The council has few areas of unexpected high spend but there are processes in place to identify where costs are out of line. Street Cleaning is an example where high spend is being addressed successfully. Where there are areas of high spend and planned investment the council has clearly evidenced that they are in line with priorities particularly within housing, street cleaning and environmental health and public services. The improvements in services have led to high performance rates.

Post project appraisals are carried out which identify, amongst other things, how a project has performed in terms of delivering its objectives including value for money. Capital and Revenue appraisal forms and a scoring matrix are used to ensure that long term / whole life cost considerations are taken into account for all major investments. Post project reviews are also carried out and look at costs against budget, further work and ongoing costs.

Consideration of equity in access to services is clearly embedded in the council's working practices; through their Corporate Equality Scheme which promotes equality for all and ensures the council's services are accessible to all. The scheme comprises equality commitments and objectives, an equality strategy and an equality action plan. In addition the council can demonstrate that there is equity in access to a number of services.

Improving Value for money is a key part of the appraisal process for managers, who have strict targets (Gershon savings) for making savings and improving value for money in their service each year. Performance against targets is monitored through the Balanced Scorecard, budget monitoring reports and covalent.

The council are revising their procurement policy and strategy which will assist in the delivery of two of the council's priorities (economic growth and VFM). The outline strategy covers all areas of best practice and once embedded should ensure the council achieves the greatest benefits in all procurement exercises. However, there is no evidence to show that the previous strategy was used or how the revised strategy will be used council wide and entrenched in the council's working practices.

## Value for Money

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The council's procurement strategy, highlights that the evaluation criteria used by the council when awarding external contracts will include the need to balance price, quality, time and other factors. This shows that lowest cost is not the only deciding factor when making procurement decisions. A new Sustainable Community Strategy for the South Hams has been developed and is on the verge of being adopted. The new strategy has the overarching aim to improve the well being of the people of the South Hams in a sustainable way and sets the vision for organisations delivering services across the district for the next 5 years.

The council has sufficient measures in place to ensure that external funding is strategically sought on projects to support local priorities. South Hams has a dedicated European Grant Officer who researches funding sources, prepares bids and reviews the returns.

### Key Lines of Enquiry

- The council currently achieves good value for money
- The council manages and improves value for money

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### Areas for Improvement

- The council needs to complete their revised procurement strategy and ensure that it is embedded into their working practices.
- The council needs to further evidence the link between consultation with the community and council decisions. The impact on users should be tracked as well as initially identified.
- The council need to show that review processes are consistently applied and follow best practice legislation.

# Appendix 1 – Comparison of use of resources scores

KLOE	KLOE description	2006/07	2005/06
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	3
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	3
2.3	The council manages its asset base	3	3
3.1	The council manages its spending within the available resources	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
5.1	The council currently achieves good value for money	3	3
5.2	The council manages and improves value for money	2	2
	<b>Overall score</b>	<b>3</b>	<b>3</b>

*In the event that, pursuant to a request which South Hams District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. South Hams District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and South Hams District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, South Hams District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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