

**CORPORATE GOVERNANCE IMPROVEMENT PLANNING
FINANCIAL SERVICES
(Report by the Head of Financial Services)**

1 BACKGROUND

- 1.1 The Panel received a report at their March meeting which summarised the proposed actions resulting from the Council's CPA assessment.
- 1.2 This report updates the Panel on the latest position in relation to those items that are the responsibility of the Head of Financial Services.

2 RISK MANAGEMENT

- 2.1 A separate report elsewhere on the agenda deals with progress on Risk Management.

3 CAPACITY

- 3.1 A report on the Council's financial strategy, including the potential impacts of capping, will be prepared for September Council. It will review the Council's financial position in the longer term and allow Members to consider the appropriate balance between spending on services and Council Tax increases.

4 PROCUREMENT

- 4.1 The review of the Procurement Strategy to take account of the Gershon report, the National Procurement Strategy and principles of sustainability is approaching completion. It will be included on the Agenda of the Panel's next meeting.

5 FINANCIAL MANAGEMENT

- 5.1 The CPA score for this area was based on the District Auditor's assessment of the Council against a matrix entitled Use of Resources. Annex A shows the results in summary form. Only three areas out of the 18 assessed were considered to be ***"Adequate overall, but some weaknesses that need to be addressed"***.
- 5.2 Annex B provides an extract of the matrix for the three areas which received this assessment. The following paragraphs comment on these areas.

Meeting financial targets
- 5.3 The Council has a history of underspending, mainly due to cautious assumptions on interest rates and ambitious development programmes. Two exercises have been undertaken in recent years to ensure that any spare budgets are identified and deleted.

- 5.4 With our significant, though falling, levels of investments (over £60M) a variation of just a ¼% in interest rates will exceed £150k and there have been some years when our fund managers have performed very well for us. The Council allows its fund managers to use a broader range of investments than many Councils do, which has provided us with higher but more volatile returns. As the level of reserves falls in the future the range of investments will be narrowed and returns become slightly more certain.
- 5.5 Over £5¾M of last year's capital programme will now take place this year and £6¾M of this year's programme has already been identified as needing to be deferred to 2006/07. This will have a revenue impact of approaching £300k.
- 5.6 The Cabinet receives quarterly reports on capital and revenue budget monitoring providing the latest forecast position and these forecasts are taken account of when the MTP is reviewed.
- 5.7 Clearly underspending is preferred to overspending, but there is no easy solution to the main problems which are caused by the volatility of investment returns and the natural reaction of service managers to ensure that funds are always available based on every project making best progress. Apart from stressing the need for realism in the MTP review there is a limit to what can be achieved.

Risk Management

- 5.8 The position on this is covered by a separate report on your Agenda.

Financial Statements - Quality

- 5.9 Given the size and complexity of the Council's services and turnover it is only to be expected that there will be a few errors most years. The changing deadline (a month earlier each year) also puts added pressure on staff. Our external auditors will pick most of these errors up during the course of the audit allowing us to adjust the accounts so that an accurate set are published.
- 5.10 Material errors are those that are significant enough to allow the accounts to give a false impression. There are basically two types of these – totally wrong figures and putting the right figure in the wrong place. The Council has occasionally made a material error of the second type. These have usually been related to identifying which category of assets or liabilities a new type of item (new to the Council) should be included in or where a change to the Accounting Code of Practice, since the previous year, has been overlooked.
- 5.11 Accountancy staff are all aware of the need to avoid errors and each time an error is found the close down procedure is adjusted to avoid the same mistake again. Changes to the Code of Practice are not usually highlighted and so technical updates and advice are relied on to identify the changes. District Audit also produced a helpful summary for us this year based on the 2003/04 accounts which should be of assistance.

6. NEW CRITERIA

- 6.1 In June The Audit Commission published a new matrix for use in the next round of CPA assessments. It is much more demanding than the current version and there is national concern, led by the LGA, that it will lead to Authorities improving their performance but getting a lower assessment than last time which will be difficult to explain to the public.

- 6.2 Whilst it is difficult, in professional terms, to fault the items included in the matrix it would be difficult for any District Council to have the funding or the critical mass to achieve all the elements.

7. CONCLUSION

- 7.1 Risk Management and Procurement are key areas for improvement and work is progressing on these. The volatility of interest rates and the large and optimistic capital programme make avoiding underspending difficult, though the position is regularly reassessed and reported to Cabinet. Every attempt is made to avoid errors in the final accounts but it is difficult to achieve perfection in such a large and complex process.
- 7.2 The Use of Resources matrix will be more demanding in the future and officers need to consider the resource implications of achieving its higher expectations before reporting back to the Panel.

8. RECOMMENDATIONS

- 8.1 The Panel are recommended to:
- Note the action already taken and planned
 - Receive a report on the new Use of Resources matrix at a future meeting

BACKGROUND INFORMATION

CPA Assessment

New Use of Resources matrix

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ANNEX A

	1	2	3	4
	Inadequate	Adequate overall, but some weaknesses that need to be addressed	Adequate	Good
Financial standing				
Setting a balanced budget				
Setting a capital programme				
Financial monitoring and reporting				
Meeting financial targets				
Financial reserves:				
Systems of internal financial control				
Monitoring of financial systems				
An adequate internal audit function is maintained				
Risk identification and management				
Standards of financial conduct, and the prevention and detection of fraud and corruption				
Ethical framework				
Governance arrangements				
Treasury management				
Prevention and detection of fraud and corruption				
Financial statements				
Timeliness				
Quality				
Supporting records				
Legality of significant financial transactions				
Roles and responsibilities				
Consideration of the legality of significant financial transactions				
New legislation				

Indicator	1	2	3	4
<p>1.4 Meeting financial targets</p>	<p>In at least two of the last three years the authority exceeded any of its original gross budgets by more than 5% and/or there is evidence of reductions in the range of services, such as unplanned redundancies or closure of facilities, or planned contribution to reserves were not achieved.</p> <p>OR: In at least two of the last three years the authority underspent its original budget by more than 5% where there is evidence that the underspends were not planned or expected.</p>	<p>In at least two of the last three years the authority exceeded any of its original gross budgets by more than 1% but less than 5% but with no evidence of reductions in the range of services, or planned contribution to reserves were not achieved.</p> <p>OR: In at least two of the last three years the authority underspent its original budget by more than 2.5% where there is evidence that the underspends were not planned or expected.</p>	<p>In at least two of the last three years the authority performed to all of its original gross budgets (within a 1% tolerance), with no evidence of reductions in the range of services. Planned contribution to reserves achieved.</p>	<p>In at least two of the last three years the authority performed to or under all of its original gross budgets, with no evidence of reductions in range of services and/or evidence of improvements in the range of services. Planned contribution to reserves achieved. There is no history of underspending which could imply too generous budgets being set.</p>
	<p>There are no targets set for income collection and arrears. Or targets are set but are either missed and/or not monitored.</p>	<p>There are targets set for income collection and arrears which are monitored. Follow up action occurs but is unstructured.</p>	<p>There are targets set for income collection and arrears which are monitored and managers take action when needed.</p>	<p>There are targets set for income collection and arrears, which are monitored, reported to managers and members and action taken when needed.</p>
	<p>There is a history of overspending.</p>	<p>The consequences of under/over spending are not taken into account when setting subsequent budgets.</p>	<p>The reasons for, and consequences of, over/under spending are taken into accounts when setting subsequent budgets.</p>	<p>The reasons for, and consequences of, over/under spending are taken into account when setting subsequent budgets.</p>
<p>Auditor Assessment</p>		<p>√</p>		

Indicator	1	2	3	4
2.3 Risk identification and management	There are no arrangements for the identification, assessment and management of key financial and operational risks.	There are arrangements for risk identification and assessment, but not for the subsequent management of all the key financial and operational risks identified.	There are arrangements for risk identification, assessment and management in place for all key financial and operational risks which include: <ul style="list-style-type: none"> • Formal identification and assessment of risks. • Mapping of risks to internal controls. • Changing behaviour and resources allocation in response to clarifying risks. 	There are arrangements for risk identification, assessment and management in place for all key financial and operational risks which include: <ul style="list-style-type: none"> • Formal identification and assessment of risks. • Mapping of risks to internal controls and to budgets and resource allocations. • Changing behaviour and resources allocation in response to clarifying risks. • Monitoring the effectiveness of the internal controls through key indicators. • Comparison with other authorities and/or organisations.
	No involvement of members in determining key risks and response.	No involvement of members in determining key risks and response.	<ul style="list-style-type: none"> • Involvement of members in determining key risks and response. 	<ul style="list-style-type: none"> • Involvement of members in determining key risks and response.
	Only insurance risks are assessed.	Risk register in place, but needs updating for some areas.	<ul style="list-style-type: none"> • Risk register in place which is reviewed and updated. 	<ul style="list-style-type: none"> • Risk register in place which is reviewed and updated.
Auditor Assessment		√		

Indicator	1	2	3	4
4.2 Quality	<p>Accounts presented for audit contained fundamental errors, such as:</p> <ul style="list-style-type: none"> • primary statement(s) missing • extant accounting standards not implemented; • professional guidance not followed 	<p>Accounts presented for audit contained at least one material error*, or contained individual errors* that, in aggregate were material.</p> <p>Extant accounting guidance and professional guidance not always followed</p> <p><i>*Errors are defined as: Errors in the statement of accounts, or notes, other than those relating to 'grey areas', where an alternative treatment was adopted after discussions with the auditor (where, however, the original treatment was based on the authority's misunderstanding of the relevant accounting principles this <u>would</u> count as an error).</i></p>	<p>Accounts presented for audit contained only immaterial errors* (individually, or in aggregate).</p> <p>Extant accounting guidance and professional guidance followed.</p>	<p>Accounts presented for audit contained only trifling errors (SAS 610 revised).</p> <p>Extant accounting guidance and professional guidance followed.</p>
Auditor Assessment		√		