

Use of resources 2008/09

Overall approach and key lines of enquiry

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we seek to ensure that public services are good value for money and that public money is properly spent.

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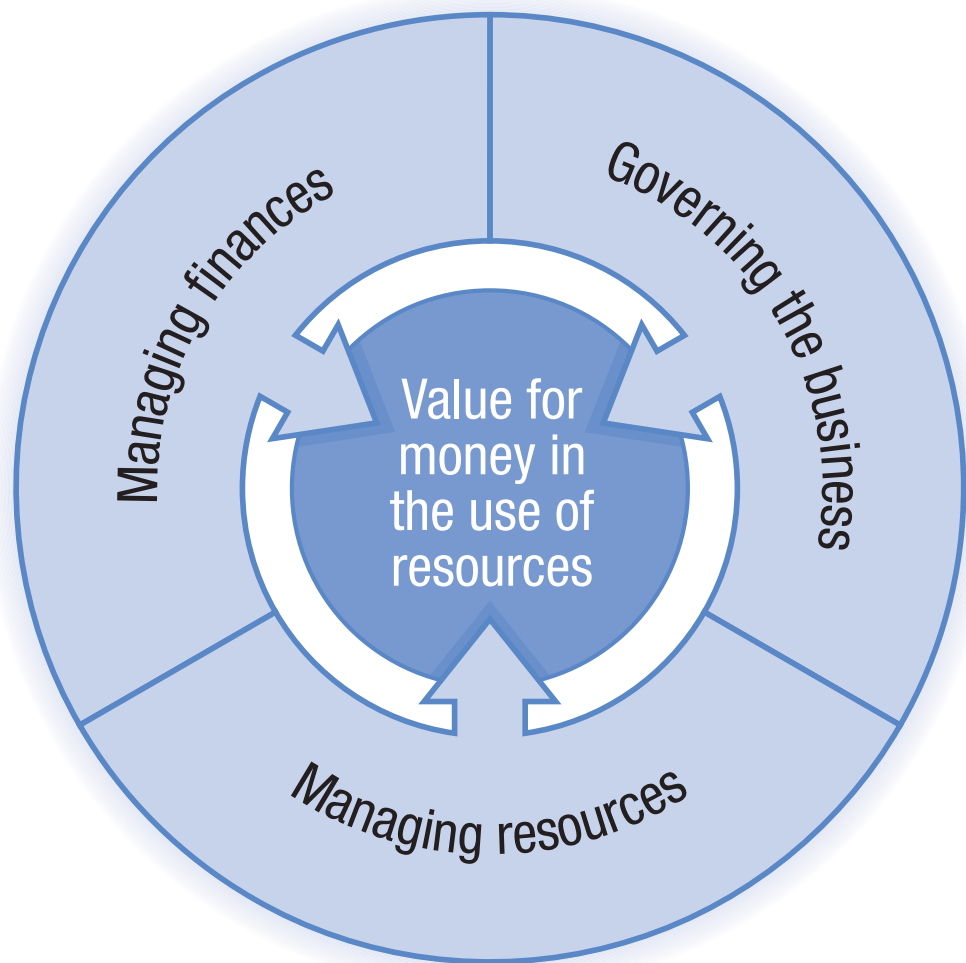
Introduction

- 1 This document sets out the Audit Commission's approach to auditors' use of resources work from 2008/09. It outlines the key features of use of resources judgements for the purposes of the Comprehensive Area Assessment (CAA). It also describes how the specified key lines of enquiry (KLOE) form the basis of the auditor's value for money conclusion under the *Code of Audit Practice 2005*.

The approach to use of resources for CAA

- 2 Each year, the Audit Commission will publish scored judgements about value for money in the use of resources in respect of local authorities, fire and rescue authorities, police authorities and primary care trusts (PCTs). The use of resources assessment forms part of CAA from 2009 and will also feed into other relevant performance assessment frameworks as appropriate.
- 3 The use of resources assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. It is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people. The three themes are illustrated in **Figure 1**.
- 4 The scores for each theme are based upon the scores reached by auditors on the underlying KLOE. The KLOE are included at **Appendix 1**. The KLOE are generic and applicable equally to all organisations subject to use of resources judgements under CAA. This promotes consistency and demonstrates that all organisations within a CAA area are being treated in exactly the same way and to the same standards.
- 5 From 2008/09, the KLOE are more broadly based than previously and embrace wider resource issues such as people and workforce planning, and the use of natural resources. The KLOE focus more on value for money achievements, outputs and outcomes rather than on processes, and are more strategic and less detailed.

Figure 1
Use of resources framework 2008/09



- 6 The KLOE are supported by characteristics of performance, which are used as an aid to the exercise of the auditors' professional judgement. The characteristics are published separately as part of the guidance available to audited bodies and auditors. This emphasises that use of resources judgements relate to the KLOE only. The underlying characteristics are indicative of differing levels of expected performance, and are not criteria to be complied with in all circumstances. The KLOE and supporting characteristics are based upon published best practice, standards and professional guidance, where available, and the principles set out in the Commission's publication *World Class Financial Management*.

- 7 The approach to use of resources work will be on a risk basis and draw on evidence available from previous years where relevant. Once an initial baseline assessment of performance has been established for each KLOE, auditors will apply risk-based planning to focus on areas of significant change, and high performing organisations can expect to have less work undertaken on use of resources than at poorly performing organisations.
- 8 A proportionate approach will be applied to the assessment of the KLOE. The Commission will specify in its annual work programme and fees document which KLOE are to be assessed over the coming year. The specified KLOE are likely to differ for each sector in order to reflect sector priorities. In 2008/09, auditors will assess eight of the ten KLOE at district councils, fire and rescue authorities, police authorities and PCTs, and nine of the ten KLOE at single tier and county councils. At PCTs, the KLOE on strategic asset management will only apply where there is a significant asset base. The KLOE specified for each type of body for the 2008/09 assessment are at **Appendix 2**.
- 9 A score of level 1 on any KLOE will result in automatic re-assessment of that KLOE in the following year, regardless of whether it is specified for assessment.
- 10 Local authorities demising as a result of local government reorganisation will not be subject to a scored use of resources assessment for 2008/09.
- 11 The use of resources assessment will use the Commission's current four point scale from 1 to 4, with 4 being the highest. The table below summarises the underlying principles implicit in assessing performance at levels 2, 3 and 4 to support the judgements made against each KLOE. Level 1 represents a failure to meet the minimum requirements at level 2. The principles for each level of performance are cumulative – for example, the principles outlined to support level 3 will be considered in addition to those at level 2.

Level 2 only at minimum requirements – adequate performance	Level 3 consistently above minimum requirements – performing well	Level 4 well above minimum requirements – performing strongly
Arrangements that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.	Implemented effective arrangements that are: – forward looking and proactive in identifying and developing opportunities for improvement; and – include more sophisticated measuring and assessment techniques.	Demonstrating innovation or best practice.
Arrangements sufficient to address the KLOE demonstrating, for example: organisational leadership and commitment; partnership working; appropriate capacity and skills informed by priorities with supporting action plans as appropriate.	Outputs and outcomes demonstrate arrangements which are effective and have the intended impact. Where appropriate, the arrangements show evidence of effective partnership working.	Demonstrating strong outcomes for the community including through partnership working.
Arrangements that achieve minimum acceptable levels of performance.	Evidence of performing consistently above minimum acceptable levels and achieving value for money.	Evidence of performing well above minimum acceptable levels and achieving excellent value for money.

- 12 The Commission issues guidance relevant to each sector to support the assessment. The guidance includes sources of possible evidence and characteristics of performance for each KLOE at levels 2 and 3. The characteristics of performance are provided to help organisations understand how judgements will be formed against each KLOE, and provide examples of the type of arrangements, outputs and outcomes that might be expected.
- 13 The sources of evidence and the characteristics do not prescribe the only way in which organisations can meet the KLOE. They are not a checklist to be complied with rigidly. Auditors will make a rounded judgement against each KLOE based on all the evidence available to them and using the characteristics as guidance.

Value for money conclusion

- 14 Under the *Code of Audit Practice*, auditors are required to give a value for money (VFM) conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements and the way in which auditors will undertake their work is set out in section 3 of the Code.
- 15 The auditor's VFM conclusion is informed, and limited, by reference to 'relevant criteria' covering specific aspects of audited bodies' arrangements, specified by the Commission in accordance with the Code. The Commission will specify each year which of the use of resources KLOE will form the relevant criteria for the VFM conclusion at each type of audited body.
- 16 Auditors are required to apply a yes/no judgement against the criteria, that is, the audited body either has proper arrangements in place or not. A 'no' judgement will be equivalent to level 1 performance for the use of resources assessment, and a 'yes' judgement will be equivalent to level 2 performance or above. Criteria with a 'no' judgement will automatically apply in the following year regardless of whether they are specified.
- 17 For bodies subject to a scored use of resources assessment for the purposes of CAA, the KLOE forming the relevant criteria for the 2008/09 VFM conclusion are specified at **Appendix 2**.

- 18 For bodies not subject to a scored use of resources assessment for CAA, auditors will apply a proportionate approach to arriving at their VFM conclusion in accordance with guidance to be issued by the Commission under the Code. The guidance will specify which KLOE will form the relevant criteria for each type of audited body.
- 19 For NHS trusts, and local authorities demising as a result of local government reorganisation, the relevant criteria for the purposes of the 2008/09 VFM conclusion will continue to be those used for the 2007/08 VFM conclusion.
- 20 The *Code of Audit Practice* requires auditors to plan and perform their audits on the basis of an assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. There may be circumstances in which the Commission has not specified that a KLOE should be assessed in any year, but the auditor becomes aware of issues or new risks arising in relation to that KLOE. In such cases, the Commission will require auditors to undertake such appropriate risk-based work as is necessary to discharge their statutory functions, and they may reflect the results of this work in their VFM conclusion.

Reference documents

- 21 The development of the use of resources KLOE has been informed by existing guidance and good practice, in particular the following documents: *World Class Financial Management* (Audit Commission, 2005); *Delivering Good Governance in Local Government: Framework* (CIPFA/SOLACE, 2007); *Managing the Risk of Fraud* (CIPFA, 2006); *Securing the Future – UK Government Sustainable Development Strategy* (2005); *Procuring the Future: Sustainable Procurement Task Force National Action Plan 2006*; *Standards for Better Health* (Department of Health, updated 2006).

Appendix 1 – Themes and key lines of enquiry

Managing finances

How effectively does the organisation manage its finances to deliver value for money?

1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?

KLOE focus

The organisation:

- integrates financial planning with strategic and service planning processes on a medium- to long-term basis;
- engages local communities and other stakeholders in the financial planning process;
- manages spending within available resources and is financially sound over the medium term; and
- recognises individual and collective responsibilities for financial management and values and develops financial skills.

1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?

KLOE focus

The organisation:

- understands its costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance;
- takes account of this understanding of its costs and performance in decision making and commissioning; and
- identifies the scope for making efficiencies and is on track to achieve planned efficiencies.

1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?

KLOE focus

The organisation:

- produces relevant, timely and reliable financial monitoring and forecasting information;
- uses financial and related performance information to monitor performance during the year;
- produces financial reports that are clear, relevant and concise to support strategic decision making;
- prepares accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position; and
- publishes reports that provide an objective, balanced and understandable assessment of the organisation's performance in the year.

Governing the business

How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?

2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?

KLOE focus

The organisation:

- has a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing analysis and understanding of needs;
- involves local people, partners, staff and suppliers in commissioning services;
- seeks to improve the customer experience, quality and value for money of services through service redesign, making effective use of IT;
- understands the supply market and seeks to influence and develop that market;
- evaluates different options (internal, external and jointly with partners) for procuring services and supplies; and
- reviews the competitiveness of services and achieves value for money, while meeting wider social, economic and environmental objectives.

2.2 Does the organisation produce relevant and reliable data and information to support decision making and manage performance?

KLOE focus

The organisation:

- produces relevant and reliable data and works with partners to ensure the quality of partnership data;

- understands the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making;
- ensures data security and compliance with relevant statutory requirements; and
- monitors performance against its priorities and targets, and addresses under-performance.

2.3 Does the organisation promote and demonstrate the principles and values of good governance?

KLOE focus

The organisation:

- has adopted, promotes and demonstrates, the principles of good governance;
- maintains focus on its purpose and vision;
- demonstrates a strong ethical framework and culture; and
- applies the principles and values of good governance to its partnership working.

2.4 Does the organisation manage its risks and maintain a sound system of internal control?

KLOE focus

The organisation:

- has effective risk management which covers partnership working;
- has a clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption; and
- has a sound system of internal control including internal audit.

Managing resources

How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money?

3.1 Is the organisation making effective use of natural resources?

KLOE focus

The organisation:

- understands and can quantify its use of natural resources and can identify the main influencing factors;
- manages performance to reduce its impact on the environment; and
- manages the environmental risks it faces, working effectively with partners.

3.2 Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?

KLOE focus

The organisation:

- has a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes;
- manages its asset base to ensure that assets are fit for purpose and provide value for money; and
- works with partners and community groups to maximise the use of its assets for the benefit of the local community.

3.3 Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?

KLOE focus

The organisation:

- has a productive and skilled workforce;
- knows in the medium to longer term what staff it will need, with what skills, and has plans to achieve this;
- engages and supports staff in organisational change; and
- has policies which support diversity and good people management.

Appendix 2 – Specified KLOE for 2008/09 (VFM conclusion and use of resources assessment)

KLOE	Single tier and county councils	Districts	Police	Fire	PCTs
Managing finances					
1.1	Planning for financial health	√	√	√	√
1.2	Understanding costs & achieving efficiencies	√	√	√	√
1.3	Financial reporting	√	√	√	√
Governing the business					
2.1	Commissioning & procurement	√	√	√	X [∞]
2.2	Use of information	√	√	√	√
2.3	Good governance	√	√	√	√
2.4	Risk management & internal control	√	√	√	√
Managing resources					
3.1	Natural resources	√	X	X	X
3.2	Strategic asset management	√	X	X	√*
3.3	Workforce	X	√	√	√#

Note

- ∞ For PCTs, KLOE 2.1 will form a relevant criterion for the purposes of the value for money conclusion but not a scored KLOE for the use of resources assessment. Evidence for the value for money conclusion is expected to be drawn from the World Class Commissioning assurance framework, findings from Auditors' Local Evaluation work in 2007/08 and any other work undertaken locally.
- * For PCTs, KLOE 3.2 will apply only where there is a significant asset base.
- # For the 16 county council fire and rescue authorities, KLOE 3.3 will be assessed for the fire and rescue service only.

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