

# **Use of Resources Auditor Judgements**

**South Somerset District Council**

**Audit 2006/07**

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## Introduction

- 1 The Use of Resources (UoR) assessment evaluates how well councils 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 Council's priorities and improve services, covering five themes.
- 2 Auditors undertake the assessment yearly at all councils, with this being the third time it has been undertaken. It is integrated with work carried out as part of the Code of Audit Practice. For 2007, the assessment is more closely aligned with auditors' responsibilities under the Code than in previous years as it will cover the same period. It assesses arrangements in place at 31 March 2007 and performance and financial information relating to the 2006/07 financial year.
- 3 Our previous assessment covered the arrangements in place as at December 2006, so in effect; this review updates that assessment for the last three months of 2006/07. However, the bar has been raised since our previous assessment, as a number of the non-bold criteria for levels 2 and 3 have become bold – 'must haves' – for this latest assessment.
- 4 Judgements are made for each theme on the following scale which has been standardised by the Audit Commission across inspection and performance assessment frameworks.

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**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     |

- 5 The overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 10 December 2007.
- 6 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils 2007 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.

- 7 Our provisional scores for the Council are outlined overleaf. **However, the Council should note that the Audit Commission's regional and national moderation of these scores has not yet been completed, and so these scores have yet to be finally confirmed.**
- 8 The summary sets out our key findings in relation to each theme and key areas for improvement.

## Use of resources judgements

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

| <b>Key lines of enquiry (KLOEs)</b>   | <b>Score 2007</b> | <b>Score 2006</b> |
|---|-------------------|-------------------|
| <b>Financial reporting</b>  | <b>3</b>          | <b>3</b>          |
| 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                 |
| <b>Financial management</b>   | <b>3</b>          | <b>3</b>          |
| 2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. | 3                 | 2                 |
| 2.2 The Council manages performance against budgets.  | 3                 | 2                 |
| 2.3 The Council manages its asset base.   | 4                 | 4                 |
| <b>Financial standing</b>   | <b>2</b>          | <b>2</b>          |
| 3.1 The Council manages its spending within the available resources.  | 2                 | 2                 |
| <b>Internal control</b>   | <b>2</b>          | <b>2</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.   | 3                 | 3                 |
| 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>Value for money</b>  | <b>3</b>          | <b>3</b>          |
| 5.1 The Council currently achieves good value for money.  | 3                 | 3                 |
| 5.2 The Council manages and improves value for money.   | 3                 | 3                 |

## Theme summaries

- 9 The key findings and conclusions for each of the five themes are summarised in Table 3.

**Table 3 Summary of findings and conclusions by theme**

|   |  |
|---|--|
| <h3>Financial reporting</h3> <p><b>Theme score - 3</b></p>  |  |
| <p><b>Key findings and conclusions</b></p>  |  |
| <p>The Council continues to produce the annual accounts to a high standard with only trifling errors found. The quality of the working papers provided is generally good, although a number of errors were found and additional information required supporting the accounts, so we are unable to conclude that they are exemplary. The council continues to demonstrate a high level of external accountability in the information it provides to the public, and it has indicated that in the current year 2006/07 it intends to produce an annual report with the audited accounts included.</p> |  |
| <p><b>Improvement opportunities</b></p>   |  |
| <p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>   | <ul style="list-style-type: none"> <li>• Provide a full set of working papers, appropriately cross-referenced, from the first day of the audit.</li> </ul>   |
| <p>KLOE 1.2 The Council promotes external accountability.</p>   | <ul style="list-style-type: none"> <li>• Ensure there is meaningful consultation on the format for summary accounts, and provide evidence of how this consultation has influenced the style and content of these.</li> </ul> |

## Financial management

Theme score - 3

### Key findings and conclusions

Evidence of work undertaken by management under the transformation agenda provides assurance of links between internal strategies and the medium term financial plan. The Council continues to demonstrate sound management of performance against budgets. Improvements have been identified in the monitoring of performance against savings targets, which is now being reported to senior management and members regularly. As last year, we have assessed the Council's asset management arrangements at level 4, and have once again commended these as notable practice.

### 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 MTFP process should include financial contingency planning and sensitivity analysis.
- The medium-term financial strategy should:
  - describes in financial terms joint plans agreed with partners and other stakeholders; and
  - model balances and resource requirements over a minimum of three years.
- Demonstrate how financial plans/investment have contributed to the achievement of corporate objectives.



| <b>Improvement opportunities</b>                          |   |
|---|---|
| KLOE 2.2 The Council manages performance against budgets. | <ul style="list-style-type: none"> <li>• Ensure the Executive reviews regularly its effectiveness in terms of providing financial management and takes action to address any areas of weakness.</li> <li>• The Executive should receive accrued financial monitoring reports at appropriate key points during the year, including significant revenue account items and balances.</li> <li>• Savings and efficiency gains should be profiled over the year and monitored by members to ensure their achievement.</li> </ul> |
| KLOE 2.3 The Council manages its asset base.              | No recommendations  |

|   |   |
|---|---|
| <h2>Financial standing</h2> <p><b>Theme score - 2</b></p>   |   |
| <p><b>Key findings and conclusions</b></p>  |   |
| <p>The Council manages its resources within its budget, and its financial standing is generally sound. However, it has not yet collected all the information required to enable them monitor the effectiveness of its debt recovery processes which would enable it to move up to the next level.</p> |   |
| <p><b>Improvement opportunities</b></p>   |   |
| <p>KLOE 3.1 The Council manages its spending within the available resources.</p>  | <ul style="list-style-type: none"> <li>• Review annually the cost-effectiveness of debt recovery actions.</li> <li>• Agree a set of financial health indicators and report on these annually to Members.</li> </ul> |

## Internal control

Theme score - 2

### Key findings and conclusions

The Council continues to demonstrate improvements in its risk management processes. Members are currently receiving training on risk management and the Council has provided evidence of reports which members will receive, but cannot provide evidence to confirm that members receive regular reports and take the necessary actions. The Council continues to demonstrate sound internal control systems. It has implemented processes to enable it to identify its key partnership arrangements and review the governance arrangements for these partners. The Council has not demonstrated improvements in the promotion of ethical standards since our last assessment and continues to follow up only high and medium risk NFI matches.

### Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.

- Report to Members at least annually on how the Council is managing its corporate business risks and the risks in relation to its significant partnerships.

KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.

- Ensure that Governance arrangements with respect to partnerships are subject to regular review and updating.
- Ensure that the Audit Committee provides independent assurance on the risk management framework and can demonstrate the impact of its work.

| <b>Improvement opportunities</b>  |  |
|---|--|
| <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 Council needs to be proactive in its role to raise the standards of ethical behaviour amongst members and staff, including the provision of ethics training.</li><li>• Weaknesses revealed by instances of proven fraud and corruption, including NFI data matches, should be reviewed to ensure that appropriate action is taken to strengthen internal control arrangements.</li></ul> |

## Value for money

Theme score - 3

### Key findings and conclusions

The Council's costs reflect the local context, the commitment to providing good access to customer services and good and improving service performance. Council tax levels remain relatively low and 47 per cent of performance indicators have improved since 2005/06. Costs are well understood by staff and councillors and most costs compare favourably with the Council's family group. The link between costs and service performance is strengthened annually through an increasingly robust prioritisation and budgeting process. This is well linked to the medium term financial plan and capital strategy. This is also limiting any negative impact of unintended high spending. The Council is making steady but sure progress with our recommendation from last year's UoR assessment since January 2007. Some poorly performing environmental services are improving which has been recognised with an AC inspection in the summer of 2007 with a score of 'good' and promising prospects for improvement for environment services.

The Council continues to have an effective framework for monitoring and reviewing value for money which is actively refined in line with the corporate plan and community consultation. The Council has clear objectives to deliver value for money. Efficiency targets are being met and South Somerset is actively pursuing the potential for further value for money. The Council's approach to procurement has been improved with a revised strategy and more appropriate capacity in place. The strategy is being actively used to meet the Council's targets for efficiency savings. The Council continues to have a successful track record of securing external funding and using it to deliver better value for local people.

### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

- Ensure that workforce planning can consistently demonstrate VFM more clearly, for example from increased staff productivity, from staff appraisals, and from reducing sickness absence.

| <b>Improvement opportunities</b>                                  |  |
|---|--|
| <p>KLOE 5.2 The Council manages and improves value for money.</p> | <ul style="list-style-type: none"> <li>• Ensure the Council’s procurement strategy is used to sustain the local community, for example by using local suppliers where possible, by working co-operatively with local and neighbouring organisations, and to consider more environmentally friendly procurement practices.</li> <li>• Further develop benchmarking to demonstrate value for money. There is scope for making more comparisons based on unit and workforce costs, and service performance.</li> <li>• Continue to develop appropriate local indicators for cost effectiveness and value for money for each service and project.</li> <li>• Ensure that risk management arrangements are well integrated throughout all appropriate project and change management arrangements. In particular the Council should be able to demonstrate where risk is being well managed and as a result better outcomes are being achieved.</li> </ul> |

## Appendix 1 – Changes to the UoR key lines of enquiry 2008

The key changes to the assessment are summarised here.

| KLOE                        | Level | Summary of change  |
|-----------------------------|-------|--|
| <b>Financial reporting</b>  |       |  |
| 1.1                         | 2     | An unqualified opinion in the published statements.  |
| 1.2                         | 2, 3  | Published information is available to the public in a timely way and in accessible formats in compliance with duties under the equalities legislation.   |
| 1.2                         | 4     | The annual report or similar document includes information and analysis about a council's environmental footprint.   |
| <b>Financial management</b> |       |  |
| 2.1                         | 2     | The impact of strategies is assessed for their impact to comply with duties under the equalities legislation in relation to race, gender and disabilities.   |
| 2.3                         | 3     | The asset management plan provides strategic and forward looking goals showing how land and buildings will be used to deliver corporate priorities.<br>The council holds accurate information on the efficiency, effectiveness and values of assets, to support decision making on investment and disinvestment in assets. |
| 2.3                         | 4     | Asset management and planning is fully integrated with business planning   |
| 2.3                         | 4     | Asset management is used as an enabler of change. The management of assets is integrated with other local public agencies to identify opportunities for shared use of property and to deliver cross-sector, cross-agency and community-based services to users.  |
| 2.3                         | 4     | Asset management includes challenge as to whether all assets are fit for purpose, provide value for money and deliver corporate priorities. The council rationalises its holding of property.  |

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| KLOE                      | Level | Summary of change   |
|---------------------------|-------|---|
| <b>Financial standing</b> |       |   |
| 3.1                       | 3     | The approved level of balances is adhered to; the council's financial standing is sound and supports the achievement of its long term objectives.   |
| 3.1                       | 3     | Targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets. |
| <b>Internal control</b>   |       |   |
| 4.1                       | 4     | Reports which support strategic policy decisions and initiate major projects require a risk assessment which includes an appraisal of the impact on sustainable development.                  |
| 4.2                       | 3     | Effective scrutiny function to ensure challenge and improve performance   |
| 4.2                       |       | 'Statement of internal control' has been replaced with 'governance statement'   |
| 4.2                       | 4     | Evidence of the viability of significant contractors' / partners' business continuity plans.  |
| 4.3                       | 2     | Preparation for the role of the standards committee in local investigations and determination.  |
| 4.3                       | 3     | Publicising the work of the standards committee   |
| 4.3                       | 3, 4  | Enhanced standards for whistle blowing arrangements, demonstrating employees of contracting organisations are aware of the arrangements and staff have confidence in them.                    |
| 4.3                       | 4     | Application forms have fair processing notification permitting data sharing for prevention and detection of fraud and corruption.   |



| KLOE                   | Level | Summary of change   |
|------------------------|-------|---|
| <b>Value for money</b> |       |   |
| 5.1                    | 2,3,4 | Descriptors for capital programming have been strengthened by including references to the outcomes of a well managed capital programme, ie projects are completed on time, to budget and deliver outcomes which are fit for purpose (and for level 4 – transform services for users and citizens).  |
| 5.2                    | 2,3,4 | Understanding unit and transaction, as well as, overall costs.  |
| 5.2                    | 2,3,4 | Data quality arrangements should be reliable (level 2) or exemplary (level 4), and including at level 4, an agreed approach with partners. Auditors will rely on the findings of the data quality audit for this descriptor   |
| 5.2                    | 2,3,4 | The descriptor which assesses community needs and impact of decisions on diverse communities has been revised to better reflect statutory requirements on equality impact assessments. It also makes it clearer that reducing inequality in outcomes ought to be integral to a council's drive to improve VFM.  |
| 5.2                    | 2,3,4 | Demonstrating improvements in value for money by tracking performance over recent years.  |
| 5.2                    | 2,3,4 | More emphasis on stronger, longer-term, full cost evaluation, including (at levels 3 and 4) consideration of environmental and social in its assessments of costs and benefits in decision making.  |
| 5.2                    | 2,3,4 | Improving value for money through partnership working, with an understanding of resources at the disposal of partnerships and planned outcomes.<br>There are opportunities to improve value for money (reduce costs or improve outcomes) through better partnership working. Performance reflects differing levels of engagement with partners to improve outcomes. |
| 5.2                    | 2,3,4 | Use of ICT to improve services, value for money and access to services.   |