

Use of Resources Auditor Judgements 2007

South Derbyshire District Council

Audit 2007/08

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Use of resources judgements	5
Theme summaries	6
Financial reporting	6
Financial management	7
Financial standing	8
Internal control	9
Value for money	10
Conclusion	11
Use of resources 2008	11
Appendix 1	12

Introduction

- 1 The Use of Resources (UoR) assessment evaluates how well councils manage and use their resources. The assessment is carried out each year and focuses on the importance of strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This is the third assessment we have undertaken at South Derbyshire District Council. Our assessment is based on the key lines of enquiry for 2007. These include new requirements for councils as part of the Audit Commission's approach to phasing in those elements that need more lead-in time and to supporting improvement by gradually raising the standard of the assessment. The period assessed for 2007 has also been aligned with the financial year 2006/07. Councils may, however, provide evidence that becomes available after the end of the financial year, to demonstrate that their arrangements are working effectively and are embedded.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale. This scale is used across its inspection and performance assessment frameworks.

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

- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2007, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
- 5 The five theme scores for South Derbyshire District Council are outlined overleaf.
- 6 This 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

Key lines of enquiry (KLOEs)	Score 2007	Score 2006
Financial reporting		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	1
1.2 The Council promotes external accountability.	3	3
Financial management		
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
Financial standing		
3.1 The Council manages its spending within the available resources.	3	3
Internal control		
4.1 The Council manages its significant business risks.	3	3
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.	3	3
Value for money		
5.1 The Council currently achieves good value for money.	3	2
5.2 The Council manages and improves value for money.	3	3

Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables.

Financial reporting

Table 3

Theme score 3	
Key findings and conclusions	
<p>Accounts were produced to meet key deadlines, were presented fairly and only contained a small number of non-trivial errors. This is a considerable improvement on last year. An unqualified opinion was given on 26 September 2007.</p> <p>Accuracy, openness and accountability are areas in financial reporting where the Council is performing well with improved member scrutiny of the draft accounts.</p>	
Improvement opportunities	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Produce a set of accounts that are free from non trivial and presentational errors.
KLOE 1.2 The Council promotes external accountability.	None

Financial management

Table 4

Theme score 3	
Key findings and conclusions	
<p>The Council's medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets, and the Council manages its asset base.</p> <p>The Council has improved its arrangements for financial management since the last assessment. In particular, it has:</p> <ul style="list-style-type: none"> • produced profiled financial monitoring reports within ten days of the month-end; • Introduced a training programme for members and non finance staff on financial issues; and • demonstrated that it has applied its local asset management indicators to evaluate asset use in relation to corporate objectives. 	
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.	None
KLOE 2.2 The Council manages performance against budgets.	None
KLOE 2.3 The Council manages its asset base.	None

Financial standing

Table 5

Theme score 3	
Key findings and conclusions	
<p>The Council manages its spending within available resources and maintains balances in line with its financial strategy and policy.</p> <p>As you aware the Council's financial standing is under pressure in the medium-term. If the General Fund balance is to be maintained at the agreed £1 million minimum after 2010/11, significant decisions on the funding of services will have to be taken as part of future budget setting exercises. Whilst this situation has not affected our assessment this year, developments in the Council's medium-term financial plan will have an impact on future years' assessments.</p> <p>The Council commissioned a review of its debt collecting procedures in April 2007. As a result significant changes have been made to its arrangements.</p>	
Improvement opportunities	
KLOE 3.1 The Council manages its spending within the available resources.	Closely monitor performance on debt collection to ensure that the changed arrangements achieve the planned objectives.

Internal control

Table 6

Theme score 3	
Key findings and conclusions	
<p>The Council actively promotes probity and propriety in the conduct of its business.</p> <p>Risk management arrangements are in place and include specific identification of partnership risks.</p> <p>Systems of internal control are generally robust and are supported by a corporate approach to the production of the annual Statement on Internal Control. Since last year the Council has improved its arrangements for the completion of the bank reconciliation.</p> <p>The Audit Sub Committee demonstrates its effectiveness in its review of internal control, accounts and risk management.</p>	
Improvement opportunities	
KLOE 4.1 The Council manages its significant business risks.	None
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	None
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.	Introduce a planned programme of ethics training for staff.

Value for money

Table 7

Theme score 3	
Key findings and conclusions	
<p>South Derbyshire is a low spending council that has continued its prudent approach to finances making further significant efficiency savings. Its three year improvement programme is bearing fruit at the end of the first year. While it has not achieved all its stated milestones, performance has improved so that it is now catching up other councils with over 60 per cent of its performance indicators better than average.</p> <p>The Council continues to make progress in developing a culture of value for money. Councillors in the new administration have continued the lead set by their predecessors in focusing on delivering better services with improved value for money. A business improvement programme is already delivering some service efficiencies and plans for value for money reviews of all services are in hand. Good procurement practices are also delivering significant savings.</p> <p>The Council does not gather information on equality and diversity in a systematic way and so it does not know whether services are meeting the needs of all the community. The Council does take into account some equality issues, such as the urban/rural dimension, and it is considering how it can use data it currently collects to improve its knowledge about the diversity of its users and staff.</p>	
Improvement opportunities	
KLOE 5.1 The Council currently achieves good value for money.	Continue to improve performance compared with other councils across priority services and reduce central costs further.
KLOE 5.2 The Council manages and improves value for money.	<p>Undertake systematically the planned programme of value for money reviews and implement agreed changes.</p> <p>Collect, analyse and act on information on equity in a systematic way so that services are meeting the needs of all the community.</p> <p>Develop further the growing culture of value for money throughout the Council, for example by involving all managers and staff in vfm issues through the annual appraisal process.</p>

Conclusion

- 8 The Council's performance has improved in 2 of the 5 themes and is now performing well in all areas. A number of significant changes in arrangements are currently being put in place across the organisation. Close monitoring will be required to ensure performance across all areas is, at least, maintained.

Use of resources 2008

- 9 The Commission has published its key lines of enquiry for 2008 on its web site. There is an annotated version of the key lines of enquiry available which shows all the changes from 2007. A summary of the main changes is recorded in Appendix 1. This should assist you in pin-pointing the changes. The scores and findings from the 2008 assessment will be reported to you at a similar time next year.
- 10 The Commission consulted on the changes to the key lines of enquiry for 2008 during April to June 2007. The Commission's response to the consultation can be found on its web site. The key lines of enquiry for 2008 reflect some of the changing priorities for councils as they respond to the major challenges facing them and the higher expectations of them. Making further improvements in efficiency will be critical for councils in responding to: the changing demographic profile of communities, increasing public expectations of public services and expected constraints on funding from Government.
- 11 The key lines of enquiry give more emphasis, mainly at level 4, to areas such as: sustainability, working in partnership and using IT to secure service and value for money improvements; strategic asset management and joint procurement. These areas signal the changes which will be given more emphasis in the use of resources assessment under Comprehensive Area Assessment, the new performance framework for local services.

Appendix 1

Table 8 Changes to the UOR key lines of enquiry 2008

The key changes to the assessment are summarised here.

KLOE	Level	Summary of change
Financial reporting		
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.
Financial management		
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. 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.

KLOE	Level	Summary of change
Financial standing		
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.
Internal control		
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.
Value for money		
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.

KLOE	Level	Summary of change
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.