

Use of Resources Auditor Judgements 2006

Stevenage Borough Council

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Introduction

- 1 The annual 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 This is the second year of carrying out the assessment and our work has focused on building on our previous year's work and updating it for any changes and improvements to the Council's arrangements.
- 3 Judgements will be made for each theme on the following scale which has been standardised by the Audit Commission across 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

The overall score for Use of Resources assessment was reported to the Council by the Audit Commission on 15 March 2007.

- 4 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 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.
- 5 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.
- 6 In relation to future assessments, as outlined in the CPA framework documents for 2006 for district councils, the status of a number of criteria will change to 'must have status'. For information, these criteria have been summarised at Appendix 1.

- 7 In order for the Council to sustain or to improve upon its current performance at the next assessment, which will be undertaken on the processes in place as at 31 March 2007, it will need to take these criteria into consideration. Where appropriate we have also built these into the improvement opportunities we have identified.
- 8 The five theme scores for Stevenage Borough Council are outlined overleaf. 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 2006	Score 2005
Financial reporting	2	2
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	1	1
1.2 The Council promotes external accountability.	3	3
Financial management	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	2
2.3 The Council manages its asset base.	3	3
Financial standing	3	2
3.1 The Council manages its spending within the available resources.	3	2
Internal control	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.	2	1
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	2	2
5.1 The Council currently achieves good value for money.	2	2
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>Theme score 2</p>	
<p>Key findings and conclusions</p> <p>The 2005/06 accounts were produced well within deadlines and have recently received an unqualified opinion. However the draft submitted for audit contained material errors as reported to the Audit Committee in September 2006. The quality of working papers supporting the accounts has improved however there is scope for further improvement. While in general audit queries were dealt with on a timely basis, there is also scope to improve the promptness of response in order to meet the opinion deadline. Member scrutiny of the accounts prior to audit was carried out, but more detailed challenge by the members may have identified the areas of misstatement prior to audit.</p> <p>The Council has good arrangements for promoting external accountability. The agendas and minutes of its committees are easily accessible on its website. The Council has sought stakeholders' views on the publication of financial information and has included a summary of its finances (based on estimated figures for 2005/06) in the last BVPP. Our annual audit letter is also made public. However, publication of the accounts on the Council's website should make clear whether or not they have been subject to audit.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Continue to improve quality of working papers, particularly in relation to capital accounts.</p> <p>Ensure responses to auditor queries are provided promptly.</p> <p>Promote robust scrutiny of the accounts by members prior to approval.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>Ensure that where published accounts are subject to audit this is clearly stated.</p> <p>Taking into account the views of stakeholders, publish an annual report or other document which contains summary accounts (actual figures), in a way which is designed to be accessible to the public.</p>

Financial management

Theme score 3

Key findings and conclusions

The Council has taken effective action over the past two years to ensure that its budgets and capital programme are soundly based and integrated with strategic priorities and internal policies. The MTFS highlights the importance of achieving a balanced budget and adequate reserve levels on an ongoing basis.

Performance is actively managed against budgets. The Council has improved the processes for managing underspends resulting in a reported cumulative underspend as at 31 March 2006 of £420k. The October 2007 budget monitor showed only minor planned underspends.

Arrangements for the management of the Council's assets are generally robust. However, as part of our work on the 2005/06 accounts we noted that the asset register is only updated annually and controls are not sufficiently robust to ensure that all capital transactions are identified and recorded on the register on a regular basis. Although this is a weakness, our work on the 2005/06 accounts did not identify any misstatement within the asset register.

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.

Embed the arrangements for reviewing financial management through implementing the capacity building programme.

Ensure the corporate business plan takes account of factors such as stakeholder and partner consultation, risk assessments and financial contingency planning, and sensitivity analysis.

Monitor and demonstrate how financial plans and strategies have contributed to the achievement of corporate objectives.

KLOE 2.2 The Council manages performance against budgets.

Embed the training programme on financial matters for members and non-financial staff. Produce regular accrued financial monitoring reports and report to the Executive.

Embed the savings and efficiency gains reporting monitoring process.

Improvement opportunities	
KLOE 2.3 The Council manages its asset base.	Improve the processes for updating the fixed asset register, including controls over identification of capital items and quarterly maintenance of the register (currently only undertaken annually). Develop local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.

<h2>Financial standing</h2> <p>Theme score 3</p>	
<p>Key findings and conclusions</p> <p>The Council actively manages its budgets and reserves within the available resources. Risks to the Council’s financial position have been identified and taken into account in setting budgets and determining an appropriate level of reserves. Significant underspends in years up to 2004/05 have been addressed through improved monitoring in 2005/06 and 2006/07.</p> <p>The Council has strengthened its debt management processes. Collection rates for material debts (council tax, NNDR and rents) are high and action is being taken to improve the collection of other types of debt.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Develop further and embed the debt management arrangements.</p> <p>Set, monitor and achieve challenging targets for key areas of financial health; for example variances from budget, income collection, capital programme and prudential indicators.</p>

Internal control

Theme score 3

Key findings and conclusions

The Council actively promotes probity and propriety in the conduct of its business. Risk management arrangements have been developing and embedding within the Council. The risk management strategy has been updated and member responsibility for risk management has been transferred to the recently formed audit committee (previously the responsibility of PPIG). Member and officer training has been carried out. Reporting to the audit committee on risk management has been done at each of its meetings.

Systems of internal control are generally sound. The process for producing and approving the Statement on Internal Control (SIC) has improved. An audit committee has been established and internal audit continues to operate in accordance with the CIPFA code of practice. Arrangements are in place to ensure all reports to members have been formally considered for legal issues before presentation. Likewise, the Council has arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

Procedure notes are in place for the majority of the Council's key financial systems. Our work on the 2005/06 accounts has shown that there have been problems with some of the Council's key financial reconciliations, including the bank reconciliation. Action has been taken to resolve these.

The Council has strong arrangements for probity and propriety and actively promotes a counter fraud and corruption culture. The work of the anti-fraud team and internal audit is risk based, but the pro-active counter fraud and corruption work undertaken is not based on a formal risk assessment of potential risks. The Council has also been pro-active in raising standards of ethical conduct, for example by providing ethics training.

Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.

Ensure that the recent risk management training events are extended for new members and staff and those changing roles to ensure that arrangements become embedded.

Members should take action on risk management reports as appropriate to ensure that significant risks are being managed.

Embed risk management into the Council's key processes (strategic and financial planning and performance management).

Improvement opportunities	
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Ensure all key financial systems are reconciled in a timely manner and retain evidence to demonstrate that this is the case.</p> <p>Ensure that procedure notes on all key financial systems are kept up to date.</p> <p>Develop an assurance framework to map the Council's strategic objectives to risks, controls and assurances. Use this framework to inform the SIC.</p>
<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>	<p>Continue to promote ethical standards through mechanisms such as the provision of training, posters and messages of the day.</p> <p>Undertake a formal risk assessment of the likely areas for fraud and corruption to determine areas to focus proactive counter fraud and corruption work.</p>

Value for money

Theme score 2

Key findings and conclusions

The Council has median to high costs when compared to nearest neighbours' family group but council tax levels are at a median level. Performance is generally good and improving, but there are some public facing services with aspects of poorer performance at above average cost when compared to nearest neighbours, for example housing benefits. The Annual Efficiency Statement for 2005/06 reports cumulative savings to date of £1.2 million and the Council is on target to exceed its efficiency target of £1.4 million. There are a number of contextual factors which impact upon and increase costs which are specific to Stevenage, its location, and its history as a new town. Overall the Council is achieving adequate value for money although there remains potential to improve.

The value for money (VFM) provided by the Council has improved over the last three years with improving comparative performance and one of the better levels of cost reduction in net revenue expenditure within its comparator group in 2005/06.

The Council has effective performance management, budget setting and budget monitoring processes, at both strategic and operational level. It has addressed previous problems of significant under spends in both capital and revenue budgets by strengthening management and monitoring arrangements.

There is a robust business case methodology for all new growth items, major projects or policy development initiatives which draws explicit links to key corporate objectives.

The need to consider VFM in the delivery of services is being strengthened but is not yet fully embedded. Some unit costs for key front line services were built into the 2006/07 budget book and the Council has this year begun a detailed analysis of the cost of some of its higher spending services. This is providing valuable insights into the unit costs of different elements of the services and has informed the 2007/08 budget process. This analysis has been undertaken collaboratively with members of the comparator group. Benchmarking continues to develop and the Council is part of CIPFA benchmarking club.

The Council continues to improve performance in the context of significant budget pressures and a need to deliver cost reduction. The Council is self aware of the VFM it provides and is developing processes to improve it. There is a developing culture amongst officers to improve VFM and they have taken opportunities to improve performance and reduce costs. The Council has undertaken reviews of most services with a focus on improving performance and some consideration of VFM. Scrutiny continues to develop as an effective forum for service reviews and scrutinising the VFM provided by services. The Council has identified key corporate indicators but none of these relate to VFM.

Key findings and conclusions	
<p>The Council continues to have high levels of discretionary spend, which reflects the local context and policy decisions, and has made efforts to control these costs. The Council took a lead role in Hertfordshire for the introduction of the national concessionary fares scheme.</p> <p>The Council has robust tendering processes and can demonstrate improvements in value for money through procurements, for example the acquisition of the new depot. The corporate procurement function can also demonstrate significant savings on higher frequency, lower value operational purchasing. There are examples of collaborative procurement and the effective use of consortia. However, the concept of whole life costing is not well developed and there remains ample scope to further improve VFM through procurement, both in high level/high value strategic procurement and in low level operational procurement.</p> <p>The Council is committed to partnership working and can demonstrate some examples of successful outcomes, particularly in relation to community safety, where the Council has taken a lead role in the development of the Local Area Agreement. There are service level agreements with CAB and the CVS. However, there is limited evidence of VFM being a major consideration in developing partnership working and there remains scope to improve VFM.</p>	
Improvement opportunities	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Develop the unit costing exercise and use the lessons learned to roll out a corporate methodology for all services.</p> <p>Embed unit cost comparative data as part of key budget setting and performance management processes to improve the understanding of VFM.</p> <p>Develop the use of whole life costing for all key capital projects.</p>
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>Improve the approach to the scrutinising of VFM with the use of VFM data to inform the forward planning process and the identification of specific service areas with potential for VFM improvements.</p> <p>Further develop partnership working with a focus on improving VFM.</p> <p>Further develop the approach to procurement to obtain further savings in low cost routine procurements as well as strategic procurement.</p> <p>Develop a forum for the effective sharing of good practice in procurement.</p>

Appendix 1 – Criteria which will gain 'must have' status for the next assessment

New criteria in bold type ('must have') for 2006/07 assessment

- 1 This table summarises criteria that are currently included in the KLOE but are not in bold type and do not have 'must have' status, but which will have such status for the 2006/07 assessment.

KLOE	Summary of criteria
Financial reporting	
1.1	All additional requests from the auditor were responded to promptly in accordance with any agreed deadlines. (Level 3)
1.2	The Council can demonstrate that it is considering the views of a range of stakeholders in making its decision whether to publish an annual report. (Level 3)
1.2	The Council publishes summary financial information that meets the needs of a range of stakeholders. (Level 3)
Financial management	
2.1	The Council undertakes cash-flow monitoring which is used to inform short and long-term investment decisions. (Level 2)
2.1	The key messages from the Council's medium-term financial strategy are communicated to staff and stakeholders as appropriate. (Level 3)
2.2	The financial performance of significant partnerships is regularly reviewed, linked to outputs, and the results shared with partners and acted upon. (Level 2)
2.2	The Council produces accurate and meaningful profiled financial monitoring reports for all budget holders within ten working days of the month end. (Level 3)
2.2	There is a regular training programme providing training on financial issues for members and relevant non-finance staff. (Level 3)
2.3	A member has been allocated portfolio responsibility for the Council's asset management. (Level 3)
2.3	The Council has developed a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives. (Level 3)

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KLOE	Summary of criteria
Financial standing	
3.1	The Council sets and monitors targets for all material categories of income collection and recovery of arrears, based on age profile of debt. (Level 2)
Internal control	
4.1	All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment. (Level 3)
4.2	The Council has a business continuity plan in place which is reviewed on a regular basis. (Level 2)
4.2	The Council has identified its significant partnerships and has appropriate governance arrangements in place for each of them. (Level 2)
4.2	The Council has arrangements in place to ensure that it has a sound system of internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems. (Level 2)
4.2	The Council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues. (Level 3)
4.2	The procedure notes/manuals for key financial systems are reviewed and updated as appropriate. (Level 3)
4.2	The standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate. (Level 3)
4.3	The Council is proactive in raising the standards of ethical conduct amongst members and staff, including the provision of ethics training. (Level 3)
4.3	The Council can demonstrate that counter fraud and corruption work is adequately resourced. (Level 3)