

Use of resources auditor judgements 2007

Stevenage Borough Council

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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/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
Conclusion	6
Use of resources judgements	7
Theme summaries	8
Financial reporting	8
Financial management	10
Financial standing	13
Internal control	14
Value for money	17
Use of resources 2008	19
Appendix 1 – changes to the 2008 KLOEs	20

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 Stevenage Borough Council. Our assessment is based on the key lines of enquiry (KLOEs) for 2007. These include new requirements for councils as part of the 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 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 the Council are outlined overleaf. The national quality control process is complete and has confirmed the scores set out in this report. The Commission notified you of your Council's overall score for use of resources and supporting theme scores on 10 December 2007.
- 6 The following rules were applied by the Commission to the five auditor judgements as set out in this report:

Table 2 Overall use of resources scoring rules

Rule	Overall score
At least two 4s and no scores below 3 on any heading	4
At least three 3s, no score below 2	3
At least three 2s	2
Any other combination	1

- 7 This summary sets out our key findings in relation to each theme and the key areas for improvement the Council needs to address to move to the next level of assessment in 2008. There are also areas where performance can be further consolidated hence the improvement areas may include items from more than one level. In order to provide as complete a picture as possible the areas for improvement also reflect a number of changes to the KLOEs for 2008 (as noted in paragraphs 9 to 11 and Appendix 1). Further details these changes have been provided separately to officers.

Conclusion

- 8 The Council is performing well across the majority of the areas assessed under use of resources and has demonstrated improvement in the short period since the last assessment. However increased importance has been attached to the financial reporting score in respect of the quality of the accounts and the impact of this has reduced the Council's theme score for financial reporting. This is the key area for the Council to take action on for the 2008 assessment.

Use of resources judgements

Table 3 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2007	Score 2006
Financial reporting	1	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	3
2.3 The Council manages its asset base.	2	3
Financial standing	3	3
3.1 The Council manages its spending within the available resources.	3	3
Internal control	3	3
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.	2	2
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	3	2
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

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

Financial reporting

Table 4

Theme score 1
Key findings and conclusions
<p>Although the Council produced accounts in advance of deadlines and received an unqualified opinion in September 2007, the process for preparing the accounts and working papers, and facilitating the audit process requires improvement. As reported in our annual governance report to the Audit Committee:</p> <ul style="list-style-type: none"> • the draft 2006/07 accounts contained four material errors; • there were a number of omissions and errors in the working papers supporting the accounts; • the audit was prolonged by delays in responding to auditors' queries; and • there were a number of instances of non-compliance with the local authority accounting code of practice. <p>Similar issues have been reported in respect of previous years' accounts and have impacted on the use of resources score for financial reporting KLoE 1.1. However this year additional emphasis has been given to this KLoE and as a result the overall theme score for financial reporting has fallen.</p> <p>The Council has attempted to promote robust scrutiny of the accounts by the members responsible for their approval. While this has met with some success, the overriding feedback from members is that they do not have sufficient understanding of the accounts and therefore need further training in order to scrutinise them effectively.</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, based on this, publishes summary financial information. It has included a summary of its finances (based on estimated figures for 2006/07) in the last Corporate Performance Plan. Summary accounts and an annual report have also been produced. Our annual audit letter is also made public.</p>

Theme score 1	
Improvement opportunities	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. (Score 1)</p>	<p>The Council needs to further improve arrangements so that :</p> <ul style="list-style-type: none"> • all areas of the accounts comply with reporting standards and the Council's own accounting policies; • the quality of the accounts is such that they do not contain material errors; • all the working papers required to support the accounts and specified in the working paper requirement checklist are available at the start of the audit; and • auditors' queries are dealt with promptly. <p>(All level 2)</p> <p>Establish what additional training is needed for members in order to enable them to scrutinise the accounts robustly and thereby contribute to their quality, and ensure this is provided.</p> <p>(Level 3)</p>
<p>KLOE 1.2 The Council promotes external accountability. (Score 3)</p>	<p>Following the consultation process, the Council should determine its approach to the publication in accessible formats of an annual report or similar document which includes summary accounts and an explanation of key financial information and technical terms designed to be understandable by members of the public. This should also include information and analysis about the Council's environmental footprint.</p> <p>(New at level 4)</p> <p>In addition there has been a change to the KLOE in respect of the publication of accounts, annual letter, agendas and minutes etc, these now need to be made available in accessible formats.</p> <p>(Revised levels 2 and 3)</p>

Financial management

Table 5

Theme score 3	
Key findings and conclusions	
<p>The Council has put in place processes to ensure that its medium-term financial strategy (MTFS), budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Service planning and financial planning are fully integrated. The MTFS highlights the importance of achieving a balanced budget and adequate reserve levels on an ongoing basis.</p> <p>Arrangements are in place for monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior officers and members. There had only been two budget monitoring reports to the Executive in respect of the 2006/07 financial year. However the Council was able to demonstrate that monthly reports were provided individually to portfolio holders. The Council has improved the processes for managing underspends resulting in a reported cumulative underspend as at 31 March 2007 of £289,000. There is a training programme on financial issues for members and non-financial staff although the training which took place in 2006/07 was informal. More formal training is planned for 2007/08.</p> <p>Arrangements for the management of the Council's assets are generally robust. However, in the last assessment we reported concerns about the completeness, accuracy and robustness of the Council's asset register. The Council has no regular process to update the asset register or to reconcile it with other property records held elsewhere within the Council. As reported in the Annual Governance Report to the Audit Committee in September 2007, our work on the 2006/07 accounts identified a number of instances where the asset register and other asset records have been found to be incorrect. This weakness undermines the strengths elsewhere in asset management; it is difficult for the Council manage its property assets effectively in order to contribute to the achievement of corporate objectives if it cannot be demonstrated that there is an accurate and up to date record of those assets.</p>	
Improvement opportunities	
<p>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. (Score 3)</p>	<p>Undertake equalities impact assessments of the Council's strategies and understand the effect and impact these and budget decisions will have on its diverse population. (New level 2)</p>

Theme score 3	
	<p>Ensure the corporate business plan takes account of factors such as stakeholder and partner views, risk assessments and financial contingency planning, and sensitivity analysis. (New bold at level 3)</p> <p>Regularly review financial management arrangements to ensure they remain fit for purpose (New bold at level 3)</p> <p>The Council should consider expanding its medium-term financial strategy to show more explicitly the commitments entered into with partners under joint plans. (Level 4)</p> <p>The Council should seek to demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives. (Level 4)</p> <p>The MTFS should model balances, resource requirements and revenue items using different planning scenarios and this should be linked to risk management and financial management reports (Level 4)</p>
KLOE 2.2 The Council manages performance against budgets. (Score 3)	<p>Embed the training programme on financial matters for members and non- financial staff (Level 3)</p> <p>Demonstrate that there is a timely 'traffic light' reporting or similar system in place to focus the Executive on key variances and these are then acted upon. (Level 4)</p> <p>Produce regular accrued financial monitoring reports and report to the Executive (Level 4)</p> <p>The Executive should undertake an explicit review based on best practice of its effectiveness, identifying and acting upon any areas of weakness. (Level 4)</p>
KLOE 2.3 The Council manages its asset base. (Score 2)	<p>Improve the processes for updating the fixed asset register, including controls over identification of capital items, quarterly maintenance of the register (currently only undertaken annually) and regular reconciliation to other property records held by the Council (Level 2)</p>

Theme score 3	
	<p>Review the asset management plan to ensure it provides clear forward looking strategic goals for property assets that shows how the Council's land and buildings will be used and developed to help deliver corporate priorities and service delivery needs, now and in the future. The plan shows how property assets will be maintained, modernised and rationalised to ensure that they are fit for purpose. (New level 3)</p> <p>Maintain a record of all of land and buildings that contains accurate data on its efficiency, effectiveness, asset value and running costs which can be used to support decision making on investment and disinvestment in property. (New level 3)</p>

Financial standing

Table 6

Theme score 3	
Key findings and conclusions	
<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 previous years have been addressed through improved budget monitoring. The Council has set a minimum level of working balance which underpins its MTFs; although this level was set some years ago and is not explicitly reassessed annually to ensure it is still appropriate in light of the risks to the Council's financial position.</p> <p>Debt management processes continue to be strengthened. The effectiveness of debt recovery across all types of significant debt is regularly monitored and reported to senior officers and members.</p>	
Improvement opportunities	
<p>KLOE 3.1 The Council manages its spending within the available resources. (Score 3)</p>	<p>Undertake annual reassessment of the level of working balance required and obtain member agreement to this level. (Revised level 3)</p> <p>Ensure 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. (New level 3)</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. (Level 4)</p>

Internal control

Table 7

Theme score 3
Key findings and conclusions
<p>Risk management arrangements have continued to develop and embed within the Council. The Council has effective arrangements in place in respect of a risk management strategy and risk registers. Member responsibility for risk management was taken over by the Audit Committee in 2006 and a risk management report is taken to each meeting. A member and officer training programme on risk management issues has also been running since 2006.</p> <p>Systems of internal control are generally sound. The process for producing and approving the Statement on Internal Control (SIC) is effective. There is an Audit Committee 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. The Council has arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.</p> <p>Procedure notes are in place for the Council's key financial systems and are updated as appropriate. A process for reconciling the Council's bank account has been established and other financial systems are also reconciled regularly.</p> <p>The Council does not yet have an assurance framework in place to map strategic objectives to risks, controls and assurances. This was identified as an action in the 2006/07 SIC. The Audit Committee has not yet sufficiently embedded itself into the Council's structure in order to provide effective leadership on governance, financial reporting and audit issues. A positive attitude was adopted by the Committee to the issues we reported in respect of the Council's 2006/07 accounts; sustaining this approach will enhance the Audit Committee's effectiveness.</p> <p>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. There is evidence that the whistleblowing policy has been communicated to Council staff and adopted by Stevenage Homes Ltd. However it was not clear that it is also communicated to other parties who contract with the Council. There were weaknesses in the Council's initial approach to dealing with NFI matches early in 2007 but arrangements were subsequently improved and progress made in dealing with the matches.</p>

Theme score 3	
Improvement opportunities	
<p>KLOE 4.1 The Council manages its significant business risks. (Score 3)</p>	<p>Demonstrate that the risk management strategy is complied with (Revised level 2)</p> <p>Demonstrate that risk management has been embedded in the Council's corporate business processes. (Level 4)</p> <p>Ensure that reports to support strategic policy decisions, and initiation documents for all major projects, require a risk assessment including a sustainability impact appraisal. (New level 4)</p>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control. (Score 2)</p>	<p>Develop an assurance framework to map the Council's strategic objectives to risks, controls and assurances. Use this framework to inform the Governance Statement (replaces SIC from 2007/08) (Level 3)</p> <p>Demonstrate that the Audit Committee provides effective leadership on governance, financial reporting and audit issues, including challenging the Executive when required. (Level 3)</p> <p>Demonstrate that there is an effective scrutiny function which ensures constructive challenge and enhances performance overall. (New level 3)</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. (Score 3)</p>	<p>Demonstrate that the whistleblowing policy is communicated to those parties contracting with the Council. (Level 2)</p> <p>Demonstrate that members of the standards committee are preparing for their role in local investigations and determinations and that there are arrangements in place to support effective local investigations and determinations. (New level 2)</p> <p>Communicate the work of the standards committee and demonstrate effective action has been taken. (New level 3)</p>

Theme score 3	
	<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. (Level 3)</p> <p>Follow up all NFI matches promptly making use of the NFI system functionality and work with other bodies when following up matches. (Revised level 3)</p> <p>Implement processes to enable the Council to demonstrate how staff have clearly acknowledged and accepted their responsibility to prevent and detect fraud and corruption. (Level 4)</p> <p>Make the risk of fraud and corruption explicit in the Council's overall risk management process. (Level 4)</p> <p>Demonstrate that Council staff, and staff within contracting organisations, have confidence in the whistleblowing arrangements and feel safe to make a disclosure. (New level 4)</p>

Value for money

Table 8

<p>Theme score 3</p>
<p>Key findings and conclusions</p> <p>The Council is fully aware of 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. 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.</p> <p>The Council has median to high costs when compared to nearest neighbours' family group but council tax levels are at a median level (Band 'D')</p> <p>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.</p> <p>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.</p> <p>A fundamental review of the Council's capital programme has been undertaken, with all 500 current live projects reviewed to determine priority and links to current ambitions and priorities. As a result over £1.2 million of capital resources has been released back into the capital strategy to refocus on key priorities.</p> <p>Community satisfaction levels with delivered services are high as evidenced by the results of the recent 'Frontiers of Performance in Local Government' National BVPI Survey by Ipsos MORI, which identifies the Council as being in the top twenty authorities within all authority types, and in the top fifteen district councils for user satisfaction, once spending, diversity and deprivation levels are accounted for.</p> <p>There has been good improvement in overall performance. Average local authority improvement in 2006/07 compared to the previous year is between 47 per cent and 49 per cent. The Council's improvement is 52 per cent. Overall the Council has 63 per cent of its PIs in the top two quartiles (up from 55 per cent).</p> <p>The backward looking 2006/07 efficiency statement demonstrates total cumulative efficiencies of £1,700,036 and of this £1,605,170 is cashable. This means that the Council has exceeded its target a year early.</p> <p>The Council continues to use good practice and working with neighbours on joint procurement with achieving value for money at the heart of procurement decisions.</p>

Theme score 3	
Improvement opportunities	
KLOE 5.1 The Council currently achieves good value for money. (Score 3)	Continue to develop a formal methodology of identifying unit costs and ensure that the process, once approved, is used consistently across the organisation. This should enable the Council to demonstrate that it provides best value compared to other councils. (Level 3)
KLOE 5.2 The Council manages and improves value for money. (Score 3)	Following the provision of training and guidance to members and staff on whole life costings and procurement, evaluate the process to determine the impact and outcomes of the training. (Level 4) There are a number of changes and new requirements within KLOE 5.2 at all levels for 2008. The Council should review these to determine where it should focus further effort in order to maintain and improve its score.

Use of resources 2008

- 10 The Commission has published its key lines of enquiry for 2008 on its website. There is an annotated version of the key lines of enquiry available which show all the changes from 2007. This should assist you in pin pointing the changes. We will be reporting our scores and findings from our 2008 assessment to you at a similar time next year. Where appropriate and relevant these changes have been reflected in the improvement areas highlighted in this report. A summary of the changes is included in Appendix 1 and further details of individual changes have been provided to officers.
- 11 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 website. 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.
- 12 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 – changes to the 2008 KLOEs

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.
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.

KLOE	Level	Summary of change
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, i.e. 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.

KLOE	Level	Summary of change
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. 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.