

# **Use of Resources Auditor Judgements 2006**

**South Derbyshire District 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 – LG version only] 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.

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- any third party.

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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 will be 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. 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.
- 5 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. In order for the Council to sustain or to improve upon its current performance at the next assessment, it will need to take these criteria into consideration.
- 6 The five theme scores for South Derbyshire District 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**

<b>Key lines of enquiry (KLOEs)</b>	<b>Score 2006</b>	<b>Score 2005</b>
<b>Financial reporting</b>	<b>2</b>	<b>2</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	1	2
1.2 The Council promotes external accountability.	3	2
<b>Financial management</b>	<b>3</b>	<b>2</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	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	3	1
<b>Financial standing</b>	<b>3</b>	<b>2</b>
3.1 The Council manages its spending within the available resources.	3	2
<b>Internal control</b>	<b>3</b>	<b>2</b>
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.	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	2
<b>Value for money</b>	<b>2</b>	<b>2</b>
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	3	2

## Theme summaries

- 7 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 2</b></p>	
<p><b>Key findings and conclusions</b></p> <p>The accounts were produced within deadlines but they contained material errors. An unqualified opinion was given on 29 September 2006.</p> <p>Openness and accountability are areas where the Council has been strengthening its financial reporting arrangements. Specific improvements since the last assessment include publishing summary accounts on the Council's website.</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>	<p>Produce a set of accounts that are free from material, non trivial and presentational errors.</p> <p>Develop a more structured approach to member scrutiny of the accounts including consideration of compliance with professional and regulatory standards.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>None.</p>

<b>Financial management</b>	
<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<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.</p> <p>The Council has improved its asset management arrangements this year. In particular it has:</p> <ul style="list-style-type: none"> <li>• implemented a commercial asset register, identified maintenance backlogs and has put in place a plan to address these;</li> <li>• improved option appraisal for investment and disposal decisions and whole life costing is now used; and</li> <li>• developed a set of local performance measures in relation to assets.</li> </ul>	
<b>Improvement opportunities</b>	
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.	<p>Produce profiled financial monitoring reports within ten days of the month-end.</p> <p>Introduce a training programme for members and non finance staff on financial issues.</p>
KLOE 2.3 The Council manages its asset base.	Demonstrate that it has applied its local asset management indicators to evaluate asset use in relation to corporate objectives.

<h2>Financial standing</h2> <p><b>Theme score 3</b></p>	
<p><b>Key findings and conclusions</b></p> <p>The Council manages its spending within available resources and maintains reasonable balances.                  This year the Council has developed and applied a credit control policy for sundry debtors and is effectively monitoring all material categories of income.</p>	
<p><b>Improvement opportunities</b></p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>None.</p>

## Internal control

**Theme score 3**

### Key findings and conclusions

The Council actively promotes probity and propriety in the conduct of its business. Arrangements have improved this year, for example the Council has reviewed and publicised its whistle-blowing policy.

Risk management arrangements have been strengthened this year by the introduction of quarterly reporting to members.

Systems of internal control are generally robust and are supported by a corporate approach to the production of the annual Statement on Internal Control.

The Council established an Audit Sub Committee in May 2006 which has reviewed internal control, accounts and risk management.

### Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.	Review the Finance and Management and Audit Sub Committees' Terms of Reference to ensure there is no overlap of responsibilities in respect of risk management.
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.	Ensure the whistle-blowing policy is brought to attention of those contracting with the Council.

## Value for money

Theme score 2

### Key findings and conclusions

South Derbyshire continues to be a low spending Council with a prudent approach to finances that has enabled it to make significant efficiency savings.

There have been some improvements in performance, particularly in priority areas, with more targets being met. However, these are modest, and, comparatively, performance is not improving as quickly as other councils.

There is clear progress in developing a culture of value for money in the Council. Councillors have taken the lead in developing the new corporate plan, and there are plans in place to review the Council's expenditure against priorities in the Council plan.

In recognition of the modest performance improvements, very challenging targets have been set in priority areas for the next three years. There is a planned programme of value for money reviews and a number of mini reviews have already led to improved services.

The Council does not gather information on equity in a systematic way and so it does not know whether its services are meeting the needs of all the community.

Significant improvements have been made in procurement with increased value for money and plans are in place to review all contracts and in-house delivered services.

### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

Improve performance compared with other councils across priority services.

KLOE 5.2 The Council manages and improves value for money.

Undertake systematically the planned programme of value for money reviews and implement agreed changes.

Collect, analyse and act on information on equity in a systematic way so that services are meeting the needs of all the community.

Develop further the growing culture of value for money throughout the Council, for example by including value for money issues in managers' annual appraisals.

Implement the planned review of current procurement practices and contracts to ensure that value for money is achieved with or without partners.

## 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
<b>Financial reporting</b>	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meets the needs of a range of stakeholders is published and their views are considered in deciding whether to publish an annual report.
<b>Financial management</b>	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month-end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.
<b>Financial standing</b>	
3.1	Collection and recovery of material categories of income is monitored.

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<b>KLOE</b>	<b>Summary of criteria</b>
<b>Internal control</b>	
4.1	Appropriate staff are trained in risk management.
4.2	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.
4.2	Arrangements for carrying out the functions of an audit committee are effective.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004).
4.2	Governance arrangements are in place for significant partnerships.
4.3	The Council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.