

# **Use of Resources Auditor Judgements 2006**

**South Oxfordshire 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.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

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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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# Contents

<b>Introduction</b>	<b>4</b>
<b>Use of resources judgements</b>	<b>5</b>
<b>Theme summaries</b>	<b>6</b>
Financial reporting	6
Financial management	7
Financial standing	8
Internal control	9
Value for money	10
<b>Appendix 1 – Criteria which will gain 'must have' status for the next assessment</b>	<b>12</b>

## 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.

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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

The overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 16 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 Oxfordshire 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>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	2
<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	3
2.2 The Council manages performance against budgets.	2	2
2.3 The Council manages its asset base.	3	3
<b>Financial standing</b>	<b>3</b>	<b>3</b>
3.1 The Council manages its spending within the available resources.	3	3
<b>Internal control</b>	<b>2</b>	<b>2</b>
4.1 The Council manages its significant business risks.	3	1
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.	2	3
<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

- 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 3</b></p>	
<p><b>Key findings and conclusions</b></p>	
<p>There were a number of problems with the accounts produced which were caused by a server failure. This made the audit process more difficult, especially as it coincided with the change to the new financial management contract. As these were extraordinary circumstances, and the accounts presented did not contain any material errors, we have not penalised the Council for this in our assessment.</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>The council should review its arrangements to ensure that the problems encountered in closing down the 2005/06 accounts are not repeated.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>The Council has not yet consulted stakeholders in making a decision on whether to publish an annual report but intends to do so before the end of 2006/07.</p>

<b>Financial management</b>	
<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council's arrangements for financial management remain strong, and the medium term financial plan is soundly based. The corporate business plan was subject to consultation, and links closely with the MTFP. PIs have been developed to monitor asset use, and the Council is currently reviewing its asset management plan.</p>	
<b>Improvement opportunities</b>	
<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.</p>	<p>Link communications to staff and stakeholders on the corporate plan more closely to the key messages from the high level MTFS and the medium-term financial plan (MTFP); Demonstrate within the MTFP the impact of joint plans agreed with partners.</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Link together consideration of key financial and operational indicators as part of the budget monitoring and performance management process.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Update the capital strategy following completion of the asset plan review; Enhance the use of indicators used for assets to demonstrate and evaluate how the asset base contributes to the achievement of corporate objectives, including improvement priorities.</p>

<h2>Financial standing</h2> <p><b>Theme score 3</b></p>	
<p><b>Key findings and conclusions</b></p>	
<p>The Council remains in good control of its finances, and understands where it has to concentrate its monitoring processes. The Council is meeting its efficiency targets and is achieving significant cashable efficiency savings.</p>	
<p><b>Improvement opportunities</b></p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>There is scope for the Council to develop good practice in the way Members monitor key financial health indicators and set challenging targets.</p>



<b>Internal control</b>	
<b>Theme score 2</b>	
<b>Key findings and conclusions</b>	
<p>The Council's system of internal control remains sound, and it has considerably improved its arrangements around risk management. An Audit Committee has been set up, and is beginning to work well, although its understanding of the assurance framework has yet to develop.</p> <p>However, there is scope to improve the arrangements by actively promoting probity and propriety in the conduct of business. Risk management has been evolving and improving and it is being embedded throughout the organisation. Systems of internal control are generally sound but there needs to be more active involvement by members in reviewing their effectiveness and in developing an assurance framework to support the statement of internal control. The way in which the Audit Committee carries out its role also needs to be strengthened.</p>	
<b>Improvement opportunities</b>	
KLOE 4.1 The Council manages its significant business risks.	Continue to promote understanding of members roles in monitoring risk management arrangements by further training.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p>Review governance arrangements in key partnerships to ensure they meet the Council's standards.</p> <p>Explain the assurance framework to support the SIC to members of the Audit Committee and ensure they receive regular updates on this during the year.</p> <p>Continue to develop how the Audit Committee functions and the understanding of members around their role.</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>Deliver ethical training to staff as part of the roll out of the new code of conduct.</p> <p>Develop pro-active work by internal audit to follow up those areas it has identified as susceptible to fraud in the course of its normal work.</p>

## Value for money

**Theme score 3**

### Key findings and conclusions

The Council's VfM profile has improved in the last year in terms of the relationship between cost and service delivery.

The Council's expenditure on all services per head of population is in the middle for its family group and below the district average. There is a positive relationship between the Council's costs and performance. Overall costs for service blocks are just above average for some key services (Environment, Housing and Central services) and below average for others (Culture and Home Office services). However, services such as homelessness, planning, sports and leisure and street cleaning are delivering strong performance at below average unit costs for the Council's comparator group. Performance indicators relating to these services are above average nationally and have improved over the year. Where unit costs are above average, such as waste and 'other' housing – this is proportionate to above average performance, ie top quartile performance nationally for recycling, 100 per cent of residents served by kerbside collection/ increase in number of private sector properties returned to occupation and housing completions and above average performance. Similarly, the Council's unit costs for its corporate and democratic core – which represents upper quartile spend- reflects its priority to achieve 'excellence' and investment in the corporate initiatives to achieve this.

Capital investment is targeted at priority areas clearly driven by the medium term priorities. Detailed financial models are developed for major projects (most recent example being for contract with Capita to provide customer contact services).

The Council continues to seek out ways of improving VfM through partnership working and effective procurement, for example, the joint arrangement for the provision of revenues and benefits services promises to deliver substantial savings as well as improved services for residents.

The Council uses its consultation with the public to focus on where it needs to improve vfm. For example, poor satisfaction in accessing council services led to the Council carrying out a BVR of access to services and the council concluding the need to develop a new model for customer contact. The Council has recently signed a contract with Capita to transfer some 'front of house' services and options for further transfer. Arrangements will lead to revenue savings as well as improved customer service.

The Council consults regularly with service users, both at corporate and service level through its Citizens Panel. This forum is used to help the Council understand the priority of proposed changes. 'The views of citizens actively influence services'.(Pilot CPA)

<b>Improvement opportunities</b>	
KLOE 5.1 The Council currently achieves good value for money.	The Council should use cost, performance information and benchmarking simultaneously, in a routine way to provide a corporate view of where the Council's services sit relative to others in terms of cost and quality.
KLOE 5.2 The Council manages and improves value for money.	Enhance the current arrangements by incorporating the efficiency programme within performance management arrangements and developing a methodology to determine the potential for efficiency gains..

## 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.
- 2 The timing of the assessment for 2006/07 has changed to bring it into line with County and Unitary authorities. The assessment will be published in October 2007, with fieldwork undertaken in June to August 2007.

KLOE	Summary of criteria
Financial reporting	
1.1 Level 3	Requests for information from audit are dealt with promptly.
1.2 Level 3	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.
1.2 Level 3	Summary financial information that meets the needs of a range of stakeholders is published.
Financial management	
2.1 Level 2	The council undertakes cash-flow monitoring which is used to inform short- and long-term investment decisions.
2.1 Level 3	key messages from the council's medium-term financial strategy are communicated to staff and stakeholders as appropriate.
2.2 Level 2	The financial performance of significant partnerships is regularly reviewed, linked to outputs, and the results shared with partners and acted upon.
2.2 Level 3	Profiled financial monitoring reports are produced within ten days of the month end.
2.2 Level 3	There is a regular training programme providing training on financial issues for members and relevant non-finance staff.

<b>KLOE</b>	<b>Summary of criteria</b>
2.3 Level 3	A member has been allocated portfolio responsibility for asset management.
2.3 Level 3	The council has developed a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.
Financial standing	
3.1 Level 2	The council sets and monitors targets for all material categories of income collection and recovery of arrears, based on age profile of debt.
Internal control	
4.1 Level 3	All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment.
4.2 Level 2	business continuity plans are in place as required by the Civil Contingencies Act (2004) (new).
4.2 Level 2	The council has identified its significant partnerships and has appropriate governance arrangements in place for each of them.
4.2 Level 2	Sound arrangements in place for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems (new).
4.2 Level 3	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.
4.2 Level 3	Procedure notes for key systems are reviewed and updated as appropriate.
4.2 Level 3	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.3 Level 3	The council is proactive in raising the standards of ethical conduct among members and staff, including the provision of ethics training.
4.3 Level 3	The Council can demonstrate that counter fraud and corruption work is adequately resourced.

**14 Use of Resources Auditor Judgements 2006 | Appendix 1 – Criteria which will gain 'must have' status for the next assessment**

<b>KLOE</b>	<b>Summary of criteria</b>
4.3 Level 3	The council has effectively identified the key NFI data matches for review from all levels of reports. The council works with other bodies such as DWP when following-up data matches from NFI. Risks are followed-up promptly to prevent prolonged exposure. Weaknesses revealed by instances of proven fraud and corruption are reviewed to ensure that appropriate action is taken to strengthen internal control arrangements.