

Use of Resources

December 2006



Use of Resources Auditor Judgements

Southampton City Council

Audit 2006/2007

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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

- 4 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 assessment. 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 single tier and county 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 Southampton City Council are outlined opposite. This summary sets out our key findings in relation to each theme, and the key areas for improvement.

Use of resources judgements

Summary

- 7 Our overall assessment is that the Council is **consistently above minimum requirements and performing well**. This is level 3 for the purposes of CPA.
- 8 This assessment is an improvement from last year's overall assessment at level 2 and reflects commendable progress by the Council in a number of areas. Further opportunities for improvement are also evident and being progressed and these will be assessed in our next review at the end of the 2006/07 financial year.

Table 2 Summary of theme scores

Themes	Score 2006	Score 2005
Financial reporting	3	1
Financial management	2	2
Financial standing	3	3
Internal control	2	1
Value for money	3	2

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

Financial reporting	
Theme score 3	
Key findings and conclusions	
<p>The financial statements were produced within the statutory deadlines, presented fairly the Council's financial position and contained only a small number of non-trivial errors, and we were able to issue an unqualified opinion. The statements were presented to members with an explanatory report and were subject to robust scrutiny. Notable improvements since our 2005 assessment include the provision of comprehensive and well organised supporting papers and a more effective senior officer review of the accounts before the commencement of the audit. The Council published summary accounts in a user-friendly format which, together with the City Improvement Plan, provided a comprehensive report to the public and were available in a wide variety of formats.</p>	
Improvement opportunities	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	
KLOE 1.2 The Council promotes external accountability.	Seek views from stakeholders on what form of financial and performance reporting they would like to see, including the option of an annual report.

Financial management

Theme score 2

Key findings and conclusions

The council has key plans and strategies in place including a good asset management plan. Budget monitoring and asset management processes are robust. A Medium-Term Service and Financial Planning initiative commenced this year, aimed at delivering greater integration of strategic planning and developing an appropriate, affordable resource plan for the next three years. A new Property Management Database has been implemented and is being integrated into the Council's asset management arrangements. The Council is also standardising and formalising its processes for option appraisals to support asset investment and disposal decisions.

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.

Complete the development of integrated medium-term service and financial planning and review the strategy annually.

KLOE 2.2 The Council manages performance against budgets.

Address issues identified in the partnership health-check and the review by internal audit.
Report financial and non financial information alongside budget updates.
Identify operational activity indicators that are lead indicators of spend, to inform budget monitoring.
Include developed action-plans in reports to senior management on planned savings and efficiency gains.

KLOE 2.3 The Council manages its asset base.

Ensure the property management database is consistent with other asset records and is maintained up to date.
Ensure the option appraisal process is fully embedded in the Council's asset management arrangements.

<h2>Financial standing</h2>	
<p>Theme score 3</p>	
<p>Key findings and conclusions</p>	
<p>The Council has effective budgetary reporting arrangements and consistently maintains spending within budget. It has a Treasury Management strategy in place which is compliant with CIPFA standards.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Ensure that members monitor key financial health indicators and set challenging targets.</p> <p>Where target levels for reserves and balances are exceeded, report to members the opportunity costs of maintaining those levels along with the benefits.</p>

Internal control

Theme score 2

Key findings and conclusions

The Council's risk management processes have been further developed and significantly improved. A risk management strategy has been formally adopted, risk registers are being updated and members are now receiving regular reports. Internal Audit has significantly strengthened its approach and is restructuring to ensure more effective delivery. Responsibility for the functions of an audit committee is now formally specified, although the location of those responsibilities is still to be resolved. There is now a sound annual effectiveness review process to support the Statement on Internal Control (SIC) and members' roles in scrutinising and approving the SIC are clear. The Council promotes probity and propriety in the conduct of its business, but needs to ensure that all staff and stakeholders remain alert to the risks.

Improvement opportunities

<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Ensure that members with specific responsibility for risk management receive regular risk management awareness training.</p> <p>Ensure that the Standards and Governance Committee receive sufficient information to judge whether corporate business risks are being actively managed, and report to full council as appropriate.</p>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Complete the implementation of the action plan to ensure that Internal Audit meet the CIPFA code of practice standards.</p> <p>Put in place a corporate business continuity plan, and processes to ensure it is reviewed and tested regularly.</p> <p>Consider whether the governance arrangements identified in the partnership health-check are adequate and appropriate, and take action to strengthen arrangements where necessary.</p>

Internal control (continued)	
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 that the code of conduct for staff and the anti-fraud and corruption policy are given a high profile, communicated throughout the organisation and regularly refreshed.

Value for money

Theme score 3

Key findings and conclusions

The Council's overall spend per head of population is below average when compared with its nearest neighbours. Where comparative spending is higher than other councils, for example on waste management and transport, the Council is able to demonstrate that this is in line with its priorities.

Generally there is a positive relationship between costs and performance. This is illustrated by the maximum three-star rating of the Council's relatively low-cost social services, and a CPA rating of 3 for its relatively high cost environment services together with the achievement of significantly improved recycling rates. The Council has identified the potential for efficiencies and improved recycling performance by changing to fortnightly waste collection but a policy decision to retain the current system means that these benefits will not be realised. Education is a relatively low-cost service, and the Council is delivering better value for money than last year with improved performance in GCSE A to C grades and Key Stage 3, although some aspects of performance remain in the worst 25 per cent of unitary councils. The Council has clear plans to make better use of its education resources by reducing the number of surplus school places, but has not yet reached a final decision on them. The Council is strengthening the management of its relatively high cost benefits and council tax service, where key areas of performance were in the worst 25 per cent of councils in 2005/06, and performance is improving in 2006/07.

The Council manages its capital programme within budget. It acted promptly to address weaknesses exposed by significant overspends on three capital projects in 2005/06, and both capital programme monitoring and project management across the organisation have been strengthened.

The Council has clear information on costs and has improved its use of benchmarking in high level performance reporting to enable a more robust comparison of its costs and performance. Councillors and managers are starting to performance-manage costs and service outcomes together, to identify where better value for money can be obtained. However, it is too early to demonstrate results from these improved processes.

The Council is not consistently tracking the impact of its investments and value for money improvements on users. For example, the Council is not clear whether its additional investment in a relatively high cost subsidised fares scheme has delivered the desired outcomes for users.

Business efficiency targets are set for all services and the Council is on target to achieve the cumulative Efficiency Review target of 7.5 per cent gain over a three year period. The Council has a new procurement strategy and has achieved some procurement savings, although on present trends it is unlikely to meet its 2006/07 target.

Value for money (continued)	
Improvement opportunities	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Ensure that spending, including overheads and capital, consistently demonstrates best value from the use of resources, in particular on education attainment, secondary school places, benefits and waste collection.</p>
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>Demonstrate outcomes from benchmarking and the new arrangements for managing costs and performance.</p> <p>Ensure that the impact of investment and value for money improvements is consistently reviewed, including the subsidised fares scheme.</p> <p>Ensure that targets for procurement savings are delivered.</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

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	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.
Financial management	
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.
Financial standing	
3.1	Collection and recovery of material categories of income is monitored.

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KLOE	Summary of criteria
Internal control	
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	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.