

Use of Resources Auditor Judgements 2007

Southampton City Council

Audit 2007/08

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Contents

Introduction	4
Conclusion	5
Use of resources judgements	6
Theme summaries	7
Financial reporting	7
Financial management	8
Financial standing	9
Internal control	10
Value for money	12
Use of resources 2008	14

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 the Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This is the third assessment we have undertaken. Our assessment is based on the key lines of enquiry for 2007. These include new requirements for councils as part of the Commission's approach to phasing in certain elements that need more lead-in time and to supporting improvement by gradually raising the standard of the assessment. In addition, the assessment period for 2007 has also been aligned with the 2006/07 financial year. 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, as shown in Table 1. 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 in Table 2. Following completion of its national quality control process, the Commission notified you of your Council's overall score for use of resources and supporting theme scores on 10 December 2007. This report summarises our key findings in relation to each theme and key areas for improvement.

Conclusion

- 6 The Council's performance demonstrates continued improvement and an ability to tackle the key issues which were highlighted in the last assessment as well as addressing new criteria that were included this year. The judgement is made on the basis of the 2006/07 financial year and processes in place at 31 March 2007. The Council has made commendable progress in the last two years which has been reflected in improved judgements and scores and this progress is continuing in a number of areas in the current year. Where change is evident since the 1 April 2007 such as further development in procurement savings, it has not been possible to formally reflect this in this year's judgement but this will feature in the 2008 assessment.
- 7 The Use of Resources review has identified some areas where further improvement is required to enable the Council's processes to be regarded as embedded and these are all being addressed currently. This includes the issue of social care income collection. Problems with records and the computer system interface, and the associated loss of income to the Council, have continued over an extended period and have still to be resolved. In reaching our assessment for KLOE 4.2 (Systems of Internal Control), we have taken the view that these problems, although significant, are not material to the Council's overall financial affairs and not representative of its standards of internal control, which are otherwise sound.
- 8 We have made a number of recommendations for improvement, which are mainly concerned with building on the progress already made. The Council needs to give priority to these, if they are to embed improvements in time to influence our 2008 assessment. In addition, the Council will need to have regard to the changes in the judgement criteria for 2008, as outlined on page 14.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2007	Score 2006
Financial reporting		
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	3
Financial management		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	2	2
2.2 The Council manages performance against budgets.	2	2
2.3 The Council manages its asset base.	3	2
Financial standing		
3.1 The Council manages its spending within the available resources.	3	3
Internal control		
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	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	2
Value for money		
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	2	2

Theme summaries

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

Financial reporting

Table 3

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 we were able to issue an unqualified opinion. The accounts contained only a small number of non-trivial errors and the supporting documentation provided for audit was clear and comprehensive. This builds on improvements made in previous years. The statements were presented to members with an explanatory report and were subject to robust scrutiny.</p>	
Improvement opportunities	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>Ensure that the feedback received on the summary financial statements published in City View is taken into account when preparing future years' summaries.</p> <p>Ensure that the summary accounts are available in accessible formats designed to be understandable by members of the public.</p>

Financial management

Table 4

Theme score - 2	
Key findings and conclusions	
<p>The Council is currently in the process of integrating its medium term plan and medium term financial strategy to produce a three-year medium-term service and financial plan. Budget monitoring processes are robust but could be further enhanced by integration of financial and performance reporting. The Council has continued to improve the asset register and property management database and both are now fully embedded.</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.</p>	<p>Complete the integration of the medium term financial strategy and plan, to produce the three-year medium term service and financial plan, and ensure it is:</p> <ul style="list-style-type: none"> • driven by the corporate business plan and the Council's policies and priorities; • linked to other internal strategies; and • communicated to staff and stakeholders as appropriate.
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Integrate financial and performance management and reporting and use this to identify areas where the budget is being met but there is underperformance on activity.</p> <p>Identify operational activity indicators that are lead indicators of spend to inform budget monitoring.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	

Financial standing

Table 5

Theme score - 3	
Key findings and conclusions	
<p>The Council has effective budgetary reporting arrangements and consistently maintains spending within budget. There are target levels for reserves, although these are frequently exceeded. A Treasury Management strategy is in place and is compliant with CIPFA standards. There is scope to improve performance on income collection.</p>	
Improvement opportunities	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Ensure that members monitor a comprehensive set of financial health indicators and set challenging targets.</p> <p>Set and monitor challenging targets for all material categories of income collection.</p> <p>Where target levels for reserves and balances are exceeded, report to members the opportunity costs as well as the benefits of maintaining those levels.</p>

Internal control

Table 6

Theme score - 2	
Key findings and conclusions	
<p>The Council's risk management processes have continued to improve and members with responsibility for corporate risk management receive regular reports and take action as appropriate. Internal Audit has continued to strengthen its management and approach and an Audit Committee has been established. The Council promotes probity and propriety, but needs to ensure that its register of gifts and hospitality is sufficiently detailed.</p> <p>There have been problems with the collection of social care income, including failures in the interface of the PARIS Social Services system with the Agresso main accounting system, which need to be addressed before the end of the current financial year.</p>	
Improvement opportunities	
KLOE 4.1 The Council manages its significant business risks.	Ensure that all appropriate staff receive relevant risk management training, either directly or by cascade from line managers.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p>Ensure that the problems with social care income collection and the PARIS system are resolved as a priority.</p> <p>Undertake regular reconciliations of the Academy and PARIS systems to Agresso and ensure that all discrepancies are explained promptly.</p> <p>Introduce a disaster recovery plan for IT and ensure that the corporate business continuity plan is comprehensive and is regularly reviewed and tested.</p> <p>Ensure there are appropriate governance arrangements in place for all significant partnerships.</p> <p>Complete the implementation of the action plan to ensure that internal audit meets fully the CIPFA code of practice standards.</p>

Internal control

Improvement opportunities	
<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>Undertake an assessment of standards of conduct including how effectively members are complying with the code of conduct.</p> <p>Ensure that guidance on gifts and hospitality includes the requirement to register offers as well as the receipt of gifts and hospitality.</p> <p>Ensure that registers of gifts and hospitality include details of who offered or provided gifts together with the estimated values.</p> <p>Ensure that effective use is made of the NFI application to identify data matches for review and that reviews are carried out promptly.</p>

Value for money

Table 7

Theme score - 3
Key findings and conclusions
<p>The Council's overall costs are low compared with similar councils and it achieves good value for money.</p> <p>In the main, where service costs are high compared with other councils, they relate to the Council's priorities. Most high cost services, such as environment, are delivering well overall. However, performance in a few higher cost services remains below average compared to other councils, in particular for council tax collection, housing benefit and housing management.</p> <p>Education is a priority service that is low cost and while absolute performance on education attainment is improving, performance relative to other councils remains below average. The Council is implementing action plans to improve its poorer performing services and secure better value for money.</p> <p>The Council links its capital investment to its priorities, as with the investment in highways, and considers whole life costs when making investment decisions. Improved project management has been introduced for capital projects but it is too early to assess whether this is delivering improved outcomes. The Council needs to consider whether the new arrangements are consistent with the revised Use of Resources descriptors for 2008.</p> <p>The Council continues to improve its arrangements for managing and improving value for money but some improvements are not yet fully embedded. It understands the benchmark costs for its services and their relationship to the performance achieved. Since last year the Council has introduced reporting on service performance and budget position together to scrutiny panels but this is not yet integrated.</p> <p>Where costs are high and performance is below average, the Council is delivering some improvements in value for money, for example by increasing customer satisfaction with the waste and recycling services and deciding housing benefit claims more quickly.</p> <p>The Council takes difficult decisions with long-term value for money in mind, such as the secondary school closures. Challenging targets are set to secure improved value for money and the Council is on track to exceed the three-year Gershon efficiency savings target. The Council has attracted significant external funding for regeneration and delivered improved outcomes in its most disadvantaged areas.</p>

Value for money

Key findings and conclusions	
<p>The Council is implementing its new procurement strategy which covers whole-life costing and collaborative procurement, and joint procurement arrangements have achieved savings, for example on street lighting. However, the Council failed to meet its targeted procurement savings in 2006/07, achieving £220,000 against an original target of £1.125 million. The further progress made on delivering procurement savings since 1 April 2007 will be featured in our 2008 assessment.</p>	
Improvement opportunities	
KLOE 5.1 The Council currently achieves good value for money.	<p>Improve achievement of value for money in education attainment in 2007/08 as part of implementation of the Raising Attainment action plan and the Learning Futures plan.</p>
KLOE 5.2 The Council manages and improves value for money.	<p>Implement integrated performance and cost management at strategic and service levels.</p> <p>Ensure the new procurement arrangements deliver improvements in 2007/08, including social and environmental community benefits as well as the planned £1.2 million supply chain savings.</p>

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.
- 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.