

# **Use of Resources Auditor Judgements 2007**

**Sunderland City Council**

**Audit 2006/07**

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# Summary report

## Introduction

- 1 The Use of Resources 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 in supporting the Council in:
  - achieving its priorities;
  - improving services, and
  - delivering value for money.
- 2 This is the third assessment we have undertaken at Sunderland City Council. Our assessment is based on the key lines of enquiry for 2007. These include new requirements as part of the Commission's approach to supporting improvement by gradually raising the standard of the assessment each year. The period assessed for 2007 has also been aligned with the financial year 2006/07. We do however consider evidence that becomes available after the end of the financial year, to demonstrate that Council 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.

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### 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 website. 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.

## Main conclusion

- 5 The Council's performance demonstrates that it is committed to improvement. Scores have increased from our previous assessment in five of the eleven areas. In particular:
  - improvements to financial management made last year have now become embedded in terms of both strategic financial management and budgetary control;
  - corporate arrangements for managing, delivering, and improving value for money have been enhanced;
  - the Council's 2006/07 Annual Report has been recognised as representing notable practice; and
  - the Council has demonstrated high standards of ethical governance and robust probity arrangements.
- 6 This represents significant improvement against an already high level of performance. In overall terms, the Council has maintained and strengthened its level four assessment (performing strongly), which is particularly impressive given the short time period between the effective dates of the assessments.

## Next steps

- 7 The summary below sets out our key findings in relation to each theme and recommendations for improvement. Following completion of national quality control, the Commission will notify the Council of the overall score for use of resources and supporting theme scores. This is scheduled for 10 December 2007.
- 8 The Audit Commission continues to review Use of Resources requirements each year in order to support continuous improvement. Following stakeholder consultation, proposed changes for 2008 are summarised in Appendix 1.

## Use of resources judgements

### Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2007	Score 2006
<b>Financial reporting</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.	4	3
	<b>3</b>	<b>3</b>
<b>Financial management</b>		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	4	3
2.2 The Council manages performance against budgets.	4	3
2.3 The Council manages its asset base.	3	3
	<b>4</b>	<b>3</b>
<b>Financial standing</b>		
3.1 The Council manages its spending within the available resources.	<b>4</b>	<b>4</b>
<b>Internal control</b>		
4.1 The Council manages its significant business risks.	4	4
4.2 The Council has arrangements in place to maintain a sound system of internal control.	4	4
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	4	3
	<b>4</b>	<b>4</b>
<b>Value for money</b>		
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	4	3
	<b>3</b>	<b>3</b>

## Theme summaries

### Financial reporting

The Council has maintained a score of 3 on theme 1.1, and increased its score on theme 1.2 from 3 to 4.

<b>Theme score 3 - performing well</b>	
<b>Key findings and conclusions</b>	
<p>The 2006/07 accounts presented for audit were produced to a high standard. The quality of working papers provided was also good, with files being available both electronically and in hard copy. There was a clear trail from the accounts to supporting documentation, and few issues were raised in the annual report to those charged with governance. The Council's own internal protocols and timetables for production of accounts and working papers represent notable practice, however, in a small number of instances these were not fully complied with in 2006/07.</p> <p>Following extensive consultation with stakeholders and members of the public, the Council published an annual report which presents key financial information on revenue spending, sources of finance, collection rates and the capital programme in a user friendly format using charts and tables. The improved format of this year's report represents notable practice and successfully integrates financial and performance information, user survey results, and future plans. Feedback on the annual report has been positive and has generated positive press and media coverage.</p>	
<b>Improvement opportunities</b>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Reduce the time taken to compile working papers and deal with audit queries</p> <p>Ensure that comprehensive working papers are available for the Collection Fund.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>None identified.</p>

## Financial management

The Council's scores on themes 2.1 and 2.2 have both increased from 3 to 4, and it has maintained its level 3 score on theme 2.3.

<b>Theme score 4 - performing strongly</b>	
<b>Key findings and conclusions</b>	
<p>The Council's medium term financial strategy represents notable practice - it is comprehensive and kept up to date. It clearly demonstrates how financial plans and strategies will contribute to achieving corporate objectives, and how accumulated balances and reserves will be used in future.</p> <p>There is a robust system in place to focus both officers and members on key financial variances, and the Executive receives financial monitoring reports at appropriate key points during the year, including significant capital and balance sheet items.</p> <p>Budgetary control is highly effective. Detailed action plans are produced and monitored for all cases of identified and potential overspending. Proactive management during 2006/07 has successfully dealt with significant potential financial pressures on adult services, school meals and the Port.</p> <p>Savings and efficiency gains are profiled over the year and monitored throughout the period by members to ensure their achievement. Budget savings are reported to Portfolio Holders and Cabinet in revenue budget monitoring reports. The Council has demonstrated notable practice by significantly exceeding government targets for annual efficiency savings. In 2006/07 it achieved savings of £9.1million, taking overall savings to £22.4 million or 8.9 per cent, and so exceeding the Government's 7.5 per cent target one year early.</p> <p>The Council manages its asset base effectively. It has an up to date corporate capital strategy which is linked to the medium term financial strategy and the asset management plan. The Portfolio Holder for Resources Cabinet member has responsibility for asset management. Assets are assessed for condition, suitability, and sufficiency. Members have been made aware of the level of backlog maintenance and a Repairs and Maintenance Strategy is in place. Capital investments require a thorough option appraisal using the principles of whole life costing to inform decisions. Benchmarking and performance indicators are used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives.</p>	
<b>Improvement opportunities</b>	
<p>KLOE 2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>None identified.</p>



<b>Improvement opportunities</b>	
KLOE 2.2 The Council manages performance against budgets.	None identified.
KLOE 2.3 The Council manages its asset base.	<p>The Council should embed performance indicators for asset management and introduce arrangements to communicate more fully with stakeholders the results of performance measurement and benchmarking relating to its asset base.</p> <p>The Council should develop its approach to asset management in order to demonstrate that it is:</p> <ul style="list-style-type: none"> <li>• maximising asset use; and</li> <li>• optimising disposal of surplus assets.</li> </ul>

## Financial standing

The Council has maintained its score of 4.

<b>Theme score 4 - performing strongly</b>	
<b>Key findings and conclusions</b>	
<p>The Council has strong arrangements to manage its spending and to maintain financial stability. Members receive financial training, set challenging financial targets, and monitor key financial health indicators. The annual Corporate Plan includes a number of financial performance indicators which are subject to challenge and debate by members before being approved. In addition, the Portfolio Holder for Resources meets regularly with the City Treasurer to agree and review performance against agreed financial targets.</p> <p>Financial performance is reported to members quarterly and to the corporate management team as appropriate. Financial procedure rules and virement levels are approved and updated by members as part of the Constitution.</p> <p>The Council prepares a comprehensive medium term financial strategy which we have recognised as notable practice. The strategy forecasts levels of spending, reserves and sources of finance over the next 3 years and is regularly updated. It covers the financial aspects of partnership arrangements and sets out key budget assumptions and how accumulated balances and reserves are expected to be used in future.</p> <p>The Council has a strong financial position and has plans in place to meet all known (and potential) financial obligations, eg policy objectives requiring financial support, and potential areas of liability such as Equal Pay claims. The opportunity cost of holding reserves/ balances is considered and included in Council reports, as well as in the treasury management strategy for borrowing and investment decisions.</p>	
<b>Improvement opportunities</b>	
KLOE 3.1 The Council manages its spending within the available resources.	None identified.

## Internal control

The Council has maintained its level 4 scores on themes 4.1 and 4.2, and has increased its score from 3 to 4 on theme 4.3.

### Theme score 4 - performing strongly

#### Key findings and conclusions

The high quality of risk management arrangements is widely recognised. Risk management is embedded in strategic planning, financial planning, policy making and review, performance and project management. External consultants are used to inform and challenge risk management processes. The risk register is updated and reported to Cabinet quarterly and detailed action plans are developed in response to significant identified risks.

All members receive risk management awareness training, as do risk management champions in each department. The Council considers positive risks (opportunities) as well as negative risks (threats).

The assurance framework is highly effective and is:

- fully embedded in the Council's business processes;
- well evidenced and reported; and
- supported by appropriate member engagement.

The Audit and Governance Committee provides effective challenge and independent assurance on the risk management framework and internal control environment. The Council demonstrates notable practice with regard to partnership governance arrangements. There is a mandatory, detailed Code of Practice for Partnerships, which includes standard contract agreements and expected governance arrangements. An annual assessment of all key partnerships evaluates compliance with the code, and whether expected outcomes and value for money have been delivered. Partnership performance has improved through using this Code eg on pooled budgets and youth offending services.

The Council can demonstrate a strong counter fraud culture across all departments, which all new staff are explicitly required to sign up to. Our Ethical Audit confirmed that members and officers exhibit high standards of personal conduct, and that the Standards Committee (independently chaired) is proactive in its role. Outcomes from the audit have been used to inform the annual review of the comprehensive code of corporate governance, and staff and member training. A number of good practices and protocols are in place to prevent and detect fraud and corruption. These are enforced by proactive internal audit work, and the Council publicises successful cases of proven fraud and corruption.

<b>Improvement opportunities</b>	
KLOE 4.1 The Council manages its significant business risks.	None identified.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	None identified.
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.	None identified.

## Value for money

The Council has maintained a score of 3 on theme 5.1, and increased its score on theme 5.2 from 3 to 4.

<b>Theme score 3 - performing well</b>	
<b>Key findings and conclusions</b>	
<p>The Council is not a high cost authority overall and this is reflected in council tax levels. Cost profiles are broadly similar to last year and there is a good understanding of costs and related performance. Specific areas of high cost are related to local priorities and demographic factors such as health and unemployment. Public satisfaction levels are generally good. This year the planning service, which was previously underperforming, has shown significant improvement. Waste collection and recycling have also improved significantly, although a number of national performance indicators remain at below average performance. The Council continues to be successful in attracting external funds, but sickness levels remain comparatively high which does impact on capacity and value for money.</p> <p>We have recognised the Council's corporate value for money framework as notable practice. Processes to identify and review areas of high spend and/or poorer performance are thorough and have been improved again this year. Revised procurement practices are delivering efficiencies in a number of service areas, and members are challenging costs and service quality in a more structured and consistent way. New initiatives on project management and business processes have also had a positive impact. Financial and performance management processes are now fully integrated.</p>	
<b>Improvement opportunities</b>	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Take effective action to address the high level of sickness and sustain improvement to increase capacity and maximise value for money.</p> <p>Ensure that service reviews and the business improvement programme effectively tackle poorer performance on performance indicators.</p> <p>Use information on community engagement and diversity to demonstrate that there is equity in access to services across the community.</p>

<b>Improvement opportunities</b>	
KLOE 5.2 The Council has processes in place to manage, improve, and deliver value for money.	None identified.

## Appendix 1 – Changes to the UOR key lines of enquiry 2008

- 1 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 the Council in pinpointing the changes. We will be reporting our scores and findings from our 2008 assessment to you at a similar time next year.
- 2 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.
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- 4 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. The key changes to the assessment are summarised below.

**Table 1 Changes to the UOR key lines of enquiry 2008**

The key changes to the assessment are summarised here.

KLOE	Level	Summary of change
<b>Financial reporting</b>		
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.

<b>Financial reporting</b>		
1.2	4	The annual report or similar document includes information and analysis about a council's environmental footprint.
<b>Financial management</b>		
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.
<b>Financial standing</b>		
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.
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.



<b>Internal control</b>		
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.
<b>Value for money</b>		
5.1	2, 3, 4	Descriptors for capital programming have been strengthened by including references to the outcomes of a well managed capital programme, ie 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.

<b>Value for money</b>		
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.