



INFRASTRUCTURE & GOVERNMENT

**Use of Resources
Feedback
2006**

**Bromsgrove District
Council**

June 2007

AUDIT

The contacts at KPMG LLP in connection with this report are:

Jon Gorrie

Director
KPMG LLP (UK)

Tel: 0121 232 3694
Fax: 0121 232 3578
jonathan.gorrie@kpmg.co.uk

Andrew Cardoza

Senior Manager
KPMG LLP (UK)

Tel: 0121 232 3879
Fax: 0121 232 3578
andrew.cardoza@kpmg.co.uk

Nasir Rafiq

Assistant Manager
KPMG LLP (UK)

Tel: 0121 232 3694
Fax: 0121 232 3578
nasir.rafiq@kpmg.co.uk

Executive summary

2

- 1.1 Scope of this report
- 1.2 Summary of findings
- 1.3 Looking forward
- 1.4 Acknowledgements

Use of Resources

3

- 2.1 Summary of our assessment
- 2.2 KLOE 1: Financial Reporting
- 2.3 KLOE 2: Financial Management
- 2.4 KLOE 3: Financial Standing
- 2.5 KLOE 4: Internal Control
- 2.6 KLOE 5: Value for money

Appendices

- Appendix A: Summary of recommendations and action plan

This report is addressed to the Authority and has been prepared for the sole use of Bromsgrove DC ("the Authority"). We take no responsibility to any member of staff acting in their individual capacities, or to third parties. *The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies.* This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG LLP's work, in the first instance you should contact Jon Gorrie, who is the engagement director to the Authority, telephone 0121 232 3694, jonathan.gorrie@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e-mail to: complaints@audit-commission.gov.uk. Their telephone number is 0117 9753131, textphone (minicom) 020 7630 0421.

Section 1

Executive summary

1.1 Scope of this report

This report summarises the findings of the 2006 Use of Resources assessment carried out by KPMG LLP ("KPMG") at Bromsgrove District Council ("the Authority").

Our findings are summarised below, with our more detailed findings presented in the next section of this report and recommendations summarised in Appendix A.

1.2 Summary of findings

Between December 2006 and February 2007, we completed our second scored judgement on the Authority's use of resources. This assesses the Authority against Key Lines of Enquiry (KLOEs) specified by the Audit Commission, against which the Authority is scored on a scale between 1 (below minimum requirements) and 4 (performing strongly). The scores were reviewed by both KPMG's local and national quality control processes and then the Audit Commission's quality control procedures to ensure consistency in scoring with other auditors and authorities.

The Authority scored an overall level 2 (at minimum requirements – adequate performance). This shows a clear improvement from last year when the overall score was 1 - below minimum requirements. The Authority now has the basic corporate and financial management arrangements in place which allow it to address the Commission's minimum requirements in the areas of Financial Reporting, Financial Management, Financial Standing and Internal Control.

The Authority has also improved its arrangements for delivering value for money. However, this remains a challenge since a number of the Authority's services remain relatively high cost and low performance compared to its peers. As a result, the score on the value for money assessment remained at level 1. The key factor for this was that the Authority was not able to improve its performance and reduce costs for service delivery despite being able to demonstrate adequate arrangements for managing and improving its value for money.

1.3 Looking Forward

The key challenge for the Authority looking forward is to use the mechanisms now in place to achieve value for money by delivering cost effective and good quality services to its users. The Authority has demonstrated improvements in its overall use of resources but can make further progress through implementing the recommendations set out in this report. In summary, these are:

- **Financial reporting:** The Authority should consider how it can further develop the quality of the working papers supporting its statement of accounts.
- **Financial planning:** The Authority should use its corporate plan to clearly drive the medium term financial strategy by making both documents clearly link together.
- **Asset Management:** Members should be fully involved in scrutinising the management of the Authority's asset base and that there are kept informed on the progress of the asset management plan.
- **Reserves policy:** We recommend that the Authority's clearly reflects a thorough understanding of the needs and risks in its Medium Term Financial Strategy when setting the level of reserves and balances.
- **Risk Management:** The Authority should aim to embed its risk management processes through training and raising awareness among Members and staff.
- **Value for Money:** The Authority's Members and senior management should routinely challenge and scrutinise the linkage between costs and performance and should make effective use of benchmarking.

1.4 Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Section 3

Use of Resources

2.1 Summary of our assessment

The Use of Resources assessment is based around five KLOEs: Financial Management; Financial Standing; Financial Reporting; Internal Control and Value for Money.

We formulated our judgement against the KLOEs by considering the evidence in the self assessment, holding interviews with the Authority's Officers and Members and through consideration of evidence from our other audit work. Following internal quality control processes by KPMG at both a local and national level, the draft scores were submitted to the Audit Commission for its national review, and have now been approved. The 2006 scores for the five individual KLOEs for Bromsgrove are:

KLOE	2005 score	2006 score
Financial Reporting	1	2
Financial Management	1	2
Financial Standing	2	2
Internal Control	1	2
Value for Money	1	1

Improvement opportunities

Improvement opportunities within each KLOE assessment area are detailed in the following sections.

2.2 KLOE 1: Financial Reporting

1.1: Production of statutory annual accounts	2
1.2: Promoting external accountability	2
Overall score for KLOE 1	2

The overall aim of the financial reporting assessment is to understand how effective the Authority's arrangements are for producing and publicising its annual accounts in accordance with relevant standards and timetables.

The accounts were received on time and the opinion was also issued prior to the statutory accounts publication deadline for the first time since 2003. The accounts were free from significant errors.

The quality of working papers showed an improvement from prior year. However, a number of key working papers were missing at the start of the audit.

Our review found that the Authority was not able to demonstrate that it is considering the views of a range of stakeholders in making its decision whether to publish an annual report.

Summary of recommendations on KLOE 1:

Recommendation 1: The Authority should ensure that key working papers are provided to auditors at the start of the audit that all key staff are available during the period of the audit visit. The dates of the audit visits with availability of working papers should be agreed with auditors and communicated to all staff.

Recommendation 2: The Authority should consider the views of a range of stakeholders in making its decision on whether to publish an annual report and the format that this should take.

Section 3

Use of Resources

2.3 KLOE 2: Financial Management

2.1: Financial planning and budget setting	2
2.2: Managing performance against budgets	2
2.3: Asset management	2
Overall score for KLOE 2	2

The overall aim of the financial management assessment is to understand how well the Authority plans its finances and delivers on these plans.

The Authority was able to demonstrate a clear improvement in its financial management arrangements compared to the position at the time of our previous assessment. The Authority now has key strategic and financial documents in place with adequate budget monitoring arrangements. The Authority also has an up to date capital strategy in place supported by a comprehensive asset management plan.

Our review noted links between the corporate plan and the medium term financial strategy by reflecting corporate objectives in its financial plans. However the Authority's corporate plan does not clearly drive the medium term financial strategy – for example, through ensuring that the corporate planning process systematically considers the costs of new initiatives and ongoing services, so that financial and strategic objectives are considered together.

At present, the monthly budget reports prepared for senior managers and officers do not incorporate accruals for expenditure which has been incurred but for which invoices have not been received. This means that budget reporting does not incorporate all financial commitments, presenting the risk that budget overspends are not detected and corrected on a timely basis.

We understand that the Authority has recently introduced an electronic ordering system. This facilitate accruals to be included in monthly budget reports in the future. However, while this system is being introduced, it would be desirable for the Authority to ensure that accruals arising from the existing manual ordering system are captured.

We noted that the Authority is facing budget overspends at a department level, based on the position as at December 2006. In order to improve its performance on KLOE 2.2, the Authority needs to ensure that departmental overspends are managed without significant operational or financial impact.

The Authority's recently developed and approved Asset Management Plan has yet to be fully implemented. We also noted that there is scope for Members to be more fully involved in scrutinising the management of the Authority's asset base.

Summary of recommendations on KLOE 2:

Recommendation 3: We recommend that the Authority uses its corporate plan to clearly drive the medium term financial strategy by making both documents clearly link together. The financial strategy should make it clear how the it achieves the corporate objectives of the Authority.

Recommendation 4: The Authority should introduce a process to ensure that accruals for income and expenditure are identified on a monthly basis for incorporation into monthly budget reports.

Recommendation 5: The Authority should identify the factors which have led to departmental overspends in the past, and should ensure that future years' budgets are realistic and achievable.

Recommendation 6: We recommend that Members should be more fully involved in scrutinising the management of the Authority's asset base and should ensure that they are kept informed on the progress of asset management plan.

Section 3

Use of Resources

2.4 KLOE 3: Financial Standing

3.1: Managing spending within available resources

2

The overall aim of the financial standing assessment is to evaluate the Authority's arrangements for managing its spending within the available resources, including how the Authority ensures that its finances are sustainable.

The Authority was able to maintain its overall spending within during 2005/06 with variations on most departments' budgets being relatively small.

The revenue balances as at 31 March 2006 stood at £2.3m. After using reserves to fund overspends and the improvement plan during 2006/07, the Authority is projecting the level of reserves to be £1.5m as at 31 March 2007, which would be sufficient to meet the target level of reserves of £850k.

This target reserves level informally incorporates consideration of risk. For example, the fact that the 2005/06 accounts were signed off on time reduced the uncertainty faced in previous years, when the accounts had not been signed off at the time that the next budget was set, which allowed the Authority to reduce the target level for 2007/08. However, there is scope for the Authority to consider more formally how risks should affect its reserves target. It is considered good practice for the potential financial effects of each risk on the corporate risk register to be estimated; this would allow the Authority to incorporate the effect of risks on its target reserves level in a quantitative, rather than just qualitative, way.

Summary of recommendations on KLOE 3:

Recommendation 7: The Authority should determine its target level of reserves by reference to the estimated financial effect of the risks which it faces and report the findings of the risk assessment to Members.

2.5 KLOE 4: Internal Control

4.1: Risk management	2
4.2: Internal control	2
4.3: Ethics and conduct	2
Overall	2

The overall aim of the internal control assessment is to understand the Authority's control arrangements, encompassing, risk management arrangements and how the Authority ensures a high standard of conduct by Members and officers, in addition to considerations of financial control.

The Authority has an approved and up to date risk management strategy in place. A newly appointed Audit Board reviews and approves the Statement of Internal Control, risk management process and the systems of internal control. The Authority also has a fully resourced internal audit function that operates in accordance with the CIPFA code of practice. System notes and manuals are in place for key systems. The Authority also has an in-house legal department ensuring compliance with relevant laws and regulation.

We understand that the Authority's risk management process is new and is yet to be embedded. The Authority assurance framework in place does not map the Authority's strategic objectives to risks, controls and assurances. The Authority does not proactively monitor compliance with standing orders, financial regulations and its scheme of delegation. Significant partnerships are not integral to the risk management process and the risks associated with them are not considered systematically.

The Authority is not yet able to demonstrate that it is proactive in its role to raise the standards of ethical behaviour amongst Members and staff. For example, there would be scope to develop further the training offered to Members and officers on ethics and conduct issues.

Section 3

Use of Resources

Summary of Recommendations on KLOE 4:

Recommendation 8: The Authority should aim to embed its risk management processes through training and raising awareness among Members and staff. The Authority's risk register should clearly map the Authority's strategic objectives to risks, controls and assurances.

Recommendation 9: The Authority should proactively monitor compliance with standing orders, financial regulations and the scheme of delegation through regular internal audit reviews and monitoring of exception reports.

Recommendation 10: We recommend that the Authority make significant partnerships integral to the risk management process. Management and Members should regularly review the risks associated with these partnerships.

Recommendation 11: The Authority should demonstrate that it is proactive in its role to raise the standards of ethical behaviour amongst Members and staff and should provide ethics training for Members and staff.

2.6 KLOE 5: Value for Money

5.1: Achievement of value for money	1
5.2: Processes to improve value for money	2
Overall	1

The Authority is now able to demonstrate adequate arrangements for managing and improving its value for money (KLOE 5.2). There is now an improved understanding of costs and performance. The Authority has also introduced a new performance management system which helps to produce quarterly performance reports for its Performance Management Board. The Authority has recently established a Procurement Steering Group driven by its Corporate Procurement Strategy and this is driving out inefficiencies and helping to reduce costs.

Despite the improvements in its process to improve value for money, there remain challenges for the Authority in tackling areas of high cost and low performance compared to similar authorities. This should be addressed through the use of benchmarking in a consistent and robust manner.

Our review also noted that the value for money culture is yet to be fully embedded within the Authority with middle managers and front line service providers fully understanding how performance information is currently used and reported.

Value for money considerations are not built into key processes and decision making, including the annual budget setting process, developing a VFM and efficiency culture.

We also noted that the Authority does not carry out robust assessment of service user needs. Delivering a high-quality service is an important part of achieving good value for money, so the Authority should ensure that the views of service users are considered in developing service objectives and budgets.

Summary of recommendations on KLOE 5:

Recommendation 12: The Authority should develop a mechanism to present cost information alongside performance to help develop further understanding of how costs relate to performance, at the budget/target setting stage, as part of in-year monitoring and for end of year out-turns. Members should then use this information to challenge areas of high cost or weak performance.

Recommendation 13: The Authority should carry out a regular assessment of service user needs and the results of the assessments should be considered in decision making.

Appendices

Appendix A: Summary of recommendations and action plan

No.	Recommendation	Priority	Management response	Timescale
1	The Authority should ensure that key working papers are provided to auditors at the start of the audit that all key staff are available during the period of the audit visit. The dates of the audit visits with availability of working papers should be agreed with auditors and communicated to all staff.	High	Accountancy staff have met with KPMG to review the PBC list to enable correct interpretation of requirements. Team have also visited Wychavon for advice and support on working papers. Audit have been given dates of when staff are available and managers are all aware of dates of audit via the final accounts timetable.	July/August 2007
2	The Authority should consider the views of a range of stakeholders in making its decision on whether to publish an annual report and the format that this should take.	Medium	The Authority has consulted a sample of the public via a SNAP survey in relation to the Council results and annual report. The feedback will be taken into account in preparing the 06/07 report.	Implemented
3	We recommend that the Authority uses its corporate plan to clearly drive the medium term financial strategy by making both documents clearly link together. The financial strategy should make it clear how the it achieves the corporate objectives of the Authority.	High	The Council links via the Revenue and Capital bid request forms the funds to priority and uses this during the budget approval process. The Council will identify more clearly those that are non priority as part of the 2008/09 financial planning period.	March 2008
4	The Authority should introduce a process to ensure that accruals for income and expenditure are identified on a monthly basis for incorporation into monthly budget reports.	Medium	The implementation of the Commitment Accounting System will introduce commitments for expenditure based on original orders. The Council will review the impact of income accruals and the added value to the financial information if actioned.	
5	The Authority should identify the factors which have led to departmental overspends in the past, and should ensure that future years' budgets are realistic and achievable.	High	The review of the medium term financial plan for 2007/08 included a review of the budgets required to delivery the services provided by the Council with a focus on those that were overspent or had shortfalls in income received. Following identification of the reasons for the variations and the impact on the priorities the 2007/08 budgets were approved at the realistic level.	Implemented
6	We recommend that Members should be more fully involved in scrutinising the management of the Authority's asset base and should ensure that they are kept informed on the progress of asset management plan.	High	The Asset Management Plan was approved in early 2007 and this details the Councils strategy for managing assets. This will be reviewed through the Council Plan and managed together with the Capital Programme.	Implemented
7	The Authority should determine its target level of reserves by reference to the estimated financial effect of the risks which it faces and report the findings of the risk assessment to Members.	High	The appropriate level of reserves was reported as part of the medium term financial plan for 2007/08 following a review of the risk to the Authority of the financial position.	Implemented

Appendices

Appendix A: Summary of recommendations and action plan

No.	Recommendation	Priority	Management response	Timescale
8.	The Authority should aim to embed its risk management processes through training and raising awareness among Members and staff. The Authority's risk register should clearly map the Authority's strategic objectives to risks, controls and assurances.	High	<p>Risk management training has been arranged for staff during May, September, November and February. Training for members has been identified as part of the modern councilor programme.</p> <p>The new risk management process links service and corporate objectives to the Council's objectives. The new risk registers also detail high impact risk areas, current controls and an improvement action plan.</p> <p>The Audit Board will receive quarterly exception reports on the departmental and corporate risk registers to ensure members are aware of how risks are managed in the Authority.</p>	Implemented
9	The Authority should proactively monitor compliance with standing orders, financial regulations and the scheme of delegation through regular internal audit reviews and monitoring of exception reports.	High	Internal Audit monitors compliance with Financial Regulations, Standing Orders and the Scheme of Delegation as necessary during individual audit reviews and reports issues as, required. Internal Audit has not completed a separate review on Financial Regulations, Standing Orders and the Scheme of Delegation, although a review of these areas is risk assessed annually as part of the audit planning process.	Implemented
10	We recommend that the Authority make significant partnerships integral to the risk management process. Management and Members should regularly review the risks associated with these partnerships.	High	<p>There is a key objective on the Corporate Risk Register entitled "Effective partnership working". This objective will be reviewed by officers and Members in line with the new Risk Management Framework.</p> <p>Risk management partnership working is currently being explored with other Councils in the area.</p>	
11	The Authority should demonstrate that it is proactive in its role to raise the standards of ethical behaviour amongst Members and staff and should provide ethics training for Members and staff.	Medium	The Council has undertaken an ethical governance review which has identified areas of weakness and member development. Accordingly the Council has developed an action plan to address these points and these are being monitored through corporate management team and the member development steering group.	Implemented
12	The Authority should develop a mechanism to present cost information alongside performance to help develop further understanding of how costs relate to performance, at the budget/target setting stage, as part of in-year monitoring and for end of year out-turns. Members should then use this information to challenge areas of high cost or weak performance.	High	The integrated finance and performance monitoring report is presented to Performance Management Board and Cabinet on a quarterly basis to show the relationship between cost and performance and includes action plans to address area of concern. VFM Action plans are in place to address benchmarking of services to allow comparison of service delivery against customer satisfaction.	Implemented

Appendices

Appendix A: Summary of recommendations and action plan

No.	Recommendation	Priority	Management response	Timescale
13	The Authority should carry out a regular assessment of service user needs and the results of the assessments should be considered in decision making.	High	The Business Plans for 2007/08 include the use of surveys and customer questionnaires to establish service user needs and satisfaction levels. These will be used to develop the services delivered to our customers. In addition there will be various advertising campaigns during 07/08 to identify customer need and satisfaction of council delivered services.	Implemented