



INFRASTRUCTURE, GOVERNMENT  
& HEALTHCARE

## **Annual External Audit Report**

**2006/07**

**Bromsgrove District  
Council**

January 2008

AUDIT

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This report is addressed to the Authority and has been prepared for the sole use of Bromsgrove District Council (“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 335 2741 email : [jonathan.gorrie@kpmg.co.uk](mailto: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 246 4000, e-mail [trevor.rees@kpmg.co.uk](mailto: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](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0117 975 3131, textphone (minicom) 020 7630 0421.

# Section 1

## Executive summary

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### 1.1 Scope of this report

This report summarises the 2006/07 external audit work carried out by KPMG LLP ("KPMG") at Bromsgrove District Council ("the Authority") with regards to the areas of our audit responsibility under the Audit Commission's *Code of Audit Practice* ("the Code"). Under the Code we are required to review and report on two specific areas which we have used to structure this report. In particular, this report includes our findings in relation to the:

- audit of accounts (section 2) and
- audit of Use of Resources (section 3).

### 1.2 Summary of findings

#### ***Accounts and Statement of Internal Control***

This area is concerned with the accounts production process and the associated opinions that we provide on the Authority's financial statements and the Whole of Government Accounts (WGA) submission (section 2).

To bring local government into line with other parts of the public sector, the timetable for preparation and publication of accounts has been gradually brought forward. For 2006/07, the accounts needed to be prepared by the end of June 2007 and published by the end of September 2007. Whilst this is not formally an audit deadline, it is desirable for the accounts to be published with the audit opinion included, so we plan our audit work to deliver the opinion by this date.

We issued our unqualified opinion on 24 September 2007.

At the same time as giving our opinion on the Authority's accounts, we issued our audit certificate, which marks the conclusion of our statutory responsibilities for the year. We also reviewed the Authority's WGA submission and concluded that it was consistent with the statutory accounts.

#### ***Use of resources***

Between August and October 2007, we completed our third scored judgement on the Authority's use of resources. This assesses the Authority against Key Lines of Enquiry (KLOEs) specified by the Audit Commission, on 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 by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

We assessed the Authority's arrangements as adequate, giving an overall score of 2. This sustains the good performance of the previous year's assessment. We noted clear improvements in a number of areas of the assessment, including the Authority's medium term financial strategy and budget monitoring arrangements. We have summarised our findings and conclusions in section 3 with a summary of our recommendations included in Appendix A. We also reconsidered all our recommendations made in the previous year and have reiterated those that we consider significant within this year's recommendations.

We reported our conclusion on the Authority's use of resources alongside our accounts opinion on 24 September 2007. The conclusion is based on to the extent to the Authority meets 12 criteria specified by the Audit Commission which link to our other audit work – for example, on Use of Resources scored judgement and Data Quality. It is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully addressed.

We concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness on 9 of 12 criteria determined by the Audit Commission. The Authority was not able to meet 3 criteria as follows: setting strategic and operational objectives, consultation with stakeholders and monitoring and scrutiny of performance. This represents an improvement from last year as the Authority failed to achieve 8 of the 12 Audit Commission criteria last year. We reported our findings in the report to those charged with governance (ISA 260) in September 2007.

#### ***Audit of data quality***

In 2007, we completed our second review of data quality at the Authority using a methodology developed by the Audit Commission. We considered the Authority's arrangements to be adequate overall. This marks significant progress over last year's assessment when the Authority's arrangements were judged inadequate overall. We have reported in detail on our findings and made appropriate recommendations in section 3.

## Section 1

### **Executive summary**

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#### **1.3 Looking Forward**

Section 4 of this report includes an outline of the changes that are anticipated as a result of both the implementation of the Statement of Recommended Practice (SORP) and the potential introduction of International Financial Reporting Standards (IFRS). In light of the difficulties experienced this year with the changes arising in the 2006/07 SORP, the Council should monitor these 2007/08 changes carefully .

#### **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 2

### Accounts and Statement on Internal Control

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Our *Report to Those Charged with Governance 2006/07* (“ISA 260 report”) detailed our findings and initial conclusions in relation to the Authority’s 2006/07 accounts and set out our findings in relation to the Authority’s controls and internal audit function.

This report summarises our findings from the audit of the accounts and Statement on Internal Control for 2006/07, including the submission process for Whole of Government Accounts (WGA).

#### 2.1 Audit of the Authority’s accounts

##### **Opinion and certificate**

We issued an unqualified opinion on the accounts on 24 September 2007. Our audit report also incorporated a conclusion on the Authority’s use of resources. This is discussed in more detail in section 3 and in our *Report to Those Charged with Governance*, issued on 10 September 2007.

The Authority coped well with the additional challenges in the accounts process this year. The requirements of the SORP changed significantly for the 2006/07 year which resulted in more adjustments being required than in 2005/06. However, in other respects, the Authority has improved its accounts production process over prior years – for example, the accounts were supported by clear working papers from the outset.

A number of adjustments were required to the accounts to ensure compliance with the SORP. None of these however, were considered to be material. There was one uncorrected error, where the Authority was not able to provide sufficient evidence to support a VAT creditor balance. We therefore agreed that an adjustment was not required and this did not impact our proposed unqualified audit opinion.

##### **The Statement on Internal Control**

We also reviewed the information supporting the Authority’s Statement on Internal Control for 2006/07. The statement was amended to include a clear reference to the Authority’s improvement plan. Once amended we concluded that it was consistent with our understanding of the Authority.

##### **Evaluation of Internal Audit**

We also concluded that we were able to place reliance on the work of Internal Audit in 2006/07. We noted that Internal Audit raised a number of recommendations aimed at improving the Authority’s financial controls throughout the year and we continue to support Internal Audit in raising these issues and recommendations.

We have also assessed the Authority’s Internal Audit function as part of the Internal Control Use of Resources KLOE. We concluded that the Authority has adequate arrangements in place to maintain a sound system of internal control. For further detail see section 3.

##### **Whole of government accounts opinion**

Whole of Government Accounts (“WGA”) are accounts that cover the whole of the public sector and include some 1,300 separate bodies. Each of these bodies is required to submit a consolidation pack which is based on, but separate from, their statutory accounts.

The 2006/07 year was the year of full “live” consolidation for the WGA process, and as auditors we were required to review and report on the WGA consolidation pack.

We submitted the Authority’s WGA pack to the Department for Communities and Local Government (DCLG) within the Government deadline. In our opinion, the consolidation pack, with the adjustments schedule addendum, is consistent with the statement of accounts for the year ended 31 March 2007.

##### **Summary of issues arising**

We reported our performance improvement observations relating to the accounts production process in our *Report to Those Charged with Governance*, issued on 10 September 2007. We have no further issues to report which have not already been addressed in sufficient detail in that document.

The Authority’s accounts production process is also assessed as part of our Use of Resources assessment. As part of our feedback on this process we have also considered the production process against the Financial Reporting Key line of Enquiry in section 3 of this report (Section 3.1).

## Section 2

# Accounts and Statement on Internal Control

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### ***Future accounting developments***

Further changes to accounting requirements take effect in 2007/08. The 2007 SORP incorporates the provisions of FRS 25 (Financial instruments: disclosure and presentation), FRS 26 (Financial instruments: recognition and measurement) and FRS 29 (Financial instruments: disclosure).

The new requirement for a Revaluation Reserve and Capital Adjustment Account will significantly alter capital accounting requirements. They are expected to prove challenging for many authorities – this change was originally to be brought in for 2006/07 but was postponed to allow more preparation time, given that significant changes will be required to fixed asset records going forward.

In the March 2007 Budget, the Chancellor confirmed that central government bodies would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The timetable announced by the Government is that adoption will be required for 2008/09. This will require the 2007/08 accounts to be restated for comparative purposes.

In local government, the transition to IFRS is not expected before 2009/10, although the Whole of Government Accounts returns for 2008/09 will have to be prepared under IFRS.

CIPFA has published an analysis of the key differences between the SORP and IFRS and the key issues for local government (accounting for PFI/PPP schemes, leases and accounting for infrastructure) will be the subject of Treasury guidance which is expected to be issued soon.

Given that extensive changes may be required when IFRS is introduced, we believe that the extension of the period available to local government to prepare for IFRS must be used wisely if some of the problems experienced by companies in moving to IFRS are avoided and we would be happy to work with you to identify the key areas where progress really needs to be made.

### **2.2 Certification of grant claims and returns**

We have now certified all applicable grant claims and returns for the financial year 2006/07. No amendments to, or qualifications of, these claims were required.

### **2.3 Questions and objections from electors**

Electors of the Authority can raise with the auditor questions or objections to items of account. Any such queries can then require us to investigate the issue raised.

We did not receive any such questions or objections during the 2006/07 audited year.

## Section 3

### Use of Resources

The following section comments on our work on the Use of Resources scored judgement, and makes links to the risk areas we have identified in our 2006/07 Audit Plan where relevant.

#### 3.1 Use of Resources scored judgement

The Use of Resources assessment is based around five Key Lines of Enquiry (KLOEs): Financial Management, Financial Standing, Financial Reporting, Internal Control and Value for Money.

The Authority prepared a self assessment against the five KLOEs to help inform our review. 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 to ensure comparability of scoring with other audit suppliers, and have now been approved. The 2007 scores for the five individual KLOEs for the Authority are:

KLOE	2007	2006
Financial Reporting	2	2
Financial Management	2	2
Financial Standing	2	2
Internal Control	2	2
Value for Money	1	1
Overall Score	2	2

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

#### ***KLOE 1: Financial Reporting***

KLOE	Score
1.1: Production of statutory annual accounts	2
1.2: Promoting external accountability	2
<b>Overall score for KLOE 1</b>	<b>2</b>

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 prepared and published in accordance with statutory requirements and made available to audit within the agreed timetable. The accounts presented for audit were supported by adequate quality working papers and were provided at the start of the audit.

The accounts were presented to the Audit Board and were subject to Member scrutiny before approval.

All adjustments identified by audit were agreed by management and corrected in the final version of the accounts with one exception, where the Authority was not able to provide sufficient evidence to support a VAT creditor balance. This did not impact the proposed unqualified audit opinion.

In order to improve its score, the Authority should further refine its quality assurance procedures to reduce the level of adjustments needed to the accounts. As noted in section 4, given that there are further changes in accounting standards in 2007/08, it may be beneficial to engage with the Authority's new auditors at an early stage to establish a dialogue over how these changes should be interpreted.

## Section 3

### Use of Resources

In recent months, the Authority has consulted with the public on whether it should produce an annual report. The Authority can demonstrate the impact of this consultation by implementing its findings, producing an annual report which meets users' requirements.

#### Summary of recommendations on KLOE 1:

**Recommendation 1:** The Authority should seek to refine the quality assurance procedures over the accounts further to reduce the level of adjustments needed through the audit process. In relation to new accounting requirements in particular, the Authority should engage early with its external auditors to establish a dialogue over the implications of the changes.

**Recommendation 2:** The Authority should follow through the results of its public consultation exercise on reporting by publishing an annual report which addresses users' requirements.

#### KLOE 2: Financial Management

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

The aim of the Financial Management assessment is to understand how effectively the Authority plans its finances and delivers on these plans.

The Authority's arrangements for financial and service planning have become more established since our previous assessment. For example, in terms of its budget setting arrangements (**KLOE 2.1**), the Authority has made progress by explicitly linking top-level priorities to individual objectives and budgetary pressures for both revenue and capital expenditure. It is easier to see how corporate objectives and the Medium Term Financial Plan drive service plans. The links between risk and finance have also been made clearer.

At present, the Medium Term Financial Plan does not explicitly refer to other strategies, such as HR and IT. This presents the risk that other strategies may propose developments for which the costs and potential savings are not incorporated into medium term financial plans.

All organisations face financial uncertainties – Single Status, as referred to in section 2, is just one example. It is important to have mechanisms in place to ensure that financial planning takes account of these uncertainties – sensitivity analysis is one way to do this.

Broadly, sensitivity analysis sets out to consider the effect of financial uncertainties by considering various scenarios – for example, considering the effect of different pay models under Single Status, or of varying inflation assumptions – and calculating the effect on the Authority's financial position in the medium term.

Officers take account of past history in setting budgets to ensure that they reflect experience, but it would be beneficial to consider known risk factors more formally, as described above. Similarly, there would be scope to provide a greater focus on risk in monitoring budgets – for example, using a "traffic light" system to show clearly the budgets which need the greatest focus from officers and Members.

As shown above, the Authority has made strides in improving its financial management arrangements, there are benefits to performing a comprehensive review – for example, using the CIPFA Financial Management model – to capture all improvement opportunities in a single action plan.

To improve decision making, it is important that not only accountants receive finance training. Service managers and Members should also be trained in the issues which affect the decisions they need to make in their respective roles. This should then be supported by periodic reviews of the training to ensure that it achieves its objectives.

The Authority has improved its asset management arrangements (**KLOE 2.3**) in a number of respects. For example, it has recently introduced a revised Asset Management Plan and established an Asset Management Group to implement and monitor the Asset Management plan.

## Section 3

### Use of Resources

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To demonstrate the effectiveness of these arrangements, the Authority needs to ensure that the actions in the Asset Management Plan are fully implemented and that Members are fully involved in scrutinising the management of the Authority's asset base.

#### **Summary of recommendations on KLOE 2:**

**Recommendation 3:** The Authority should ensure that the medium term financial plan explicitly refers to and reflects the implications of key strategies, such as HR and IT.

**Recommendation 4:** The Authority should make use of sensitivity analysis for key risks in the medium term financial planning process and should ensure that budget monitoring also focuses on areas of risk.

**Recommendation 5:** The Authority should perform an overall review of its financial management arrangements to create an action plan for improvement. The action plan should be monitored by an appropriate Member committee.

**Recommendation 6:** The Authority should ensure that appropriate finance training is provided to Members and service managers, and should periodically evaluate the training programme to determine its effectiveness.

**Recommendation 7:** The Authority should ensure that the actions set out in its Asset Management Plan are fully implemented and should involve Members in scrutinising the management of the Authority's asset base.

#### **KLOE 3: Financial Standing**

KLOE	Score
3.1: Managing spending within available resources	2

The aim of the Financial Standing assessment is to evaluate how the Authority ensures that its finances are sustainable.

The Authority's policy is to maintain reserve levels above £0.6m. As at 31 March 2007, the General Fund balance stood at £1.8m, so the targeted level is achieved at present.

However, in considering the sustainability of these arrangements, it is important to consider whether the target level of reserves is, in fact, appropriate. This should be done by quantifying the financial implications of the risks to which the Authority is exposed. This should be set out in budget setting reports to Members.

The Authority has made progress in managing its budget during 2006/07. Despite overspends in the Street Scene and Waste Management service areas, the Authority balanced its budget overall, achieving a small underspend at a corporate level.

The overall underspend was achieved through management of staff vacancies and investment income exceeding budget because of variations in interest rates. However, as these factors are not within the Authority's control, they cannot be relied upon to achieve financial balance. Therefore, the Authority should continue to work to refine budget setting and management to ensure that the overall budget is achieved in a controlled and managed fashion. The recommendations on budget setting and monitoring above should help to achieve this.

#### **Summary of recommendations from KLOE 3:**

**Recommendation 8:** The Authority should review the financial impact of the risks it faces. This should be used to compute a fully risk-based target reserve level. The risk assessment and resulting reserves policy should be reported to Members on an annual basis.

## Section 3

### Use of Resources

#### **KLOE 4: Internal Control**

<b>KLOE</b>	<b>Score</b>
4.1: Risk management	2
4.2: Internal control	2
4.3: Ethics and conduct	2
<b>Overall score for KLOE 4</b>	<b>2</b>

The aim of the Internal Control assessment is to understand the Authority's governance and control arrangements, encompassing risk management, the internal control framework and how the Authority ensures a high standard of conduct by Members and officers.

The Authority has made some refinements to the arrangements in place and has, as a result, sustained the scores from the previous assessment.

We confirmed that the Authority has an approved and risk management strategy in place. During 2006/07, the Audit Board reviewed and approved the Statement on Internal Control, the 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 for Internal Audit in Local Government*. The Authority has adopted a formal codes of conduct for Members and officers. The Standards Committee's membership and functions accord with the requirements of the Local Government Act 2000. The Authority also has an appropriate anti fraud corruption policy in place.

To develop its risk management arrangements (**KLOE 4.1**) further, the Authority needs to demonstrate that the risk management process is embedded within the Authority and is integral to how the organisation is run – for example, consideration of risk should be pervasive in financial management. The Authority can take steps to achieve this by providing regular risk management training to officers and risk awareness training to Members.

The Authority needs to consider risks in relation to partnerships explicitly to ensure that these are always considered and managed. It should revisit its corporate risks at least twice a year and ensure that Members are kept informed and also have the opportunity to input actively into identifying and managing risks themselves.

In recent years, significant improvements in internal control (**KLOE 4.2**) have been achieved. These can now be further refined. For example, the Authority now has well-established procedure notes and manuals for key systems; to maintain the usefulness of these documents, they should now be subject to scheduled, periodic review and updating.

The Audit Board has now been in place for some time. The next step is for it to demonstrate its own effectiveness more clearly; it should be evident how the Board has successfully influenced management. For example, we would expect that the Board would regularly call service managers to account where prompt action has not been taken to address weaknesses, such as where the recommendations of Internal Audit have not been implemented in a timely fashion.

To improve the score in relation to ethical conduct (**KLOE 4.3**), the Authority needs to enhance its arrangements for ensuring high standards of conduct – such as through regular ethics training – but also to demonstrate the effectiveness of these arrangements. This could be achieved through surveying Members and officers on their understanding and compliance with ethical codes. The Audit Commission's Ethical Governance Toolkit is one way to facilitate this assessment.

There is also more scope for proactive counter fraud and corruption work to provide assurance that potential fraud risk areas are adequately controlled.

## Section 3

### Use of Resources

#### Summary of recommendations on KLOE 4

**Recommendation 9:** The Authority should introduce a programme of regular risk management training to officers and risk awareness training to Members.

**Recommendation 10:** The Authority should ensure that its risk register explicitly considers risks arising from its significant partnerships.

**Recommendation 11:** The Audit Board should consider further how it can demonstrate its effectiveness and, where necessary, strengthen its working practices – for example, calling managers to account for weaknesses identified by internal and external audit which have not been addressed by the due date.

**Recommendation 12:** The Authority should ensure that the procedure notes and manuals for key systems remain up to date.

**Recommendation 13:** The Authority should further develop its arrangements which ensure ethical conduct through the provision of training to Members and officers and through proactive counter fraud audit work. It should review the effectiveness of these arrangements by assessing officers' and Members' views on ethical behaviour – for example, by applying the Audit Commission Ethical Governance Toolkit.

#### KLOE 5: Value for Money

KLOE	Score
5.1: Achievement of value for money	1
5.2: Processes to improve value for money	2
<b>Overall score for KLOE 5</b>	<b>1</b>

The Authority has now continued to strengthen its arrangements for managing and improving its value for money (**KLOE 5.2**) during 2006/07 and there is a much stronger understanding of the Authority's costs and performance. The Authority's new performance management system has helped it to produce quarterly performance reports for its Performance Management Board. This together with its Procurement Steering Group has helped to deliver efficiencies and reduced costs.

However, in terms of achievement of value for money (**KLOE 5.1**), the Authority recognises that there are further improvements required to improve its value for money, such as reducing costs whilst improving performance compared to similar authorities. This will need to be addressed through the use of more formalised benchmarking in a consistent and robust manner.

At the time of our review, there was not clear evidence that a culture of value for money exists, though we noted increased awareness of performance information, amongst both middle managers and other staff.

In order to improve the score for value for money, the Authority should now analyse and report on the links between costs and performance across its services. The Authority should align these reports to its corporate priorities. The Authority should build and develop the VFM and efficiency culture by involving the understanding and ownership of Members.

#### Summary of recommendations for KLOE 5:

**Recommendation 14:** The Authority should further develop how performance and financial information is reported through to Members together and should ensure that formal benchmarking is in place to drive action to improve performance or reduce costs.

## Section 3

# Use of Resources

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### 3.2 Audit of data quality

#### Scope of our work

This is the second review of data quality using a methodology set out by the Audit Commission.

Data quality is important because of the reliance on information for decision-making and performance management, so the accuracy of the information is vital for effective management of the organisation. Data is also important to external stakeholders wishing to review authorities' performance. Our work includes the validation of certain indicators to assist the Audit Commission with the CPA process.

Our review of data quality was performed following Audit Guides specified by the Audit Commission. These divide our work into three phases.

- **Stage 1: Review of management arrangements.** We consider the arrangements in place by which the Authority defines its objectives for data quality and aims to achieve them. The conclusion of this work also decides if the Authority has met the criterion relating to data quality out of the 12 for our Use of Resources Conclusion.
- **Stage 2: Comparison to other authorities.** This step involves high-level validation of a selection of indicators, considering factors such as variances year on year and disparities with the values reported by the Authority's peers. This includes considering questions raised by the Audit Commission and responding with our findings.
- **Stage 3: Data testing.** We perform sample testing on some indicators from a list selected by the Audit Commission, carrying out the tests specified in the Audit Guide. The number of indicators tested is dependent upon our assessment of the adequacy of arrangements in Stage 1 and any areas of concern raised at Stage 2.

This section of the report sets out our findings from each of these three stages.

#### Summary of our assessment

**Stage 1:** Following our review of the management arrangements over data quality we passed the Authority on the related Audit Commission criteria for our Use of Resources Conclusion issued in September 2007. This shows a clear improvement from last year as the Authority failed to meet this criterion.

We have made a number of recommendations these will provide the Authority with an opportunity to improve its arrangements in the coming year. The recommendations are set out overleaf and summarised in Appendix A.

**Stage 2:** We followed up questions raised by the Audit Commission on eight indicators and found all variances as real and consistent with our understanding of the Authority's performance.

**Stage 3:** Based on our risk assessment on indicators selected by the Audit Commission, we selected BV82a Recycling performance, BV82b Composting performance and non BVPI HIP HSSA private sector Percentage of total private sector homes vacant for more than six months to test. We found all indicators to be fairly stated.

#### Governance arrangements

This section of our management arrangements review covered the Authority's leadership over data quality, including:

- its top level commitment to data quality;
- how responsibilities for data quality are defined and communicated;
- its data quality objectives in place; and
- how standards for data quality are monitored and reviewed.

This area is important because it defines what is expected from staff and how officers and Members will ensure that this is achieved.

## Section 3

### Use of Resources

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The Authority's governance arrangements for data quality have improved from the time of our previous assessment. The Authority has now employed a Performance Policy officer who has helped to improve the arrangements in place for data quality. The 'Council Results' document now clearly refers to the importance of data quality. Data quality also features in the corporate risk register.

Individual service plans for service areas specify the officer responsible for the calculation of each performance indicator. The Performance Policy officer reviews the performance indicators submitted to him and feedbacks data quality issues to Heads of Service.

From a leadership perspective, the Assistant Chief Executive leads on data quality, though the nature of this role has not been formally defined. At the time of our review, a Member lead for data quality had not been established. Formally defining these roles would help to raise the profile of data quality amongst Members and senior officers; this should help improve the robustness of the performance management framework.

**Recommendation 15:** The Authority should nominate Member and officer leads for data quality to reinforce the importance of data quality within the performance management framework.

#### ***The policy framework for data quality***

This review area considered the Authority's policies in relation to data quality and how they are implemented.

The Authority now has a data quality strategy in place approved by the Cabinet in June 2007. The strategy sets out an action plan to embed the arrangements over data quality. The action plans covers important aspects of data quality such as data quality training.

In order to improve the arrangements the Authority needs to ensure that the action plan approved as part of the data quality strategy is implemented and progress reported to Members.

**Recommendation 16:** The Member and officer leads for data quality should take an ongoing role in monitoring progress with the data quality action plans.

#### **Information systems and processes**

Fundamental to the reliability of the Authority's information is the robustness of the systems which store the underlying data. This section of the management arrangements review considers the robustness of the systems in place, including management's action in relation to previously identified weaknesses, and consideration of data security and integrity. It also considers the systems for collating indicators and sharing information.

The Corporate Communication Policy and Performance Team is responsible for collating and reporting on performance indicators. The team was fully resourced during the year. The Authority's Internal Audit function has been involved in collating performance indicators and performing a high level review of performance indicators. The Authority is in the process of implementing the LAMP (Local Authority Modernisation Project) project which will result in data cleansing, updating and linking of data, covering multiple data sets produced and maintained by the Authority.

We did not identify weaknesses in the systems used for producing indicators for those where we performed in-depth work at Stage 3.

In some cases, the Authority is dependent on other organisations to provide it with cost or performance data, so it is more difficult to be certain of the quality of this data. It is considered good practice to have protocols in place with these third parties to obtain assurance over the data which the Authority would wish to rely on. Introducing such protocols across key partnerships, including the Local Area Agreement, would help ensure consistency in the quality of all performance information, whatever its source.

**Recommendation 17:** The Authority needs to ensure that formal protocols and standards are developed to ensure data quality is achieved for all instances of internal and external data sharing.

## Section 3

# Use of Resources

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### People and skills

The sections set out above require a range of skills for successful implementation – whether knowledge of information systems or the knowledge of processes to ensure that they are appropriately designed to deliver high-quality data. It is, therefore, important that the Authority considers the skills it needs to deliver its data quality objectives. Once these have been identified, it will be necessary for the Authority to implement training programmes and briefings in order to fully develop these skills.

The IT department has facilitated workshops to introduce staff to the LAMP project explaining how the project will ensure clean, current and up to date data.

We noted that the new Performance Plus User Group, attended by departmental performance officers plays an effective role in debriefing and sharing good practice and in highlighting potential issues/problems.

The data quality strategy action plan includes an action point relating to data quality training. The strategy also requires roles and responsibilities regarding data quality to be written in job descriptions of officers who deal with data.

All staff are aware of their roles and responsibilities; performance appraisals provide an opportunity to reinforce these. Any issues in relation to data quality training can also be highlighted. However, there would be scope to formalise further how officers' performance in achieving data quality is measured. In particular for "transactional" areas of service, such as processing benefit claims, council tax details or creditor payments, it would be possible to set performance targets for each indicator, cascaded through to each individual. This would allow the achievement of data quality to be monitored and also linked into individual performance.

**Recommendation 18:** The Authority needs to develop data quality targets and indicators to measure data quality. The performance of the staff responsible for data quality should be assessed against these targets.

### Using data effectively

Performance data should be used by Members to inform decision-making and improvement. In order to facilitate this, performance information should be appropriate, timely and subject to a thorough review by senior staff before used by Members.

The Authority reports to the Performance Monitoring Board and staff against a 'basket' of 45 performance indicators on a quarterly basis. Reports are produced on an exception basis, to focus Member and senior officer attention on areas where clear action is required. Reported data is submitted back to heads of services where performance is discussed in department management team meetings. Performance review clinics led by the Director of Improvement are held for areas where performance is below target.

The Senior Policy and Performance officer maintains a file of indicators which includes evidence of the reports used to compile each performance indicator with background information on its compilation and explanations for variances.

### 3.3 Best Value Performance Plan

We are required to audit the Authority's Best Value Performance Plan to ensure that its contents comply with statutory requirements. We issued an unqualified opinion on the 2007/08 Plan on 3 December 2007. There are no issues arising from our work which we wish to bring to Members' attention.

## Section 4

# Accounting Policies

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### 4.1 Financial Reporting Requirements

Further changes to accounting requirements take effect in 2007/08, a result of the 2007 SORP, including a new requirement for a Revaluation Reserve and Capital Adjustment Account will significantly alter capital accounting requirements. They are expected to prove challenging for many authorities – this change was originally to be brought in for 2006/07 but was postponed to allow more preparation time, given that significant changes will be required to fixed asset records going forward. We will evaluate the impact of any other changes and liaise with the Authority accordingly.

- In a statement in the March 2007 budget, the Chancellor confirmed that Central Government bodies covered by the FReM would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The timetable announced by the Government is that adoption will be required for 2008/09. This will require the 2007/08 accounts to be restated for comparative purposes.
- The CIPFA/LASAAC Joint Committee which is responsible for the LA SORP has indicated that IFRS will not be adopted in the local government sector until 2009/10, at the earliest, although the WGA returns for 2008/09 will have to be prepared under IFRS. CIPFA has published an analysis of the key differences between the SORP and IFRS and two of the key issues for local government (accounting for PFI/PPP schemes and accounting for infrastructure ) will be the subject of Treasury guidance to be issued before the end of 2007.
- As we get more guidance as to how IFRS are to be adapted for the public sector we will liaise with the Authority's finance team to ensure that they have appropriate plans in place to manage the transition. We are also working closely with our private sector IFRS team to ensure we benefit from our experience of the IFRS convergence process and we will work closely with you to ensure that we can transfer those benefits to you in the period leading up to full adoption. We also believe that the extension of the period available to local government to prepare for IFRS must be used wisely if some of the problems experienced by companies in moving to IFRS are avoided and we would be happy to work with you to identify the key areas where progress really needs to be made.

## Appendices

### Appendix A: Summary of 2006/07 recommendations and action plan

No.	Recommendation	Priority	Management response	Timescale
1	The Authority should seek to refine the quality assurance procedures over the accounts further to reduce the level of adjustments needed through the audit process. In relation to new accounting requirements in particular, the Authority should engage early with its external auditors to establish a dialogue over the implications of the changes.	High	Discussions commenced with new external auditors in relation to quality assurance an implications of new SORP.  Workshops arranged with Audit Commission for accountancy staff to attend to ensure consistency of approach	Feb–March 2008
2	The Authority should follow through the results of its public consultation exercise on reporting by publishing an annual report which addresses users' requirements.	High	Annual report to be prepared following public consultation in July 08.	July 2008
3	The Authority should ensure that the medium term financial plan explicitly refers to and reflects the implications of key strategies, such as HR and IT.	Medium	Plan to be specific in inclusion of reference to other strategies.	Dec 2008
4	The Authority should make use of sensitivity analysis for key risks in the medium term financial planning process and should ensure that budget monitoring also focuses on areas of risk.	High	Key risks included in the MTFP. Budget monitoring for 2008/09 to be reviewed in relation to higher risk areas.	Quarterly 2008/09
5	The Authority should perform an overall review of its financial management arrangements to create an action plan for improvement. The action plan should be monitored by an appropriate Member committee.	High	Initial action plan in respect of improvements to Use of Resources including financial management prepared.  Council has now recruited to the post of Accountancy Services Manager with effect from March 2008. This post will drive the improvements required to improve financial management at the Council.	April–June 2008
6	The Authority should ensure that appropriate finance training is provided to Members and service managers, and should periodically evaluate the training programme to determine its effectiveness.	High	Finance training included in the corporate training directory and the member development programme.	Scheduled during 2008/09
7	The Authority should ensure that the actions set out in its Asset Management Plan are fully implemented and should involve Members in scrutinising the management of the Authority's asset base.	High	Asset Management Plan under review by lead officer (Head of Legal & Democratic Services)	Action plan during 2008/09

## Appendices

### Appendix A: Summary of 2006/07 recommendations and action plan

No.	Recommendation	Priority	Management response	Timescale
8	The Authority should review the financial impact of the risks it faces. This should be used to compute a fully risk-based target reserve level. The risk assessment and resulting reserves policy should be reported to Members on an annual basis.	Medium	MTFP includes assessment of balances based on % of budget. Risk Registers highlight the financial risk and are reviewed monthly at DMT and Audit Board.	Quarterly during 2008/09
9	The Authority should introduce a programme of regular risk management training to officers and risk awareness training to Members.	High	Risk Management Training for staff being undertaken. Training for members to be arranged as part of member development programme.	Quarterly during 2008/09
10	The Authority should ensure that its risk register explicitly considers risks arising from its significant partnerships.	High	Corporate Risk Registers detail impact of partnership arrangements – monitored monthly at DMT and quarterly at Audit Board.	Quarterly during 2008/09
11	The Audit Board should consider further how it can demonstrate its effectiveness and, where necessary, strengthen its working practices – for example, calling managers to account for weaknesses identified by internal and external audit which have not been addressed by the due date.	High	Recommendation tracker reviewed by Audit Board quarterly – HOS attend meetings with Board to address issues of weakness.	Quarterly during 2008/09
12	The Authority should ensure that the procedure notes and manuals for key systems remain up to date.	High	Included in PDR targets to prepare the system notes for systems.	Per PDR reviews. Monthly reviewed by line manager and 6 month formal reviews together with annual review
13	The Authority should further develop its arrangements which ensure ethical conduct through the provision of training to Members and officers and through proactive counter fraud audit work. It should review the effectiveness of these arrangements by assessing officers' and Members' views on ethical behaviour – for example, by applying the Audit Commission Ethical Governance Toolkit.	High	In January 2007 IDEA undertook an Ethical Governance Review of the Council.  An action plan was developed to redress issues identified within this audit and all actions continue within timescales.  The actions are mapped and monitored through the Council's Improvement Plan and regular reports to the Government Monitoring Board.  A fraud news letter is issued quarterly to officers and Members.	To continue throughout 2008/9

## Appendices

### Appendix A: Summary of 2006/07 recommendations and action plan

No.	Recommendation	Priority	Management response	Timescale
14	The Authority should further develop how performance and financial information is reported through to Members together and should ensure that formal benchmarking is in place to drive action to improve performance or reduce costs.	High	Performance reported monthly to PMB and quarterly as an integrated report with finance to PMB and Cabinet.  Benchmarking to be used to inform reports presented to members from June 2008.	June 2008 and quarterly to members from that date
15	The Authority should nominate Member and officer leads for data quality to reinforce the importance of data quality within the performance management framework.	High	Officer lead Assistant CEO – Hugh Bennett. Member lead Roger Hollingworth. Data quality action plan reported to Performance Management Board quarterly.	Completed and reported monthly and quarterly to members
16	The Member and officer leads for data quality should take an ongoing role in monitoring progress with the data quality action plans.	High	Lead officer reports to members via monthly report to PMB and quarterly to Cabinet.	Completed and reported monthly and quarterly to members
17	The Authority needs to ensure that formal protocols and standards are developed to ensure data quality is achieved for all instances of internal and external data sharing.	High	Data Quality strategy prepared. Includes protocols and standards in respect of data. Procurement code to include responsibility for data quality.	Completed and reviewed annually
18	The Authority needs to develop data quality targets and indicators to measure data quality. The performance of the staff responsible for data quality should be assessed against these targets.	High	Personal Development reviews (PDRs) to include specific target re data quality on relevant individual PDR.	To be actioned by April 2008

## Appendices

### Appendix B: Audit reports issued

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This appendix sets out the reports that we issued during the year.

Report title	Date issued
Annual Audit and Inspection Plan 2006/07	March 2006
Report to Those Charged with Governance 2006/07	September 2007
Auditors' report on 2006/07 accounts	September 2007
Whole of Government Accounts opinion 2006/07	October 2007
Auditors' report on the Best Value Performance Plan 2007/08	December 2007
Annual Audit and Inspection Letter 2006/07	Pending (Scheduled for March 2008)

## Appendix C: Fee summary

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The table below summarises our fees for the 2006/07 audit.

<b>Area of audit work</b>	<b>Planned fee /£</b>	<b>Actual fee /£</b>
Audit of accounts	52,000	52,000
Use of Resources	42,000	42,000
Grant claim certification	12,000	15,370
<b>Total</b>	<b>106,000</b>	<b>109,370</b>