

Audit Summary Report

January 2008



# **Use of Resources Auditor Judgements 2007**

**Tonbridge and Malling Borough Council**

**Audit 2007/08**

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## Introduction

- 1 The Use of Resources (UoR) assessment evaluates how well councils manage and use their resources. The assessment is carried out each year and focuses on the importance of strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This is the third assessment we have undertaken at Tonbridge and Malling Borough Council. Our assessment is based on the key lines of enquiry for 2007. These include new requirements for councils as part of the Commission's approach to phasing in those elements that need more lead in time and to supporting improvement by gradually raising the standard of the assessment. In particular, the status of a number of criteria (as set out in Appendix 1) changed to 'must have' for 2007.
- 3 The period assessed for 2007 has also been aligned with the financial year 2006/07. Councils were, however, allowed to provide evidence that became available after the end of the financial year, to demonstrate their arrangements were working effectively and were embedded.
- 4 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.

**Table 1      Standard scale used for assessments and inspections**

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

- 5 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2007, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.

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- 6 The five theme scores for Tonbridge and Malling Borough Council are outlined overleaf. These scores have been subjected to confirmation by our national quality control process. This seeks to ensure consistency across all suppliers and on a national basis. Following completion of national quality control, the Commission has already notified you of your Council's overall score for use of resources and supporting theme scores.
- 7 This summary sets out our key findings in relation to each theme and key areas for improvement. In addition to the improvement opportunities identified in this report, in order for the Council to sustain or to improve upon its current performance at the next assessment, it will need to take into consideration changes made in the key lines of enquiry for 2008 as published in August 2007.

## Key messages

- 8 The Council has continued to improve in all the key areas and has achieved an overall Use of Resources score of 4 in 2007. Most notably, the Authority scored a level four in Financial Reporting, Financial Management and Financial Standing and maintained a level three in both Internal Control and Value for Money.
- 9 Some improvement areas have been identified against each Key Line of Enquiry and have been incorporated into the detailed assessments in this report.

## Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level**

Themes and key lines of enquiry (KLOEs)	Score 2007	Score 2006
<b>Financial reporting</b>	4	4
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	4	4
1.2 The Council promotes external accountability.	3	3
<b>Financial management</b>	4	3
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	4	4
2.2 The Council manages performance against budgets.	4	3
2.3 The Council manages its asset base.	3	3
<b>Financial standing</b>	4	3
3.1 The Council manages its spending within the available resources.	4	3
<b>Internal control</b>	3	3
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	3
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	4
<b>Value for money</b>	3	3
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	3	3

## Theme summaries

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

### Financial reporting

**Table 3**

<b>Theme score 4</b>	
<b>Key findings and conclusions</b>	
<p>As reported in our Annual Governance Report dated September 2007 we identified a continued improvement in processes for producing the financial statements for 2006/07 which resulted in the accounts presented for approval being free from material error. In addition, the number of typographical and disclosure errors made in the 2006/07 financial statements was reduced.</p> <p>We were presented with good quality working papers at the start of the audit in accordance with the previously agreed Final Accounts Protocol. Working papers were submitted in electronic format on a CD Rom and were cross referenced back to the Protocol.</p> <p>All committee meetings continue to have their agendas, minutes and reports published on the Council's website. The Council published its 2006/07 accounts in full compliance with the requirements of the Accounts and Audit Regulations 2003.</p> <p>Whilst the production of an annual report is no longer a statutory requirement, the Council publishes two documents which when linked would meet the requirements of an annual report. These are the Council's Corporate Performance Plan (Spotlight) and the Summary of Accounts. The Summary of Accounts published on the Authority's website contains a precise summary of the audited accounts and some non financial information in respect of what the Council has achieved against its key priorities. The Authority need to make it clear where these two documents are held on the website and emphasise the links between them.</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>Continue to consolidate the improvements made during the 2006/07 accounts process, for example, by submitting 2007/08 accounts for audit which present fairly and contain only a small number of non-trivial errors.</p>



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Theme score 4	
KLOE 1.2 The Council promotes external accountability.	Demonstrate that the Council has considered the views of a range of stakeholders in making its decision whether to publish an annual report. Demonstrate that summary financial information published within 'Spotlight' and 'The Summary of Accounts' meets the needs of a range of stakeholders and clearly signpost the links between the two documents on the Council's website.

## Financial management

**Table 4**

<b>Theme score 4</b>
<b>Key findings and conclusions</b>
<p>The Council has a six year Medium Term Financial Strategy (MTFS) which takes into account the aspirations and objectives of the Council and local improvement and national priorities. The Council identifies future developments that impact on its financial management arrangements within the MTFS. Chief officers identify growth and pressure areas facing their service and these are discussed at management team. These are then proactively managed by the regular financial monitoring and reports to management team and members. Overspends are proactively managed by the Council and action plans put in place and monitored on a regular basis.</p> <p>The arrangements in place for managing performance against budgets are well established throughout all levels of the Council and are successful at maintaining the Council's financial position. Annual budgets are set in line with a scheme of delegation and guidelines issued to budget holders. The Council uses its Customer Forum to ensure that the financial system reports are in a useful format to the users and that they can be understood. There are clear details on the financial services pages to help users produce reports and explain how to use them for budget monitoring in the most effective way. A training need has been identified through the Management Development Update to remind supervisors and managers to inform staff of the budgetary and financial arrangements in place.</p> <p>The corporate capital strategy for 2007/08 has been approved by members and is linked to the corporate objectives and medium term financial strategy. There is an up to date Asset Management Plan (AMP) for 2007 that details existing asset management arrangements and outcomes. The plan is updated annually which includes a review of planned actions to improve assets use corporately. The development plans for Tonbridge Town Centre have been linked to the Council's Key Corporate Objectives although there is no evidence to suggest that performance measures and benchmarking are being used to describe and evaluate how the council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities. Although the Council have included performance indicators in the AMP and made this available to the public there has been no specific communication with stakeholders of benchmarking results.</p>

Theme score 4	
Improvement opportunities	
KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.	Continue to use latest MTFS, linked to priorities set out in the final corporate plan, to drive the 2008/09 allocation of resources to both revenue and capital activities.
KLOE 2.2 The Council manages performance against budgets.	Continue to Improve frequency, timeliness and clarity of budget monitoring information provided to members. Remind supervisors/managers of the need to inform staff of the budgetary and financial arrangements in place.
KLOE 2.3 The Council manages its asset base.	Utilise performance measures and benchmarking to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities. Communicate the results of performance measurement and benchmarking to stakeholders where relevant.

## Financial standing

**Table 5**

<b>Theme score 4</b>	
<b>Key findings and conclusions</b>	
<p>The Council set a balanced budget for 2007/08 which took into account cost pressures, including the LSBU deficit and the impact on council tax.</p> <p>The Council consistently maintains its spending within its overall budget and without significant unexpected over/underspends. Improvements have been made from the previous year, and a threshold of £5k has been set for variance investigations, the results of which are reported to the Finance and Property Advisory Board (F&amp;PB). Income collection is monitored by members on a regular basis via the Council Tax / NNDR performance targets in the Spotlight pages on the website and formal reports to F&amp;PB. There are half yearly reports for the outcome of housing benefit investigations. Monitoring of the Capital Plan is part of the monthly budgetary control process and is reported to F&amp;PB on a quarterly basis. However, the Council does not monitor prudential framework indicators during the financial year. The Council do not see this as important within the financial monitoring framework; as the Council is debt free and the impact of the Council's capital spend affects the revenue budget through the use of the reserves currently invested. This assessment forms part of the capital appraisal process.</p> <p>The Council reported a clear and costed rationale for holding taxpayers' money in excess of need, but for the 2006/07 audit year this was last undertaken and formally documented in 2003. A report made to F&amp;PB in May 2007 reaffirms the Council's policy for holding the current levels of balances and reserves.</p>	
<b>Improvement opportunities</b>	
KLOE 3.1 The Council manages its spending within the available resources.	<p>Continue to maintain spending within budget and investigate variances over £5k.</p> <p>Regularly review the Council's level of reserves.</p>

## Internal control

**Table 6**

Theme score 3
<b>Key findings and conclusions</b>
<p>The Council has made significant improvements during the year to the arrangements in place for risk management and has embedded these arrangements within its corporate business processes. A risk management strategy is in place and is reviewed annually. Strategic and operational risks are monitored at service level in service performance plans and assigned to individual officers. All officers are prompted by the automated committee agenda and minute system to consider risks whilst drafting committee reports. However, not all members have yet received risk management training and whilst the council considers positive risks they are solely financial and there is little evidence of the risk assessment of opportunities to meet other key strategic priorities.</p> <p>There is an adequate Internal Audit function which has open access to both senior management and members. An Audit Committee is in place and undertakes a review of the annual Statement of Internal Control, supported by a review of the effectiveness of both the system of internal control and the Internal Audit function. All service managers have completed a review based on KCC assessments for their service business continuity and an officer service group has been set up to co-ordinate the results and produce a business continuity plan. The Council decided to run with their own plan following reservations over KCC's approach. This is their first iteration and they will be continuing to review and update the plan on a regular basis. The Code of Corporate Governance which includes a statement on partnerships is reviewed at least annually. However, this does not specifically include the CDRP and the governance arrangements for this partnership have not been reviewed since 2004. A review and update is planned for 2007/08.</p> <p>The anti-fraud policy has been clearly communicated to all staff at the Council and is included within the induction process for new starters which involves the starter signing to say they understand the culture of the Council. Staff have used the confidential reporting code during the year to report any suspicions of fraudulent behaviour. Details of these are investigated and held on file by the Chief Internal Auditor. There is an anti-fraud policy in place which is adhered to. All internal audit investigations are compliant with CIPFA matrices that cover all significant controls designed to prevent fraud and corruption. The risk of not finding fraud is covered in the Internal Audit Risk Register, and included where appropriate in the Risk Registers of individual Sections. However, the Council has not produced any documents to evidence specific consideration of risk of fraud and corruption in the overall risk management process at the strategic level.</p>

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<b>Theme score 3</b>	
<b>Improvement opportunities</b>	
KLOE 4.1 The Council manages its significant business risks.	<p>Ensure that risk awareness training is provided to all members.</p> <p>Assess risks of opportunities to meet other key strategic priorities.</p>
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p>Implement, and regularly review, the business continuity plan.</p> <p>Review standing orders, standing financial instructions and the scheme of delegation to include specific reference to partnerships.</p> <p>Ensure that Governance arrangements with respect to partnerships are subject to regular review and updating.</p>
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p>Undertake proactive counter fraud and corruption work, as determined by a formal risk assessment.</p> <p>Continue to demonstrate active promotion of a strong counter fraud culture.</p>



## Value for money

**Table 7**

<b>Theme score 3</b>
<b>Key findings and conclusions</b>
<p>In most areas, the Council demonstrates good value for money having regard to local circumstances and performance. Overall expenditure on services is below the national average. The Council has nine PI's within the upper quartile, one within the second quartile, four in the third quartile and eight within the bottom quartile. This places the Council above the average for 'excellent authorities' as per the AC re-categorisation tool. However, 36 per cent of the PI's fall within the bottom quartile and therefore cannot be considered a best value service. Un-apportioned central overheads are average with the national groupings and all other overheads have been included within service costs, which are just below the national average. Although the Council is investing in its priority areas and results are leading to improved services, there is limited evidence of sustained efficiency gains.</p> <p>The Council has an effective budget monitoring process in place and regularly reviews performance of its services. Corporate Management Team and Cabinet receive quarterly performance monitoring reports. The annual performance is reported in the Corporate Performance Plan. The information is used to monitor and review value for money, with the priorities report showing the progress to date and what actions are needed to ensure each priority is reached. The Council's MTFs does take into account the short and long term costs of the policy decisions although no evidence has been provided to suggest that the Council uses cost analyses as part of the policy decision making process.</p> <p>It is apparent that there is a high level of understanding and awareness within the senior management team of the need for value for money. However, there is little evidence to suggest that this awareness is fully embedded throughout the whole organisation. The Council has an effective Residents Panel which it consults for resident's opinions and gauging local needs but there is no evidence to demonstrate that these needs and opinions have been incorporated into policy and contributed towards value for money. The Council has met and exceeded the national efficiency targets although this in itself is not notable as many authorities have achieved the same level of progress.</p>

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<b>Theme score 3</b>	
<b>Improvement opportunities</b>	
KLOE 5.1 The Council currently achieves good value for money.	Review comparative costs and quality of services to demonstrate best value compared to other councils.
KLOE 5.2 The Council manages and improves value for money.	<p>Embed value for money into the Council's culture, for example, using value for money targets in corporate and service planning processes and as part of the performance management framework.</p> <p>Use value for money information to help members' review and challenge value for money across services.</p> <p>Evaluate the impact of investments and changes in service delivery and consider differential impacts across the community, including minority or vulnerable groups.</p>



## Use of resources 2008

- 11 The Commission has published its key lines of enquiry for 2008 on its website. There is an annotated version of the key lines of enquiry available which show all the changes from 2007. This should assist you in pin pointing the changes. We will be reporting our scores and findings from our 2008 assessment to you at a similar time next year. The key changes to the assessment are summarised at Appendix 2.
- 12 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.
- 13 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.

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## Appendix 1 – Criteria which gained 'must have' status for 2007

### **New criteria in bold type ('must have') for 2007 assessment**

This table summarises criteria which were included in the 2006 KLOEs but were not in bold type and did not have 'must have' status, but which gained such status for the 2007 assessment.

KLOE	Summary of criteria
<b>Financial reporting</b>	
1.1	Requests for information from audit are dealt with promptly (Level 3).
1.2	Summary financial information that meets the needs of a range of stakeholders is published and their views are considered in deciding whether to publish an annual report (Level 3).
<b>Financial management</b>	
2.1	There are arrangements for monitoring cash flow (Level 2).
2.1	The medium-term financial strategy is communicated to staff and stakeholders (Level 3).
2.2	The financial performance of significant partnerships is reviewed (Level 2).
2.2	Profiled financial monitoring reports are produced within ten days of the month-end (Level 3).
2.2	There is a training programme in place for members and staff on financial issues (Level 3).
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed (Level 3).
<b>Financial standing</b>	
3.1	Collection and recovery of material categories of income is monitored (Level 2).

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'must have' status for 2007 19

KLOE	Summary of criteria
<b>Internal control</b>	
4.1	Appropriate staff are trained in risk management (Level 3).
4.2	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems (Level 2).
4.2	Criterion in relation to business continuity plans as required by the Civil Contingencies Act (Level 2).
4.2	Governance arrangements are in place for significant partnerships (Level 2).
4.2	Arrangements for carrying out the functions of an audit committee are effective (Level 3).
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate (Level 3).
4.3	The Council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced (Level 3).

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## Appendix 2 – 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.
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.

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the UOR key lines of enquiry 2008 21

KLOE	Level	Summary of change
<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.

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KLOE	Level	Summary of change
<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
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.