

You are requested to attend a meeting of the Corporate Governance Committee to be held in The John Meikle Room, The Deane House, Belvedere Road, Taunton on 16 December 2008 at 18:15.

---

### **Agenda**

- 1 Apologies
- 2 Minutes of the meeting of the Corporate Governance Committee held on 30 September 2008 (attached)
- 3 Public Question Time
- 4 Declaration of Interests. To receive declarations of personal or prejudicial interests, in accordance with the Code of Conduct
- 5 Final Accounts Memorandum. Report of the Audit Manager, Audit Commission giving a summary of the key issues from the audit of Taunton Deane Borough Council's Statement of Accounts 2007/2008 (attached)
- 6 Use of Resources. Report of the Audit Manager, Audit Commission (attached)
- 7 Data Quality Review. Report of the Audit Manager, Audit Commission summarising the findings for 2007/2008 (attached)
- 8 Southwest One. Report of the Audit Manager, Audit Commission on the audit of Southwest One 2007/2008 (attached)
- 9 Annual Efficiency Statement 2007/2008 and National Indicator 179. Report of the Financial Services Manager (attached)
- 10 Internal Audit Plan 2008/2009 Progress Report. Report of the Group Auditor (attached)
- 11 Health and Safety Management System Update. Report of the Health and Safety Advisor (to follow)

Legal and Democratic Services Manager

05 January 2010

Members of the public are welcome to attend the meeting and listen to the discussions.

There is time set aside at the beginning of most meetings to allow the public to ask questions.

Speaking under “Public Question Time” is limited to 4 minutes per person in an overall period of 15 minutes. The Committee Administrator will keep a close watch on the time and the Chairman will be responsible for ensuring the time permitted does not overrun. The speaker will be allowed to address the Committee once only and will not be allowed to participate further in any debate.

If a member of the public wishes to address the Committee on any matter appearing on the agenda, the Chairman will normally permit this to occur when that item is reached and before the Councillors begin to debate the item.

This is more usual at meetings of the Council’s Planning Committee and details of the “rules” which apply at these meetings can be found in the leaflet “Having Your Say on Planning Applications”. A copy can be obtained free of charge from the Planning Reception Desk at The Deane House or by contacting the telephone number or e-mail address below.

If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room.

Full Council, Executive, Committees and Task and Finish Review agendas, reports and minutes are available on our website: [www.tauntondeane.gov.uk](http://www.tauntondeane.gov.uk)



Lift access to the John Meikle Room and the other Committee Rooms on the first floor of The Deane House, is available from the main ground floor entrance. Toilet facilities, with wheelchair access, are also available off the landing directly outside the Committee Rooms.



An induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter.

**For further information about the meeting, please contact Democratic Services on 01823 356382 or email [d.durham@tauntondeane.gov.uk](mailto:d.durham@tauntondeane.gov.uk)**

**Corporate Governance Committee Members:-**

- Councillor B Denington
- Councillor A Govier
- Councillor R Henley - Leader of the Council
- Councillor A Paul
- Councillor M Whitmarsh
- Councillor J Williams
- Councillor A Beaven
- Councillor A Wedderkopp
- Councillor N Wilson
- Councillor J O'Brien
- Councillor P Critchard

## **Corporate Governance Committee – 30 September 2008**

Present: Councillor Williams (Chairman)  
Councillors Beaven, Coles, Denington, Wedderkopp and  
Mrs Whitmarsh

Officers: Ms S Adam (Strategic Director)  
Mr P Carter (Financial Services Manager)  
Mrs G Croucher (Democratic Services Officer)

Also Present: Councillor Meikle, Mr B Bethall and Mr T Bowditch (Audit Commission)  
and Mr D Wilson (Independent Members of the Standards Committee)

(The meeting commenced at 5.15 pm)

### **29. Apologies/Substitution**

Apologies: Councillor Henley (Vice-Chairman) and Councillors Brockwell,  
Govier, Paul and Mrs Smith

Substitution: Councillor Coles for Councillor Mrs Smith.

### **30. Minutes**

The minutes of the meeting held on 15 September 2008 were taken as read  
and were signed.

### **31. Declarations of Interest**

Councillor Coles declared a personal interest as a Director of Southwest One.

### **32. Annual Governance Report**

Mr Brian Bethell and Mr Terry Bowditch of the Audit Commission (AC)  
introduced Taunton Deane Borough Council's Annual Governance Report  
2007/2008.

Details of the key areas of judgement and audit risk were reported, together  
with weaknesses identified in internal control. The weaknesses included the  
testing of key controls in the Council Tax system.

A number of errors that had been identified in the financial statements were  
reported. The accounts had been adjusted and a revised financial statement  
would be presented to the Committee.

The draft Management Representation Letter was presented for the approval  
of Members.

The Value for Money Conclusion for the year 2007/2008 would be issued shortly with an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

**Resolved** that:-

1. Approval be given to sign the Letter of Representation;
2. The proposed action plan be agreed, subject to the necessary priorities being completed in due course; and
3. It be brought to this Committee's attention in future when work was slipping due to lack of resources or sickness.

**33. Statement of Accounts 2007/2008 – Conclusion of Audit**

Considered report previously circulated, concerning corrections to the annual Statement of Accounts for 2007/2008.

The draft Statement of Accounts for 2007/2008 had been approved by the Corporate Governance Committee on 26 June 2008 to be followed by an external audit of the Accounts. The audit had recently been completed and a number of "minor" errors had been identified.

Details of the amended accounts were submitted.

**Resolved** that the amended Statement of Accounts for 2007/2008 be approved.

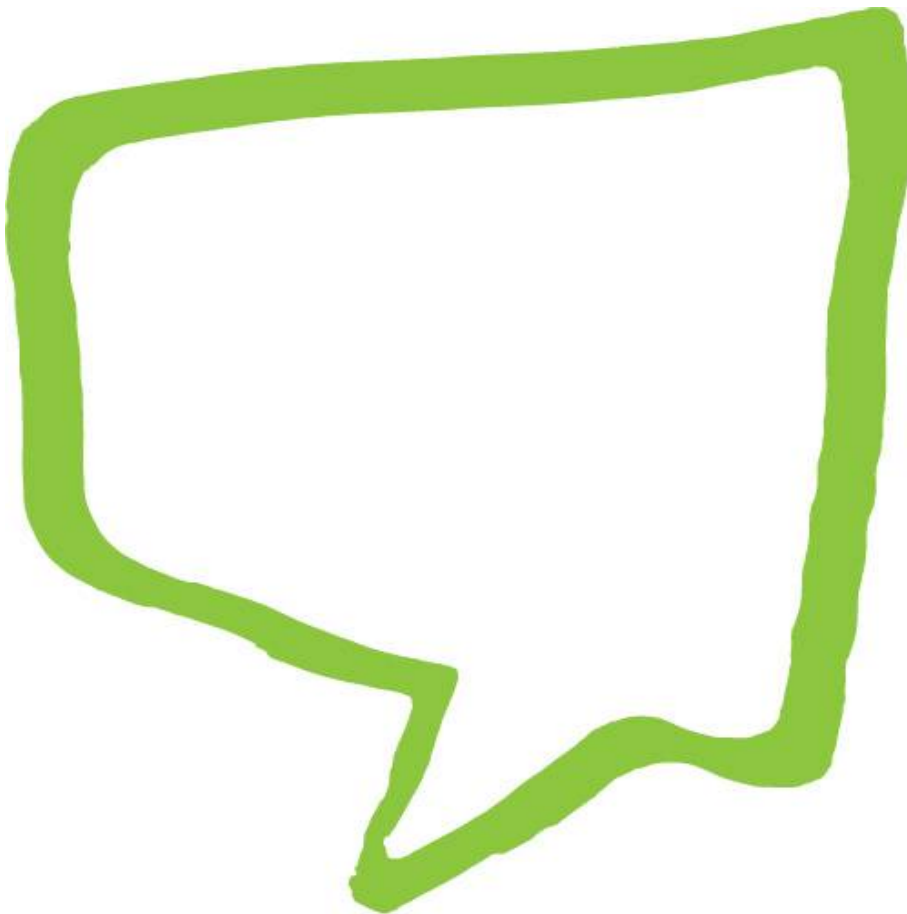
(The meeting ended at 5.55 p.m.)

# Final Accounts Memorandum

Taunton Deane Borough Council

Audit 2007-2008

December 2008



---

# Contents

<b>Introduction</b>	<b>3</b>
<b>Background</b>	<b>4</b>
<b>Audit approach</b>	<b>5</b>
<b>Main conclusions</b>	<b>6</b>
<b>Detailed Report</b>	<b>8</b>
<b>Appendix 1 – Action Plan</b>	<b>14</b>



# Introduction

- 1 This report summarises the key issues arising from the audit of the Council's statement of accounts for the year ended 31 March 2008. We presented our Annual Governance Report to the Corporate Governance Committee on 30 September 2008. This report sets in more detail our findings from our audit of the Council's accounts.

# Background

- 2 The prime objective of our opinion work is to provide the following:
- an independent assessment of your accounts, to ensure that they present fairly the financial position and results of the operation of the Council;
  - an assessment of whether the statement of accounts have been prepared in accordance with the CIPFA Statement of Recommended Practice (SORP) and Best Value Accounting Code of Practice (BVACOP); and
  - an assessment as to whether the statement of internal control reflects the Council's compliance with the CIPFA guidance and is consistent with our own audit knowledge.

# Audit approach

- 3 Our audit approach is based on the Internal Auditing Standards (ISAs), which require us to identify the material financial systems used by the council to produce the financial statements
- 4 We are then required to document our understanding of the systems and identify and test the key controls within the system designed to minimise the risk of material misstatement in the financial statements.
- 5 Our audit approach for 2007/8 was to revisit systems documentation prepared previously and carry out walkthrough testing to confirm the correct operation of the systems and identify any changes. Key system controls testing is carried out on a cyclical basis over a three year period. In 2007/8 more systems were tested than usual because of:
  - weaknesses found in previous years;
  - new systems being introduced; and
  - to even out the workload with 2008/09, when the Council plans to introduce a range of new systems with the migration to SAP.
- 6 Key controls on the following systems were tested:
  - Sales Ledger
  - Council Tax
  - National Non-domestic Rates
  - Car Parking
  - Treasury Management
  - Housing Benefit
  - Payroll
  - Rent
  - Client Team.
- 7 We have also considered other risks of material misstatement and key business risks from other internal and external sources.
- 8 Where possible we placed reliance on the work of internal audit for our testing of the key system controls.

---

# Main conclusions

- 9 The statement of accounts was approved by the Corporate Governance Committee on 26 June 2008, before the statutory deadline of 30 June 2008. Our audit opinion was issued following the Corporate Governance Committee's consideration of our Annual Governance Report at its meeting on 30 September 2008, which provided a summary of the key issues from our opinion work.
- 10 The Corporate Governance Committee was also asked to approve a revised set of accounts at its September meeting. These revised accounts had been amended for all material or non-trivial errors identified at audit. In our opinion, the revised accounts are free from material misstatement and have been prepared in accordance with proper professional practice.
- 11 From our system testing, we were able to conclude that most of the key controls in the financial systems, which provide the material balances in the financial statements, were working effectively for the financial year ended 31 March 2008. This enabled us to place reliance on the information provided by the systems in our audit of the financial statements.
- 12 Where key controls were not found to be operating effectively, additional audit tests were performed on specific balances in the financial statements.
- 13 Control weaknesses identified during the system audit included the following:
  - Fixed asset register. This is updated at the year-end as part of the closedown process, which makes it difficult to regularly report progress against capital projects to management and members throughout the year.
  - Payroll. There was no establishment list in existence for either retained or seconded staff. This made it difficult for departmental managers confirm that staff costs were as expected as there is no budgeted list of personnel employed to compare to actual costs.
  - Payroll. Reconciliations are prepared on a monthly basis in the finance department to confirm that total payroll costs are correctly posted from the information supplied by SCC, but copies of these reconciliations are not kept as evidence of the control.
  - Benefits team. Weaknesses in reconciliations between IBS Sundry Debts and FMS.
  - Council tax. There was substantial slippage on the planned programme of inspections of council tax exemptions.
  - Council tax. The number of bills posted had not been reconciled fully to the number of bills printed.

## Main conclusions

- 14 A summary of the recommendations arising from these weaknesses is shown below in the 'Detailed Report'.
- 15 Additional testing carried out at the post statement audit confirmed that key controls as tested had operated effectively for the whole of the financial year.
- 16 During the audit of the financial statements, we found a number of errors in the draft statement of accounts. The key errors, which were all corrected in the revised statements, were as follows;
  - A loss on disposal of fixed assets of £743k was shown in the consolidated Income and Expenditure account as a profit and so the deficit on the I&E account was understated by £1.486 million.
  - The accounts recorded a capital grant payment and a matching capital receipt for £115,000 - the valuation figure - in respect of the transfer of land to a housing association, when the land had in fact been transferred for the nominal sum of £1.
  - Costs of £365,000 in respect of payments to Southwest One for the development of the SAP project (£114,000) and construction costs at two sports pavilions (£60,000) and the Highfields Nursery (£191,000) were incorrectly charged to work in progress rather than being shown within fixed assets.
  - A liability included in creditors for £192k in respect of collections made from taxpayers for waste collection was found to have been collected in advance of 2008/09. A balance was also included in debtors. Both of these balances were removed from the accounts.
  - Short term investments for £30k were included in long term investments.
  - A Road Sweeping machine costing £79k was incorrectly included in debtors. This was due to a sale and leaseback arrangement failing because the supplier went into liquidation. This asset should have been capitalised as it was in use before the year end.

---

# Detailed Report

---

## Asset Register & Capital Programme

- 17** We have recommended previously that capital expenditure should be monitored and reported on a regular basis. This did not happen consistently throughout the year. Effective monitoring would have identified the omission of the Road Sweeping machine from the Fixed Asset Register.
- 18** Regular updating of the asset register would help the Council to monitor expenditure against capital projects, and would support regular capital budget monitoring, as well as asset management planning.
- 19** Finance need to be kept better informed by the legal team regarding property sales and acquisitions. In 2006/07, finance staff were not informed fully about the acquisition date of land purchased for £1m around the year end and the sale was posted in the wrong accounting period. In 2007/08, car parking was sold to a housing association for £1 but finance had been informally notified that the property had been sold for £115k, resulting in false entries in the accounts.
- 20** While reviewing the Fixed Asset Register, it was noted that the amounts by which asset have been revalued have been recorded in an additional column. However, these figures have not been transferred into a working paper to support the Revaluation Reserve.

Recommendation
<p><b>R1</b> Members should receive regular monitoring reports showing actual spending to date and a forecast final outturn against approved estimates for all current capital projects. Updating the asset register throughout the year would facilitate this regular reporting.</p> <p><b>R2</b> The legal department should ensure that the finance team are given all relevant information about property acquisitions and disposals to ensure that the nature of these transactions is fully and accurately recorded in the accounts.</p> <p><b>R3</b> A schedule detailing the assets and the related revalued amount should be prepared to support the Revaluation Reserve figure in the accounts.</p>

### Treasury management

- 21 In order to gain evidence of investments, we requested a copy of the investment register. This could not be supplied and we had to examine each of the investment files to compile a list. The files we were given were incomplete as one investment was omitted.
- 22 Our audit also identified that investments with less than 12 months until maturity were included in long term investments. Keeping this schedule up to date would differentiate between long and short term investments.

#### Recommendation

- R4** A schedule of investments should be kept detailing the address of the Bank/ Building Society invested in and the broker's details. This should be updated each time an investment is made or matures.

---

### National Non Domestic Rates

- 23 During the systems audit we discovered that the property charge total produced as part of the NNDR collection statistics for 2007/08 and prior years did not agree to the gross amount reported on the NNDR3 claim by £265,891 although both reports are generated from the IBS system. The figure on the claim form was audited and confirmed as correct.

#### Recommendation

- R5** The NNDR team should ensure that the property charge total report is reconciled to the NNDR3 claim.

---

### Council Tax

- 24 There was substantial slippage on the planned programme of inspections of council tax exemptions.
- 25 No evidence was available to prove that the Council had carried out sample checks on council tax bills before they were issued.
- 26 The number of bills posted had not been reconciled fully to the number of bills printed.

#### Recommendation

- R6** The council should ensure that the control weaknesses we have noted in the Council Tax system are addressed.

## Working Papers

- 27** The standard of this year's working papers was not of the same standard as supplied in previous years, for example:
- Several of what were intended to be supporting schedules did not appear to agree to the figures in the accounts. In some cases the totals on various schedules had to be added together to come to the figure in the accounts. In other cases new working papers had to be prepared.
  - Evidence supplied to us to support accruals such as fixed asset additions did not agree to the working papers provided to us.
  - The supporting schedule to confirm balances such as the collection fund receipts in advance included in creditors was not available since this had not been copied for the finance department as evidence. When the Benefits department were asked to reproduce the schedule, they were unable to.
- 28** Better liaison between Finance, Control Team and Benefit staffs may help to reduce duplication of work. For example, during our testing we discovered that Benefit overpayment of debts is reconciled monthly by the Revenue and Benefits Team, but the control account did not balance due to a journal which had been posted by Finance of which the Revenue and Benefits Team were not aware.

### Recommendation

- R7** Working papers should be checked prior to audit to ensure that they are complete clearly support the relevant figures in the statements.
- R8** Evidence supplied to support accruals figures in summary working papers should be given to the finance department and filed electronically, or paper copies should be kept where this is not possible. The method of calculating the accrual should be clear from the working paper.
- R9** Where reports need to be run off from systems such as collection fund receipts in advance, a copy of the report should be supplied to and kept by Finance to support the figure in the accounts. The finance department should not accept figures from other departments to be included in the accounts without checking that supporting evidence is available for audit purposes.
- R10** Finance, Control Team and the Revs and Bens departments need to liaise closely to see if there are controls carried out by two teams which could be assigned to one team.
- R11** The working papers should include comprehensive analytical review which provides explanations for all significant movements in figures from the previous year.



---

### Errors in Financial Statements

- 29 We identified one material and three non-trivial errors in the financial statements. These are summarised above in paragraph 15. Officers adjusted the accounts for these errors.

#### Recommendation

**R12** The Council should review its accounting closure processes to reduce the risk of material and other errors appearing within the statements presented for audit.

---

### Issues arising from the audit of the Pooling Grant Claim

- 30 While auditing the pooling grant claim, we found that errors had occurred in the calculation of the figures in cell 9 (Capital receipts received in the year less reductions), and so the calculation of the poolable amount in cell 10 was incorrect.
- 31 There was no evidence supplied to confirm the amount of capital receipt extinguished by capital allowances of dwellings in cell 8e. Therefore we could not verify that the amount shown in the cell was correctly stated.
- 32 From a review of the working papers for the reserves, it was not clear that the receipts set aside to pay for affordable housing, and therefore excluded from the pooled receipts on the grant claim, had been clearly earmarked in the accounts for this purpose, to prevent them being inadvertently used for other purposes in future.

#### Recommendation

**R13** The pooling grant claim calculation, as this is a manual claim, should be checked to ensure the form correctly adds up in agreement with the guidance supplied by the granting authority.

**R14** When funds are received from the sale of properties where they are to be set aside for affordable housing, and therefore not subject to being pooled, a committee minute is needed to confirm that this is the Council's intention for the funds.

**R15** A separate ledger account should be set up for amounts included in Unapplied Capital Receipts which must be used for a specific purpose ie affordable housing and amounts and those for general capital projects.

---

### Issues arising from the audit of the Disabled Facilities Grant claim

- 33** The working papers for the DFG claim did not distinguish between amounts spent in respect of Prior Year carry over projects and those relating to New Year projects. This resulted in an overstatement of the figure included in cell F003DF and therefore an understatement of the amount to be returned to the Department shown in cell F008DF.

#### Recommendation

**R16** The working paper provided to support the Disabled Facilities Grant claim should distinguish between the grants awarded and payments made to complete Prior Year grants and those in respect of current year grants.

---

### Issues arising from the audit of the Base Date Return HOU02

- 34** Errors were identified on nine cells on this form, mainly relating to three problem areas:
- The Academy system did not show the correct number of bed spaces for all multi-occupied dwellings. An example would be cell F001DP.
  - Cells were not completed in accordance with the guidance notes so multi occupied dwellings had been omitted. An example would be cell F037MM and guidance note 47.
  - Working papers were provided where the figure on the claim was not the same as that on the working paper. An example would be F008CC where the £000s was omitted.

#### Recommendation

**R17** The Council should introduce a process to review all of the multi-occupied dwellings included in academy on an annual basis, to confirm it still reflects the correct number of bed spaces. The number of equivalent dwellings should also be checked or recalculated as a result of this review.

**R18** Guidance should be carefully read prior to the preparation of the base data return form each year to check if there have been any changes to the legislation or to check disclosures have not been made incorrectly in previous years so that disclosure errors in the current year are not made because of following prior years disclosure errors.

## Detailed Report

### Recommendation

**R19** The base data return form should be checked back to the working papers by a reviewer as a double check to help ensure that the form agrees to the working papers.

**R20** An analytical review working paper should be prepared comparing the figures on the base data return for the past 3 years. This will help to highlight any changes that have taken place in the form and will help to identify obvious errors which can be easily checked and areas where explanations will be needed for audit purposes.

# Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Asset Register/Capital Programme</b>						
8	R1 Members should receive regular monitoring reports showing actual spending to date and a forecast final outturn against approved estimates for all current capital projects. Updating the asset register throughout the year would facilitate this regular reporting.	1	Paul Carter	No	<p>The relevant member panel already receives budget monitoring reports each quarter – this includes any identified slippage against the capital programme. This does not show spend to date but like all TDBC budget monitoring focuses on variances against budget.</p> <p>Updating the register throughout the year does not aid budget monitoring nor capital financing and merely increases work during the year which is of no relevance until the year end when it then has to be completed for closedown purposes. The new financial system (SAP) will allow real time updating of the Councils asset register.</p>	N/A
8	R2 The legal department should ensure that the finance team are given all relevant information about property acquisitions and disposals to ensure that the nature of these transactions is fully and accurately recorded in the accounts.	3	Paul Carter	Yes	PC to arrange a meeting with the Legal Manager to ensure that a process is put in place to improve communication between the services.	31 December 2008

## Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R3 A schedule detailing the assets and the related revalued amount should be prepared to support the Revaluation Reserve figure in the accounts.	2	Paul Carter	Yes	Agreed – this will be included in the working papers for the 2008/09 closedown	Prior to 08/09 audit
<b>Treasury Management</b>						
9	R4 A schedule of investments should be kept detailing the address of the Bank/ Building Society invested in and the broker's details. This should be updated each time an investment is made or matures	1	P Carter	No	The address of the bank and broker is not required for day-to-day treasury management, especially given that the council both receives and repays investments electronically and receives confirmations either by fax or email. This information is also held on the file created for each individual investment. The treasury management spreadsheet contains details of where each investment is placed and the detailed investment file contains details of the broker involved.	N/A
<b>NNDR and Council Tax</b>						
9	R5 The NNDR team should ensure that the property charge total report is reconciled to the NNDR3 claim.	3	Simon Doyle	Partially	The figures entered on the NNDR3 for 2007/08 in year are correct. There will always be a discrepancy on previous year's figures because on a very small number of properties, the IBS system is calculating some charges differently to our old in-house system. As a consequence, guidance from IBS advises we amend the figure in line 11ii (previous year).	As preparation for the NNDR3 2008/09

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6 The Council should ensure that the control weaknesses we have noted in the Council Tax system are addressed.	3	H Tiso	Partially	<p>Agreed -Inspections did slip during 2007/08. This was almost exclusively due to the inspection service running at 50% under staffed for much of the year due to the long term ill health of one of our inspectors. That member of staff has subsequently retired on ill health and a permanent replacement has been employed. Inspections are currently back on track and should continue to be so going forward.</p> <p>Not Agreed -Exhaustive checks of annual 2007/08 Council Tax bills were made prior to their issue. 2007/08 was our first year billing through our new IBS computer system and consequently an even more robust checking regime was employed that year for this very reason.</p> <p>Evidence of this is available and can be provided on request.</p> <p>Agreed -There was a slight discrepancy between the number of bills produced and the postal docketts (caused by overseas and TDBC items not being included within the walksort post book). We will endeavour to ensure our contractor provides a full reconciliation for 2008/09.</p>	H Tiso

## Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Working Papers</b>						
10	R7 Working papers should be checked prior to audit to ensure that they are complete clearly support the relevant figures in the statements.	3	P Carter	Yes	It would be appreciated if the AC could provide a list of WPs which did not support the statements both for 2007/08 and during the progress of the 2008/09 audit. This will enable managers to ensure that WPs are of the required standard. It may also be beneficial for Paul and Terry to spend some time with more junior audit staff and finance staff prior to the audit so they understand more fully the nature of the authority's accounts and the linkages between the various statements and WPs.	31 December 2008
10	R8 Evidence supplied to support accruals figures in summary working papers should be given to the finance department and filed electronically, or paper copies should be kept where this is not possible. The method of calculating the accrual should be clear from the working paper.	3	P Carter	Yes	Agreed – again it would be beneficial if a schedule of accruals which were not supported by a WP from the 2007/08 audit could be produced by the AC – this can then help the accountants improve problem areas.	31 January 2009
10	R9 Where reports need to be run off from systems such as collection fund receipts in advance, a copy of the report should be supplied to and kept by Finance to support the figure in the accounts. The finance department should not accept figures from other departments to be included in the accounts without checking that supporting evidence is available for audit purposes.	2	P Carter	Yes in part	Agreed that reports should be retained where available.  For some year end entries i.e. accruals then the responsibility for calculating rests with the manager (with finance guidance) and finance is not able to verify each entry on an individual level only on a general overall level of assurance	To be included in the training for the 08/09 closedown and in improved 2008/09 accrual forms.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R10 Finance, Control Team and the Revs and Bens departments need to liaise closely to see if there are controls carried out by two teams which could be assigned to one team.	1	P Carter/Simon Doyle	Yes	We will review this after the completion of Southwest One's organisation redesign and the implementation of SAP.	August 2009
10	R11 The working papers should include comprehensive analytical review which provides explanations for all significant movements in figures from the previous year.	2	P Carter	Yes	Agreed – however AR WPs were supplied in accordance with the schedule of required WPs. If additional WPs are required then these should be included in the WP schedule in advance of its submission to the finance team for completion.	As part of 2008/09 WP schedule
<b>Errors in the Financial statements</b>						
11	R12 The Council should review its accounting closure processes to reduce the risk of material and other errors appearing within the statements presented for audit.	3	P Carter	Yes	Particular focus will be paid to the balance sheet lead schedule in 2008/09 as this was the area that created most problems for the 2007/08 accounts In addition a number of further reconciliations will be brought about to improve overall balance sheet control i.e. MRA, Capital receipts and profit/loss on fixed assets. The year end timetable will be reviewed to allow extra time for review of the completed statements.	As part of the 2008/09 closedown timetable



## Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Pooling Grant Claim</b>						
11	R13 The pooling grant claim calculation, as this is a manual claim, should be checked to ensure the form correctly adds up in agreement with the guidance supplied by the granting authority.	3	Principal Accountant/Certifier of return.	Yes	All working paper's checked twice by Housing Accountant against return then given to certifier to random check working papers with return.	31 January 2009
11	R14 When funds are received from the sale of properties where they are to be set aside for affordable housing, and therefore not subject to being pooled, a committee minute is needed to confirm that this is the Council's intention for the funds.	3	Property services manager	Yes	Property services to notify Finance on a quarterly basis in order that it can be included in quarterly budget report to the Executive via Overview and Scrutiny.	wef Q3 2008 09
11	R15 A separate ledger account should be set up for amounts included in Unapplied Capital Receipts which must be used for a specific purpose i.e. affordable housing and amounts and those for general capital projects.	3	Housing Accountant	Yes	Reconciliation quarterly to agree FMS with Housing Enabling Manager.	Immediate
<b>Disabled Facilities Grant</b>						
11	R16 The working paper provided to support the Disabled Facilities Grant claim should distinguish between the grants awarded and payments made to complete Prior Year grants and those in respect of current year grants.	1	Grant Administrator and Housing Accountant.	Yes	Existing spreadsheet to be amended to be split the grants between prior and current year.	June 2009 (in advance for 08/09 closedown)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Base Data Return HOU02</b>						
12	R17 The Council should introduce a process to review all of the multi-occupied dwellings included in academy on an annual basis, to confirm it still reflects the correct number of bed spaces. The number of equivalent dwellings should also be checked or recalculated as a result of this review.	2	Housing Information Assistant, IT and Housing Accountant.	Yes	Housing Information Assistant to agree stock by archetype, shared ownership and multi occupancy units with Academy and Housing Accountant.	End of March 2009
12	R18 Guidance should be carefully read prior to the preparation of the base data return form each year to check if there have been any changes to the legislation or to check disclosures have not been made incorrectly in previous years so that disclosure errors in the current year are not made because of following prior years disclosure errors.	3	Housing Accountant	Yes	Set aside reading time and review previous years audited returns.	Immediate
12	R19 The base data return form should be checked back to the working papers by a reviewer as a double check to help ensure that the form agrees to the working papers.	2	Principal Accountant/Certifier	Yes	All working paper's checked twice by Housing Accountant against return then given to certifier to random check working papers with return.	As preparation of 2009/10 return

## Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R20 An analytical review working paper should be prepared comparing the figures on the base data return for the past 3 years. This will help to highlight any changes that have taken place in the form and will help to identify obvious errors which can be easily checked and areas where explanations will be needed for audit purposes.	3	Housing Accountant	Yes	Create analytical review working paper after base return has been checked.	As preparation of 2009/10 return

---

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

---

## Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2008

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Use of Resources

Taunton Deane Borough Council

Audit 2007/08

Date

DRAFT

---

# Contents

<b>Introduction</b>	<b>3</b>
<b>Use of resources judgements</b>	<b>5</b>
<b>Theme summaries</b>	<b>6</b>
<b>Conclusion</b>	<b>15</b>

DRAFT

---

## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

# Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the council and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment. The Use of Resources assessment focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These qualities should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
  - reflect developments in professional guidance, legislative requirements and best practice; and
  - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

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

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

- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
- 5 The five theme scores for Taunton Deane Borough Council are outlined overleaf. These scores are still subject to confirmation by our national quality control process. This seeks to ensure consistency across all suppliers and on a national basis. Consequently we are informing you that the scores reported here may change as a result of national quality control and should not be taken to be final. Following

completion of national quality control, the Commission will notify you of your Council's overall score for use of resources and supporting the theme scores. This is scheduled for 8 December 2008.

- 6 This summary sets out our key findings in relation to each theme and key areas for improvement.

DRAFT



# Use of resources judgements

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

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
<b>Financial reporting</b>		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	1	3
1.2 The Council promotes external accountability.	3	3
Overall score for financial reporting	2	3
<b>Financial management</b>		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	2	2
Overall score for financial management	3	3
<b>Financial standing</b>		
3.1 The Council manages its spending within the available resources.	2	3
<b>Internal control</b>		
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	3
Overall score for internal control	2	2
<b>Value for money</b>		
5.1 The Council currently achieves good value for money.	2	3
5.2 The Council manages and improves value for money.	2	3
Overall score for value for money	2	3

# Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables. The 2007 scores are shown in brackets.

## Financial reporting

<b>Theme score: 2 (3)</b>	
<b>Key findings and conclusions</b>	
Competing work pressures on the key staff involved in the accounts closure process had an impact on the quality of the 2007/08 statements of accounts and supporting working papers.	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	<p>The accounts presented for audit met the statutory requirements, were in line with the Council's own accounting policies and were supported by a comprehensive set of working papers. However, they did contain a material error, as well as three non-trivial errors.</p> <p>Staff within the finance section were working under a good deal of pressure from competing demands. This inevitably had an impact on the quality of the working papers to support the statements, which were not of the same high same standard as in recent years, and on the ability of staff to respond promptly and effectively to queries and requests for additional information at audit.</p>
KLOE 1.2 The Council promotes external accountability.	<p>The Council meets the statutory requirements for advertising electors' rights and publishing the accounts. Committee agendas, reports and our Annual Audit Letter are placed on the website on a timely basis. The Annual report incorporates a user-friendly summary of the accounts, which provides additional useful information such as performance against budget and progress on efficiency savings. The Annual Report shows some information on carbon emissions, but this does not provide any analysis or evaluation of current performance or any details of future plans in relation to the Council's environmental</p>

## Theme summaries

<b>Theme score: 2 (3)</b>	
	footprint.

## Financial management

<b>Theme score: 3 (3)</b>	
<b>Key findings and conclusions</b>	
The Council has robust arrangements in place for preparing and monitoring the budget, and is now taking action to strengthen its asset management arrangements.	
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.	The Council's Medium Term Financial Strategy (MTFS) is clearly linked to its key strategic objectives. Equalities impact assessments have been undertaken across all service areas, and outcomes are reflected in service plans. The Council has a well-established process for securing effective senior manager and member involvement in the preparation of the annual budget, and there is also appropriate consultation with external stakeholders on budget priorities. High risk budgets have been identified and are subject to separate reporting to the s151 officer. The Council's financial management arrangements have been substantially re-structured with the establishment of Southwest One. The Council now produces a year-end summary showing the links from additional investment to individual corporate objectives, but this does not assess the effectiveness of this investment.
KLOE 2.2 The Council manages performance against budgets.	A balanced budget is approved before the start of the year and is regularly monitored at officer and member level through the year. This ensures that any significant overspends are identified and effective action agreed on a timely basis. When agreeing such action, the Council is careful to mitigate any impact on service delivery. The financial performance of key partnerships is monitored, alongside performance, as is progress in achieving efficiency gains. The Council's main financial

<b>Theme score: 3 (3)</b>	
	system - due to be replaced in 2009/10 - is an outdated in-house system which severely limits the Council's ability to produce any non-standard reports and also limits the range of standard reports that can be produced routinely. However, IT support is available to produce ad hoc specialist reports.
KLOE 2.3 The Council manages its asset base.	The Council has an up to date asset management plan (AMP), capital strategy and asset register. There is a robust process for prioritising capital bids, and the Council's plans for addressing its relatively low level of backlog maintenance are set out in the AMP. Data on the efficiency and effectiveness of land and buildings is not yet held in a format to support decision-making. The 2007-8 AMP does not provide clear forward looking goals for its assets- an updated and improved version is planned for 2008-9.

DRAFT

---

Financial standing

<b>Theme score: 2 (3)</b>	
<b>Key findings and conclusions</b>	
The Council's budget monitoring arrangements are sound, but the Council faces severe pressures on its revenue balances, and has very limited capital resources.	
KLOE 3.1 The Council manages its spending within the available resources.	The General Fund outturn for 2007-8 was within 0.37% of the revised budget, that is, the original budget plus supplementary estimates approved during the year. That reduced the GF balance to £645,000 at the year-end, compared to the Council's agreed target level of £1.2million, but these balances were brought back up to just above this target level in April 2008 following a review of and subsequent release of funds from earmarked reserves. The Medium Term Financial Strategy shows General Fund balances staying above the target level over the next five years. It also shows significant budget gaps which the Council will need to close through future efficiency savings if it is to avoid service reductions. The policy on balances and reserves has been approved by members, although it is not supported by any detailed impact assessment of the individual risks on which it is based. The Council's collection rates for council tax and business rates both improved in 2007-8, although still below the shire district average, and the Council has agreed targets for 2008-9 and 2009-10 for further significant improvement.

Internal control

<b>Theme score: 2 (2)</b>	
<b>Key findings and conclusions</b>	
The Corporate Governance Committee provides a strong lead on governance issues, but the Council needs to embed risk management and to keep under review the resources it provides for fraud investigation work.	
KLOE 4.1 The Council manages its significant business risks.	The Council has risk registers for its major projects, and uses these to manage the key risks from these projects. As regards the key corporate risks, the basic processes are in place but the Council has made little progress in embedding these. In particular, it needs to ensure that all risk registers are regularly updated to show how risks are being managed, that members receive regular reports which allow them to assess how effectively key business risks are being managed, and that there is an on-going training programme for relevant staff.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	The Council has robust arrangements for preparing the Annual Governance Statement. The Corporate Governance Committee performs the core functions of an audit committee effectively, and internal audit comply with the requirements of the CIPFA code. Key partnerships have been identified and their governance arrangements reviewed. The Council needs to strengthen the links between its corporate objectives and risk management. It has recently adopted a local governance code, and should now use this as a framework for monitoring compliance with its internal policies and procedures. The Council needs to ensure that its business continuity planning covers all areas of significant risk and that regular testing is undertaken.
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.	The Council has arrangements in place to ensure that all members have signed up to the code of conduct and that registers of interests and gifts are kept up to date. The Standards Committee has received training

## Theme summaries

Theme score: 2 (2)	
	<p>for its enhanced role. The fraud and corruption and whistle-blowing policies are publicised appropriately. The Standards Committee has proposed an on-going training programme for members on ethical issues, but this is not yet in place. The work of the Standards Committee needs to be communicated more effectively. As regards benefit fraud, the Council places a strong focus on prevention and achieved top quartile performance in intervention activity, combined with anti-fraud training for staff, newsletters, press releases on prosecutions and robust counter fraud policies and strategies. It needs to keep under review the resources available for fraud investigations.</p>

DRAFT

Value for money

<b>Theme score: 2 (3)</b>	
<b>Key findings and conclusions</b>	
<p>The Council is clearly committed to improving value for money, In the short term, progress has been limited by the significant demands on the Council's capacity of a range of major projects, in particular Southwest One, which in the longer-term the Council expects to deliver significant efficiency gains.</p>	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Tax is fairly low, although overall spending is now above average and has risen compared to other councils. The Council has not benchmarked its costs for 2007/08.</p> <p>At the year-end 50 per cent of the Council's own corporate strategy objectives were on course. As regards national and local performance indicators, 66 per cent had improved or stayed the same. Significant areas of improvement compared to last year were in benefits and environment services. Areas which have not improved significantly or are off target relate to corporate health (sickness absence and equalities), housing (non decent homes) and planning (time taken to process applications).</p> <p>There is a close agreement between the Council's spending, and its declared priorities.</p> <p>The Council has a well-managed capital programme linked to priorities and supporting service improvements.</p> <p>Unintended high spending arising in-year is identified and addressed effectively.</p>



## Theme summaries

### Theme score: 2 (3)

KLOE 5.2 The Council manages and improves value for money.

The Council has managed VFM less well recently, due to reduced staff capacity. Member scrutiny of VFM is not well-developed, and benchmarking has not developed significantly since last year.

Clear mechanisms are in place to review and improve VFM, although the link between cost and performance is not made explicit. Costs and performance are reported separately, and some, but not all managers consider VFM routinely. Comparison of costs and performance needs to be more widespread and consistent.

There is a commitment to improve, and to monitor progress. Progress has been limited this year due to the significant investment in the SW1 public-private partnership (and consequent diversion of energies), but which in due course is expected to deliver greater efficiencies.

Limited progress has been made in understanding the needs of diverse communities and the impact of the Council's decisions on them, although residents' views are actively sought as an integral part of the budget-setting process.

Actions have been taken on key services to improve performance or service quality, although the link with costs has not been made explicit and clarification of the impact on users or partners has been mixed. Investments have been made in under-performing services such as development control; staff sickness absence; and council tax administration, although it is too early to assess the full impact in terms of improved outcomes.

The Council has significantly exceeded its efficiency plan to achieve the cumulative efficiency review target of 7.5 per cent over a 3-year period.

After the failed bid for unitary status in Somerset, relationships are being rebuilt and there is active discussion about shared

**Theme score: 2 (3)**

services. There are already some good examples, such as the Somerset Waste Partnership. There is also very strong consideration of the contribution that community and voluntary organisations can make to the Council's objectives.

Procurement is in transition with the creation of the SW1 public-private partnership. It is encouraging to note that, at this early stage of the project, savings are above target.

There is a strategic and successful approach to securing external funding, focused on projects which are Council priorities.

DRAFT

# Conclusion

- 8** The Council's overall score has fallen from 3 to 2 this year. There are two main reasons for this:
- In line with the concept of continuous improvement, the Audit Commission has once again "raised the bar", with the introduction of some new assessment criteria and the removal of the optional status for any criteria at levels 2 and 3 - for these two levels, all the criteria are now mandatory.
  - The Council's commitment to major strategic projects, in particular South West One, which it expects will deliver significant efficiency gains over the longer-term, has had an adverse impact on the Council's capacity in the shorter-term, and this has severely limited the Council's ability to make progress in the areas covered by the Use of Resources assessments for this period.
- 9** Despite the reductions in some scores this year, the Council is clearly committed to delivering improvement in its use of resources, and is engaged in major long-term investment which should help to deliver this objective. The outcomes from its radical change programme will be reflected in future assessments.

---

## Use of resources 2008/09

- 10** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 11** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 12** The assessment is structured into three themes:
- managing finances: sound and strategic financial management;
  - governing the business: strategic commissioning and good governance; and
  - managing resources: effective management of natural resources, assets and people.
- 13** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For district councils, auditors will assess work force planning in 2008/09...

- 14 The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

DRAFT

# Data Quality Review

Taunton Deane Borough Council

Audit 2007/08

Date: **12 November 2008**

DRAFT

---

# Contents

<b>Introduction</b>	<b>3</b>
<b>Detailed findings</b>	<b>6</b>
<b>Appendix 1 – Action Plan</b>	<b>12</b>

DRAFT

---

## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

# Introduction

- 1 The purpose of this report is to summarise the findings from our work on data quality for 2007/08.
- 2 Auditors' work on data quality and performance information supports the Commission's reliance on performance indicators (PI) in its service assessments for comprehensive performance assessment (CPA).
- 3 Our work on data quality is complemented by the Audit Commission's paper, 'Improving information to support decision making: standards for better quality data'. This paper sets out standards, for adoption on a voluntary basis, to support improvement in data quality. The expected impact of the Audit Commission's work on data quality is that it will drive improvement in the quality of local government performance information, leading to greater confidence in the supporting data on which performance assessments are based.

## Scope of our work

- 4 We have followed the Audit Commission's three-stage approach to the review of data quality as set out in Table 1.

**Table 1 Data quality approach**

<b>Stage 1</b>	<p><b>Management arrangements</b></p> <p>A review using key lines of enquiry (KLOE) to determine whether proper corporate management arrangements for data quality are in place, and whether these are being applied in practice. The findings contribute to the auditor's conclusion under the Code of Audit Practice on the Council's arrangements to secure value for money (the VFM conclusion).</p>
<b>Stage 2</b>	<p><b>Analytical review</b></p> <p>An analytical review of 2007/08 BVPI and non-BVPI data and selection of a sample for testing based on risk assessment.</p>
<b>Stage 3</b>	<p><b>Data quality spot checks</b></p> <p>In-depth review of a sample of 2007/08 PIs all of which come from a list of specified BVPIs and non-BVPIs used in CPA, to determine whether arrangements to secure data quality are delivering accurate, timely and accessible information in practice. For 2007/08 PI spot checks, the Audit Commission specified that it is compulsory to review two housing benefits PIs at all single tier and district councils as a minimum.</p>

- 5 As this is the third year of applying this approach to data quality, we tailored our work to focus on the key changes and actions taken to address previously identified weaknesses and recommendations.

---

## Summary conclusions

### Stage 1 – Management arrangements

- 6 The Council's overall management arrangements for ensuring data quality are at minimum requirements. The Council improved its arrangements to secure data quality during 2007/08, but due to capacity constraints, was unable to achieve a number of objectives laid down within the 2006/07 action plan for data quality.
- 7 Responsibility for data quality is well defined and rests with the Corporate Director for Finance. The corporate commitment to data quality is communicated clearly and issues relating to data quality are well considered by senior managers and councillors. Data quality is therefore becoming integrated into the planning, monitoring and reporting processes in the organisation. However, the Council has not reviewed the level of staff awareness of data quality issues, neither was it able to produce the expected data quality strategy. Management capacity has been stretched with high levels of partnership commitments and as a result, the Council's strategy has not been taken forward.
- 8 The Council has effective arrangements for monitoring and reviewing data quality, in particular for monitoring the quality of performance and financial data. Relevant staff are aware of data quality policies, operational procedures and guidance. The Council has arrangements in place to ensure that staff with data quality responsibility have the necessary training and skills. A number of objectives for data quality management are in place, but have yet to be formalised into a Council wide data quality strategy.
- 9 Appropriate controls are in place for both manual and computerised systems. Good security arrangements are in place for the Council's critical performance information systems. These have been recently reviewed and improved. The Council has adequate standards in relation to the data it shares internally and externally. Some formal protocols are in place such as with key partners, but have yet to be standardised and developed for all relevant partnerships.
- 10 There are therefore a number of areas where improvements are required if the Council is to achieve the next level of compliance. Particular areas of improvement identified as part of the current review included:
- the need to establish effective business continuity plans;
  - the need for more effective general awareness training (a web based approach was considered the most appropriate);
  - more effective management overview of the control process. While checks are made this is not generally recorded or universal;
  - the need to agree and instil a data quality framework within partnerships.



**Stage 2 – Analytical review**

- 11 Our analytical review work at Stage 2 identified one BVPI where the Council had used the wrong definition when calculating the reported figure. The correct figure has now been reported.

**Stage 3 – Data quality spot checks**

- 12 From our sample testing of three BVPIs we found errors in the compilation of the two benefits PIs, 78a and 78b, and we have placed reservations on these two PIs on the Audit Commission's electronic data capture (EDC) system.

DRAFT

---

# Detailed findings

---

## Management arrangements (Stage 1)

- 13** Overall, the Council's corporate arrangements for data quality are at minimum requirements.

### Governance and leadership

- 14** The Council has effective arrangements for monitoring and reviewing most aspects of data quality. There is a framework for monitoring data quality, with regular formal reporting on key aspects of data quality to senior managers and councillors, enabling them to challenge the integrity of data. There is a programme of data quality review which is proportionate to risk. This includes reporting on the accuracy of data supporting key performance indicators. Data quality is embedded in corporate risk management arrangements, with regular assessments of key risks. Councillors are well engaged in this process and data is subject to approval prior to external reporting
- 15** The Council established arrangements to take forward the action plan agreed after the last data quality audit. Improvements have been made to the effectiveness of information governance since the last review. The Strategy and Performance Panel is now receiving quarterly reports which include an update on data quality and each department is asked to report on its performance indicators with particular reference to those areas which were causing concern in 2006/07. These include Planning, Personnel and Housing (Decent Homes). Separate reports are produced and presented by the Corporate Performance Section (CPS) to the Strategy and Performance Panel on a monthly basis. The dashboard reports are subject to Member challenge especially in relation to problem areas. The CPS was discussing with Members the form and content of the reports to improve their effectiveness. The section lost key staff in early 2008/09, but the CPS is now back to full strength.
- 16** Data quality is becoming integrated into the planning, monitoring and reporting processes in the organisation and will be further strengthened during 2008/09. The corporate commitment to data quality is communicated clearly and has been reinforced by further training and issues relating to data quality are considered by senior managers and councillors. However, although the production of a specific data quality strategy was included within the Council's action plan for 2007/8 the Council has lacked the capacity to do so. Management capacity has been stretched with high levels of partnership commitments and as a result, the Council's strategy has not been taken forward.

### Recommendation

- R1** A formal strategy for data quality should be produced. There are a number of model strategies that could form the basis of the Council's strategy. These could be easily modified for the Council and would provide clear direction for the Council and its staff.

### Policies

- 17** Staff responsible for data quality policy are provided with the necessary procedures and guidance to undertake their responsibilities. The Corporate Performance Team are responsible for checking that procedures are followed and that the data produced is accurate, timely and complete. A set of supporting documents for data quality and management is in place. These include the staff handbook, freedom of information, intranet guidance, manager's guidance for collecting and handling local PI and BVPI data, and data protection. Staff are able to access the policies, procedures and guidance. The Council is proactive in informing staff of any policy or procedure updates on a timely basis. Information and data management are also included in staff induction training.
- 18** There has been an increased emphasis on data quality issues within the Council. The Corporate Performance Team has been visiting departments to ensure that staff are aware of the importance of accurate data and that the correct definitions are used for the Council's performance indicators. As such there has been an overall improvement in data quality. The Corporate Director of Finance remains in overall charge of data quality issues and has actively encouraged improvements. These include the incorporation of the new National Indicator Set into the Corporate Plan and decisions over which former BVPIs should continue to be used as local performance indicators.

### Systems and processes

- 19** The Council has effective arrangements for the collection, recording, analysis and reporting of performance information. The use of the Performance Management System is well embedded and is working effectively. Improvements have been made to systems to ensure that staff are aware of their responsibilities and that senior officers oversee and sign off performance information. The Corporate Performance Officers are reviewing the information on a monthly basis and reporting the situation to the Strategy and performance Panel. Senior officers are being held to account both within the quarterly reporting to the Panel and by the need to authorise the final figures that are submitted to EDC.
- 20** The Council's performance information systems contain adequate controls to ensure data integrity however, the Council does not regularly consult with staff when developing or implementing its systems. All responsible officers are known to the Corporate Performance Team and have been set up to enter and authorise individual departmental information. Data is checked by departments and re-checked for variances and transposition etc by the CPT. The system is monitored regularly. Monthly reports to the Senior management Team and members are checked for accuracy by the CPT before they are produced. The Council has appropriate

environmental and security systems in place for protection of the data. Any problems would be reported to the Corporate Director of Finance and Corporate Management Team.

- 21** Standards are not specified for the majority of shared data or data supplied by third parties. There are some data sharing protocols in place for some services, for example the CDRP and Housing agreements with Shelter, and for the Southwest One partnership. The Council acknowledges that it should put in place data sharing protocols for all its key partnerships.

### Recommendation

**R2** Ensure that staff are consulted when systems are due for replacement or revision.

**R3** Data quality and data sharing protocols are required for all data that is shared with third parties / partnerships.

### People and skills

- 22** The Council has communicated clearly the responsibilities of staff, in particular heads of service and those responsible for the correct collection, analysis and recording of performance information. Additional guidance has been provided by the Corporate Performance Team and added to the Intranet, this includes clear guidelines to the use of and reporting from the Performance Management System. The roles and responsibilities for data quality are applied throughout the organisation. The Council has provided clear guidance as to the level of quality it requires and had increased its staff capacity to improve its arrangements to deal with information management and data quality. However, in 2008/09 this capacity declined with both the Head of Performance and his deputy leaving or moving to other areas of the Council.
- 23** There is no formal programme of data quality training, although development opportunities are identified as part of the Council's personal development programme. Staff with specific responsibilities for data input and /or data quality have received data quality training. There is update training for staff to ensure the latest changes in data quality procedures and such legislation as the freedom of information and data protection act are well understood. All training is evaluated and linked to staff assessments. Performance and key staff involved in information and performance management are well qualified and trained. They well regarded and trusted by partners and councillors.

### Recommendation

**R4** Ensure that adequate resources are available to support the Council in the provision and delivery of performance and data quality issues.

**R5** Implement a formal programme of data quality and data awareness training.

### Data use and reporting

- 24** The Council has put in place effective arrangements for the monitoring and scrutiny of performance. For example the Strategy and Performance committee considered the

## Detailed findings

analysis of the statutory performance indicators at its meeting of the 18th December and 4th March 2008. Comparisons were made with other councils across the 83 performance indicators and 22 user satisfaction indicators. The analysis revealed that the Council's relative performance had deteriorated from the previous year with fewer "top quartile" indicators and more "bottom quartile" indicators. In order to retain the CPA's top rating of an "Excellent Council", the analysis focussed on identifying underperformance and taking action to achieve improvement.

- 25** Performance reports relate performance information to specific targets in the corporate strategy. Reports are used to monitor service delivery, forecast year-end achievement, and identify areas where action is needed. The Corporate Strategy is established through the annual priorities consultation, consideration of government and local priorities and the community strategy. The Corporate Strategy then informs service planning, the Medium Term Financial Plan, budget setting and service delivery.
- 26** The Council maintains an audit trail for its performance indicators both within the performance management system and through manual folders. These show how the indicator was calculated, who was responsible for the calculation and who signed it off. The Corporate Performance Team routinely check the system and have followed up last year's problems with HR, Housing and Planning indicators. These were checked as part of DQ3. Data returns to government departments are also subject to the same framework and sign off by senior officers.
- 27** Improvements have been made to the effectiveness of information governance since the last review. The Strategy and Performance Panel is now receiving quarterly reports which include an update on data quality. Each department is asked to report on its performance indicators with particular reference to those areas causing concern during 2007. These include Planning, Personnel and Housing (Decent Homes). Separate reports are produced and presented by the Corporate Performance Team and to the Strategy and Performance Panel on a monthly basis. The dashboard reports are subject to Member challenge especially in relation to problem areas. The CPS is discussing with Members the form and content of the reports to improve their effectiveness. Internal audit are also carrying out further reviews of financial and management data.

---

### Analytical review (Stage 2)

- 28** The Audit Commission identified seven BVPIs where the Council's published performance was either outside the normal range or where the variance from the previous year's figure was larger than would be expected. From our further enquiries in relation to these PIs, we were satisfied that there were reasonable explanations for the Council being an outlier or for the variation from the previous year for six of the seven PIs.
- 29** In the case of BVPI 204 - % appeals against a decision to refuse a planning application - we found that for 2007-8, and indeed for previous years, the Council had used the wrong definition when calculating the reported PI. The correct figure has now been reported to DCLG and on the Council's website.

**Recommendation**

**R6** Ensure that the correct definition is used when calculating BVPI 204.

**Data quality spot checks (Stage 3)**

**30** Three PIs were reviewed - the two mandatory housing benefit PIs, 78a and 78b, and BVPI 184a - % council dwellings which were non decent at the start of the year. We used a series of detailed spot checks and audit tests for these PIs. Our findings are shown below.

**Table 2 Spot check findings**

Performance indicator	Assessment	Comment
Housing Benefits BVPI 78a - Speed of processing new claims	Unfairly stated	The following errors were identified from our sample testing: <ul style="list-style-type: none"> <li>• incorrect start date used;</li> <li>• no start date included in the Section 124 stats.</li> </ul>
Housing Benefits BVPI 78b - Speed of processing changes of circumstances	Unfairly stated	The following errors were identified from our sample testing: <ul style="list-style-type: none"> <li>• use of incorrect decision date,</li> <li>• no start date included in Section 124 stats,</li> <li>• no notification date on Section 124 stats.</li> <li>• claim being recorded as a change of circumstances when it was a new claim</li> </ul>
Housing BVPI 184a - % non-decent homes at start of year.	Fairly stated	-

## Detailed findings

Performance indicator	Assessment	Comment

- 31** For the HB PIs, we found that the receipt date of claims was inconsistently recorded. Claims should be date stamped when received in the department, but we found that this was not always the case. A spreadsheet is kept by the Revenues Team to record dates received but we noted that for one case the date on the spreadsheet was not the same as that stamped on the form when it was received.
- 32** We are informed that the IBS system is not going to be used to record the Section 124 stats in future and that an alternative system is in place to monitor the speed at which claims are processed. The dates of receipt or notification were not always included in the IBS system. If one date only was given, the statistics automatically recorded a processing time of one day, therefore incorrectly recording the processing time.
- 33** The department aims to check 4% of all claims to ensure they are being accurately processed. This test could be extended further to include testing of receipt and notification dates to the statistics.

### Recommendation

- R7** Date stamp all documents when received and check that the date on the control spreadsheet agrees to the date stamp if this is to be used for monitoring purposes.
- R8** Extend the system in place to monitor speed of processing claims to include a check that accurate start and end processing dates are recorded.
- R9** Ensure that at least 4% of claims are checked each month and that the dates are agreed for these checks to the monitoring statistics.

# Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
DQ1 - Management Arrangements						
7	R1 A formal strategy for data quality should be produced. There are a number of model strategies that could form the basis of the Council's strategy. These could be easily modified for the Council and would provide clear direction for the Council and its staff.	3	Adrian Gladstone-Smith	Y	-	Feb 09
8	R2 Ensure that staff are consulted when systems are due for replacement or revision.	3	Adrian Gladstone-Smith	N	Without the specific examples forthcoming it was not possible to provide evidence to the contrary. The Council widely consults on new systems. A good example of this is the current transformation work where the Council have committed a large resource to consultation with staff.	In Place
8	R3 Data quality and data sharing protocols are required for all data that is shared with third parties / partnerships.	2	Adrian Gladstone-Smith	Y	Our major partnership, Southwest One, has contractual protocols.	Mar 09
8	R4 Ensure that adequate resources are available to support the Council in the provision and delivery of performance and data quality issues.	3	Shirlene Adam	Y	Of a team of four officers, three vacancies have recently been filled and we are now at full complement. Any additional resourcing will be considered as part of the Core Council review.	Feb 09
9	R5 Implement a formal programme of data quality and data awareness training.	2	Adrian Gladstone-Smith	Partly	Key officers are trained. Information and awareness training will be provided to all staff	Feb 09



## Detailed findings

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					on issuing the Data Quality Strategy.	
	DQ2 - Analytical Review					
10	R6 Ensure that the correct definition is used when calculating BVPI 204.	3	Adrian Gladstone-Smith	Y	BVPIs have now been abolished although this is being retained as a local indicator.	In Place
	DQ3 - Spot checks					
11	R7 Date stamp all documents when received and check that the date on the control spreadsheet agrees to the date stamp if this is to be used for monitoring purposes.	3	Heather Tiso	Y	-	Immediate
11	R8 Extend the system in place to monitor speed of processing claims to include a check that accurate start and end processing dates are recorded.	3	Heather Tiso	Y	System already in place	In Place
11	R9 Ensure that at least 4% of claims are checked each month and that the dates are agreed for these checks to the monitoring statistics.	3	Heather Tiso	Y	Current practices being amended	Jan 09

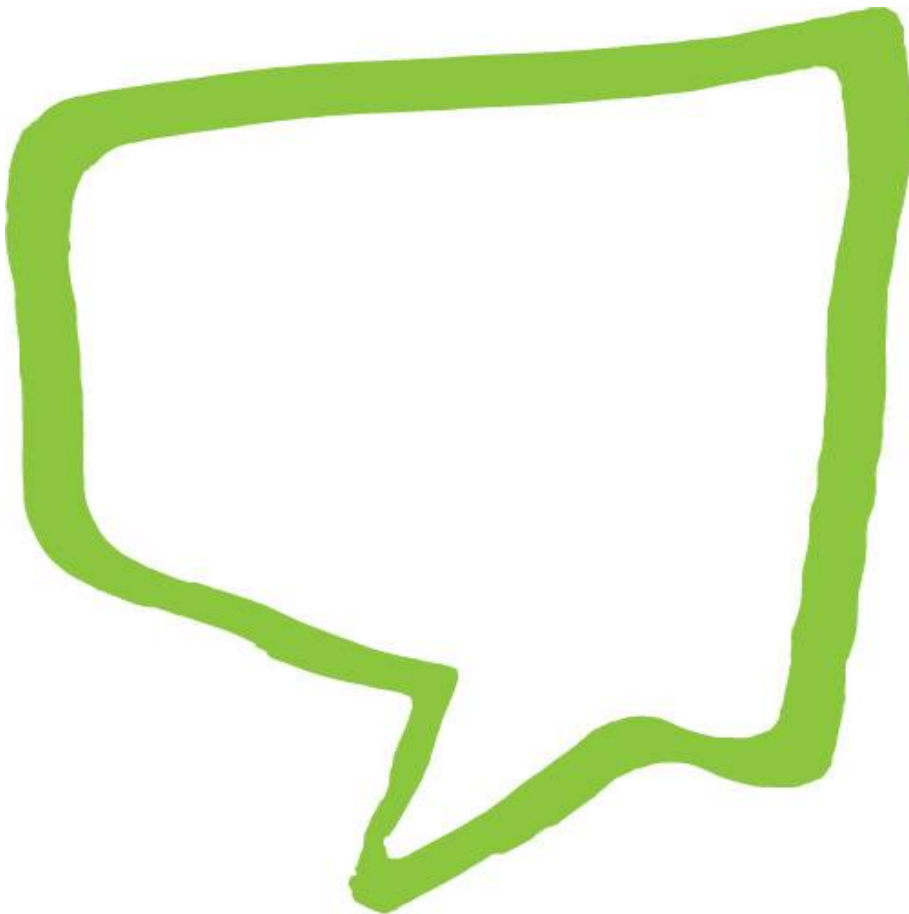
# Southwest One

---

Somerset County and Taunton Deane Borough  
Councils

Audit 2007/08

September 2008



---

# Contents

<b>Introduction</b>	<b>3</b>
<b>Detailed findings</b>	<b>7</b>
<b>Appendix 1 – Action plan (Somerset County Council)</b>	<b>18</b>
<b>Appendix 2 – Action plan (Taunton Deane Borough Council)</b>	<b>21</b>

---

## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

# Introduction

- 1 Somerset County Council and Taunton Deane Borough Council have created a joint venture company known as Southwest One (SW1) with IBM to deliver a range of services under a ten-year contract worth £400 million. Its vision is to enable the social transformation of Taunton, Somerset and the South West, to deliver better value for money for council taxpayers and improve access to services for residents within Somerset. These initial partners were joined by Avon & Somerset Police Authority (ASPA) in March 2008. This review does not cover the role of the ASPA.
- 2 The contract is a complex arrangement involving a range of service delivery and financial risks for the councils involved. The arrangements put in place at the start of the contract will influence the value for money delivered. The value for money achieved will depend upon the quality of the ongoing management of contract performance.
- 3 In accordance with our responsibilities under the Code of Audit Practice, we have undertaken a review to assess the adequacy of the councils' arrangements for managing the project and achieving value for money over the period of the contract.

---

## Background

- 4 Somerset County Council, Taunton Deane Borough Council and the Police Authority were the lead bodies in a procurement process which asked the private sector to provide a number of back office services. This process allowed bids for just the identified services or for the provision of a variant bid incorporating additional or different service combinations which the bodies could opt to receive. This is normal practice as it allows the private sector the opportunity to offer an enhanced service provision and allow for innovation in the proposed solutions.
- 5 The contract was advertised in the Official Journal of the European Union (OJEU) in 2004. A novel feature of the advertisement was that a large number of public sector bodies were identified as interested parties. This arrangement allowed the public bodies identified in the advertisement an option to receive services within a period of four years from the date of contract award. The contract was classified as a framework contract in respect of the public bodies named in the advertisement.
- 6 The chosen solution was for the establishment of a Joint Venture Company (JVC) called Southwest One (SW1). This company is jointly owned by IBM and the lead bodies and is designed to deliver a range of backroom support services, referred to as "in scope" services, together with a series of additional transformation projects and services which are designed to improve service delivery to the public. SW1 will be solely responsible for the provision of services.

- 7 The transformation services are a set of improvement initiatives which should provide the councils with improvement opportunities. They are organised into ‘waves’ and the councils are only contracted at present to pay for the first wave. The transformation projects are at an additional cost, over and above the ‘in scope’ services and funding this may be a challenge for the councils. An element of the funds required for the transformational projects is expected to be recovered from procurement efficiencies which form a key part of the transformation package. The two councils differ in their reliance upon procurement savings and the County Council expect to gain much of its affordability from other efficiency savings. The following table summarises the key services and projects covered by Southwest One.

**Table 1 Key services and projects covered by Southwest One**

‘In scope’ services	Transformation projects
<ul style="list-style-type: none"> <li>● ICT</li> <li>● Finance</li> <li>● Human resources</li> <li>● Property</li> <li>● Facilities management</li> <li>● Revenues and benefits</li> <li>● Customer call centre</li> <li>● Procurement</li> </ul>	<ul style="list-style-type: none"> <li>● SAP</li> <li>● Customer relationship management</li> <li>● People excellence model</li> <li>● Procurement</li> <li>● Pilot of Locality based services</li> </ul>

### Audit approach and objectives of our review

- 8 The objectives of our review were to:
- assess the adequacy of the procurement process and associated governance arrangements;
  - assess how the councils have identified the service and financial risks associated with the project
  - review the risk management arrangements which aim to mitigate identified risks;
  - review the contract management arrangements; and
  - evaluate the arrangements established to ensure that the project demonstrates value for money.
- 9 Grant Thornton UK LLP, the County Council’s external auditors prior to 2007/08, has also completed a review of aspects of the Southwest One project relevant to their responsibilities in 2006/07. This included an assessment of the issues raised by the local staff union (UNISON). As part of this review we have, where appropriate, placed reliance on Grant Thornton’s review to avoid duplicating any other external audit work.

## Introduction

- 10 In undertaking this work, we have conducted interviews with key officers from Somerset County Council and Taunton Deane Borough Council and reviewed relevant documentation.

---

## Main Conclusions

### Procurement and governance arrangements

- 11 The appointed auditor for Somerset County Council in the period to 31 March 2007 was Grant Thornton UK LLP (formerly Robson Rhodes). As part of their responsibilities they reviewed the County Council's procurement arrangements from early 2005 to the selection of the preferred bidder in March 2007. They concluded that the council's arrangements were robust, such that they were able to place reliance upon them for the purposes of their audit responsibilities.
- 12 We have concluded that the councils' procurement and governance arrangements beyond April 2007 were robust. Appropriate senior officers were used in the negotiation phase with the preferred bidder and councillors being kept informed of progress, consulted at key stages of the project and provided with information to support the decision making process.
- 13 In addition, the councils' appointment of KPMG to provide advice and expertise, together with the independent review undertaken by MAANA, provide additional assurance over the conduct of the procurement process.

### Service and financial risks

- 14 The councils have identified and appropriately assessed the main service and financial risks associated with the contract. However, the financial success of this contract is dependant upon the JVC's performance in delivering procurement savings and the ability of the councils' client side organisation to manage contractual performance.
- 15 The estimated savings over the period of the ten-year contract is in the region of £200 million. Whilst this appears to be a large quantum of savings it represents approximately 2.75 per cent of the combined spend of the two councils over the same 10 year period. This appears to be an achievable level of savings.
- 16 Monitoring and agreeing the achievement of savings will be a crucial factor in the success of the contract particularly since the councils will need to implement the changes necessary to realise the identified savings once they have been agreed.
- 17 SW1 and the councils need to develop a business expansion plan which takes account of potential resource conflicts between providing services and taking on new business. Whilst the councils will also benefit financially from additional clients, this will need to be assessed against the risks associated with business expansion.

### Risk and contract management arrangements

- 18 The councils' risk management arrangements are satisfactory but will require ongoing review to maintain effectiveness. The governance model in place takes the form of regular reporting of business performance and is supported by an overarching framework.

- 19 The present contract management arrangements provide a good starting point for managing a complex contract. Key members of the procurement team from each of the councils have been retained to manage the contract. The councils will however, need to monitor the success of the client side in managing and reporting performance and develop appropriate succession planning arrangements.

### Arrangements to secure value for money

- 20 The need to continue to ensure value for money within the performance and achievements of the JVC will be of critical importance and an ongoing priority for both councils. Whilst the present arrangements to achieve this appear to be satisfactory, they will need to be regularly tested and subject to ongoing scrutiny, as do the achievement of benefits realisation reviews.
- 21 Ultimately, value for money will be secured through effective contract management arrangements which results in cost reductions, increased efficiency or improved delivery of services. We understand that a series of comprehensive performance measures and benchmarking activities will be used to assess the delivery and value for money of the contract. We will continue to monitor the progress in this area as part of future audits.

# Detailed findings

---

## Procurement and governance arrangements

### Arrangements prior to April 2007

- 22** The appointed auditor for Somerset County Council in the period to 31 March 2007 was Grant Thornton UK LLP (formerly Robson Rhodes). As part of their responsibilities they reviewed the County Council's procurement arrangements from early 2005 to the selection of the preferred bidder in March 2007. Their review is also of interest to Taunton Deane Borough Council as the process for procuring the contract was very similar.
- 23** Grant Thornton concluded that the County Council's arrangements were robust, such that they were able to place reliance upon them for the purpose of their audit. Specific areas highlighted were that:
- councillors were kept properly informed and involved in the decision making process;
  - appropriate governance arrangements were in place; and
  - a detailed legal review had been undertaken.
- 24** Grant Thornton also considered a number of issues raised by UNISON, the local government union. These were raised in a letter from UNISON to the District Auditor and covered issues which UNISON believed might have had an impact upon their members, especially those who were being transferred under assured employment terms to the JVC. Grant Thornton's key findings were as follows.
- Scrutiny was provided by the Joint Councillors Advisory Panel on a regular basis with key decisions reported to a wider group of councillors.
  - The JVC was to be subject to member scrutiny and that elected councillors would be on the JVC board.
  - Performance would be reported to councillors and whilst identifying savings were the responsibility of the JVC, the Council retained the responsibility to implement savings.
  - A review of property would form part of the contracted services with the benefit of any asset sales accruing to the Council.
  - The deal supported the sustainability of current jobs and it was expected that skill and knowledge transfer would occur; in addition, the JVC are contracted under 'assured deliverables' to create an additional 200 jobs over the contract term.
  - Inward investment was part of the core deal and transformation projects.
- 25** In summary, Grant Thornton did not identify any issues which required a specific report to those charged with governance.



### Arrangements post April 2007

- 26 We have concluded that the procurement and governance arrangements beyond April 2007 were robust. Appropriate senior officers were used in the negotiation phase with the preferred bidder and councillors were kept informed of progress and consulted at key stages of the project.
- 27 In addition, the councils appointed KPMG to advise them, provide appropriate expertise and act as a focal point for the contract negotiations. The councils also received a report on the procurement arrangements from an independent reviewer, MAANA. This independent scrutiny provided assurance to councillors over the conduct of the procurement process.
- 28 We understand that there have been some concerns over the use of MAANA to provide a view of the process. However, we are satisfied that they are an appropriate organisation to conduct such a review. MAANA have provided services to a range of high profile public and private sector clients.

### Procurement process

- 29 IBM was selected as the preferred partner during March 2007. The main risk in the period after the selection of a preferred bidder is that the commercial terms which led to the selection could be subject to material change. Such changes in terms of cost, quality or deliverables creates the risk of a reduction in the value for money received from the contract and potential challenge from unsuccessful bidders.
- 30 Senior officers from each council were made available to negotiate with IBM including officers with experience of managing private sector contracts. These included the Corporate Director of Resources and Head of Client from Somerset County Council and the Strategic Director and Head of Client from Taunton Deane Borough Council.
- 31 These same officers will form the basis of providing management to the 'client side' which is responsible for the day to day management of the contract. This follows the good practice noted in the Audit Commission's national report on Strategic Partnering 'For Better for Worse' which notes that maintaining contract knowledge is vital to effective contract management.
- 32 In addition, the appointment of KPMG to assist with the negotiations with IBM provided additional capacity and skills in the period up to contract close. In particular, KPMG provided expertise in commercial areas including legal and financial issues. This also provided more focused contract negotiations during the preferred bidder stage.
- 33 We also note that changes to the contract in the negotiation period resulted in improvements in terms of:
- better pricing of the transformation services by up to 30 per cent;
  - improved pricing of the in scope services to achieve at least 2.5 per cent year on year saving for the councils; and
  - higher quality service deliverables, for example:
    - SW1 became responsible for SAP maintenance costs;

## Detailed findings

- achievement of Investors in People (IIP) status by 2010; and
- doubling the achievement of ‘first time fix’ for helpdesk callers.

**34** The negotiation delivered a contract which will provide the existing service package at a lower cost compared to that currently incurred by the councils. The average saving represents a real term cost reduction of 2.5 per cent per annum, assuming the same volume and range of services as is currently being delivered.

### Governance arrangements

**35** Governance arrangements centred on regular reporting to councillors from each council. The main procurement decision and associated governance activities were carried out prior to the selection of the preferred bidder and, as such, was within the remit of Grant Thornton's review referred to previously.

**36** The governance arrangements established by the County Council during the preferred bidder stage consisted of regular reporting to the Executive Board and the Scrutiny Committee calling in the reports for further review. With regard to Taunton Deane Borough Council, reports were received by the Full Council and the Executive Committee. These meetings and reports occurred regularly during the period from 1 April 2007 to contract close and provided councillors with sufficient information to make effective decisions regarding the project. In addition, there were regular meetings of the Joint Member Advisory Panel and briefings for Group Leaders.

**37** Other key areas of assessment in this period included:

- the external consultants (MAANA) review of the bid;
- UNISON reports and representations;
- approval of client function (size and composition);
- JVC governance arrangements;
- approval of ‘1st Wave’ projects; and
- key service aims of the contracting process.

**38** At the stage where councillors supported the recommendation to sign the contract. The information provided by officers included:

- affordability assessment;
- assured savings targets;
- the scope of Wave 1 projects;
- improvements negotiated in preferred bidder period;
- process for agreeing savings from the procurement transformation project; and
- the full business case and supporting financial case.

- 39 The councils secured a review of the procurement arrangements from the MAANA consultancy. MAANA are a consultancy firm who specialise in public sector services and have a particular interest in the relationship between the public and private sector in the provision of services. They have a number of high profile public and private sector clients and have provided consultancy to central and local government as well as large private sector companies involved in the provision of public services. MAANA are 4Ps accredited.
- 40 Their report set out a number of issues for the councils to address in closing the contract. These included:
- agreeing a single point of contact to focus negotiations;
  - establishing a joint risk register;
  - agreeing a timetable for negotiations;
  - increasing legal support;
  - improving intra-council communication; and
  - considering re-phasing of transformation projects.
- 41 These issues were subsequently addressed by the councils. Key to this approach was the strengthening of the legal and financial consultancy from Veale Wasbough and KPMG which helped provide the necessary focus. The launch of a Southwest One website also helped improve communication.
- 42 The independent scrutiny provided by the MAANA report provided the councils with additional assurance that the procurement process up to the preferred bidder stage was satisfactory.

### **Joint Venture Company**

- 43 The creation of a JVC provides additional complexity in this contract. The membership of the JVC Board includes representatives from each council and the Police Authority. This is the first time that representatives from these bodies have been required to serve on a JVC Board and the maintenance of appropriate governance arrangements and the training of representatives need to be a priority now and in the future.
- 44 A range of 'reserved matters' have been secured which form part of the contractual conditions negotiated by the councils. Examples of the reserved matters include the ability to block inappropriate business expansion and preventing a move of the primary operational work centre for the contract away from Taunton.
- 45 Whilst the main activities impacting on the success of the contract will be managed by the client side teams, the councillors on the JVC Board will have a key role in agreeing and influencing decisions made by the Board. Councillor training and succession planning arrangements are currently a priority and this level of support and training needs to be maintained so that the risk to the councils and to individual councillors is minimised.

## Detailed findings

Recommendations	
R1	Ensure that representatives on the JVC Board are able to access appropriate training and support and that succession planning arrangements are in place.
R2	Provide for succession planning in the client side teams to maintain contract knowledge and contract management effectiveness.

---

## Service and financial risks

### Service risks

- 46 The councils have identified and appropriately assessed the main risks in service delivery across the whole of the contract which include:
- maintaining current service delivery;
  - maintaining service quality after realisation of savings;
  - the impact of new services and procedures on service delivery;
  - the introduction of new IT systems;
  - the impact of changes to service volume and composition;
  - managing changes to service/statutory requirements; and
  - the future financial environment in local government.
- 47 The majority of risks in the service period are borne by SW1 and, in turn, their majority owner, IBM. SW1 is responsible for fulfilling their contractual obligations in respect of the services to be provided and the contract allows penalties to be levied on SW1 for lower than specified performance and for the non-availability of services. In addition, IBM have provided a parent company guarantee, so that services will be maintained in the case of SW1 failing to provide services.
- 48 There are also risks associated with statutory and financial environment changes in local government. Given that change is frequent within the operating environment of local government it is most likely that significant changes may occur during the contract period. The councils and councillors need to be aware that any change has the potential of affecting the contract.
- 49 Effectively communicating the detailed contractual information to councillors responsible for scrutiny will be a challenge. It will be important for the councillors to maintain and improve their understanding of the contract. It would be good practice for senior officers to facilitate the familiarisation of councillors in the important contract terms and to assess the need to update councillor knowledge periodically, particularly when there are changes to committee membership.
- 50 This contract is of such a size and complexity that maintaining services during the service transition period will be a challenge. There are short term risks to the maintenance of current service standards, however, the risk register appropriately identifies this as a key risk to be managed.

- 51** Effective contract management arrangements will be essential in ensuring that value for money is achieved from the contract. In facilitating this, we note that the arrangements established by the councils include:
- a client side based upon officers with expert knowledge of the contract;
  - a schedule of regular weekly meetings with the client;
  - arrangements for the review of performance data; and
  - agreement of monthly payments to SW1 based upon performance.
- 52** Part of the contract monitoring activities will include close scrutiny of performance data. Whilst the contract is designed to operate in a partnership style, it is important that the councils can demonstrate that the service provider is delivering the contracted service standards. Once the service provider has demonstrated the ability to perform and performance data can be relied upon, then there may be scope to reduce contract supervision. This is good practice because it is easier to rectify performance issues early in the contract before service 'norms' become established in practice and, subsequently, reduce the level of monitoring rather than increase it in the face of poor performance.

### Financial risks

- 53** The councils have effectively assessed the financial risks associated with the project. The financial success of this contract is dependant upon the JVC's performance in delivering procurement savings and the ability of the councils' client side organisation to manage contractual performance.
- 54** The transfer of staff has been on a secondment model, such that should the contract fail, the councils would have access to these staff to run services. In addition, the risks associated with staff redundancies are borne entirely by SW1 and in turn IBM. There are no circumstances during the contract period which would lead staff liabilities to be returned to the councils.
- 55** The total cost of the contract over 10 years is £400 million, with the in-scope services costing some £348 million of this total. These costs are fixed except for material changes in volumes of transactions or services required. This is normal practice in such contracts and allows for changes of costs associated with volume and service changes to be passed onto the councils. Additional costs would only be incurred where the councils agreed to the changes.
- 56** The transformation services cost approximately £52 million, however, this aspect of the contract includes a review to identify 'cashable' procurement savings which are achievable with no impact on service provision. These would be savings in the cost of items or services bought by the councils or smarter ways in which the councils could provide public services.
- 57** These procurement efficiencies will contribute towards the affordability of the transformation projects and potentially release additional resources to enhance service provision. The contract refers to the forecast procurement savings as 'assured' which means that they are not guaranteed, however, SW1 will use their 'best endeavours' to identify these savings and will need to remain 'on site' until the assured savings have been achieved.

## Detailed findings

- 58 The proposed procurement efficiencies will be focused on front line services as the potential for efficiencies within in-scope services is more limited as the main cost of providing in-scope services relates to staff costs, which are essentially fixed for the JVC as in-scope staff have assured employment.
- 59 The estimated savings over the period of the ten-year contract is in the region of £200 million. Whilst this appears to be a large quantum of savings it represents approximately 2.75 per cent of the combined spend of the two councils over the same ten-year period. This appears to be an achievable level of savings.
- 60 Monitoring and agreeing the achievement of savings will be a crucial factor in the success of the contract, particularly since the councils will need to implement the changes necessary to realise the identified savings once they have been agreed.

### Organisational capacity

- 61 The County Council's revenue spending is more than 20 times greater than that of the Borough Council and, as such, differing approaches for scrutinising and reporting the financial performance and risks associated with the contract will be required.
- 62 For example, whilst the savings may be on target for the contract as a whole and building towards the threshold for benefit sharing with SW1, if these are biased towards the County Council, there is potential for the Borough Council to be financially disadvantaged. The two councils have signed a memorandum of understanding in respect of such matters, however, the risks related to savings needs to be considered in reporting contract performance.

### Recommendations

- R3 Make contract monitoring a priority for the early period of the contract and only vary this in response to good performance and excellent contract monitoring information.
- R4 Regularly review the adequacy of resources available for monitoring and managing the contract.
- R5 Establish robust arrangements for monitoring progress in identifying and delivering savings and ensure that this has appropriate regard to affordability.

### Implications of business expansion

- 63 SW1's capacity to fulfil the contract may be impacted by targeting business expansion. The procurement was designed to allow a large number of public bodies access to services within a framework agreement. There is a financial benefit to the JVC, in terms of economies of scale, as increasing numbers of additional public bodies opt to receive services from SW1.
- 64 Business expansion will require time and resources from staff within SW1 and this, together with the input required from key council staff in mobilising the contract at Somerset County Council and Taunton Deane Borough Council, should not be underestimated.

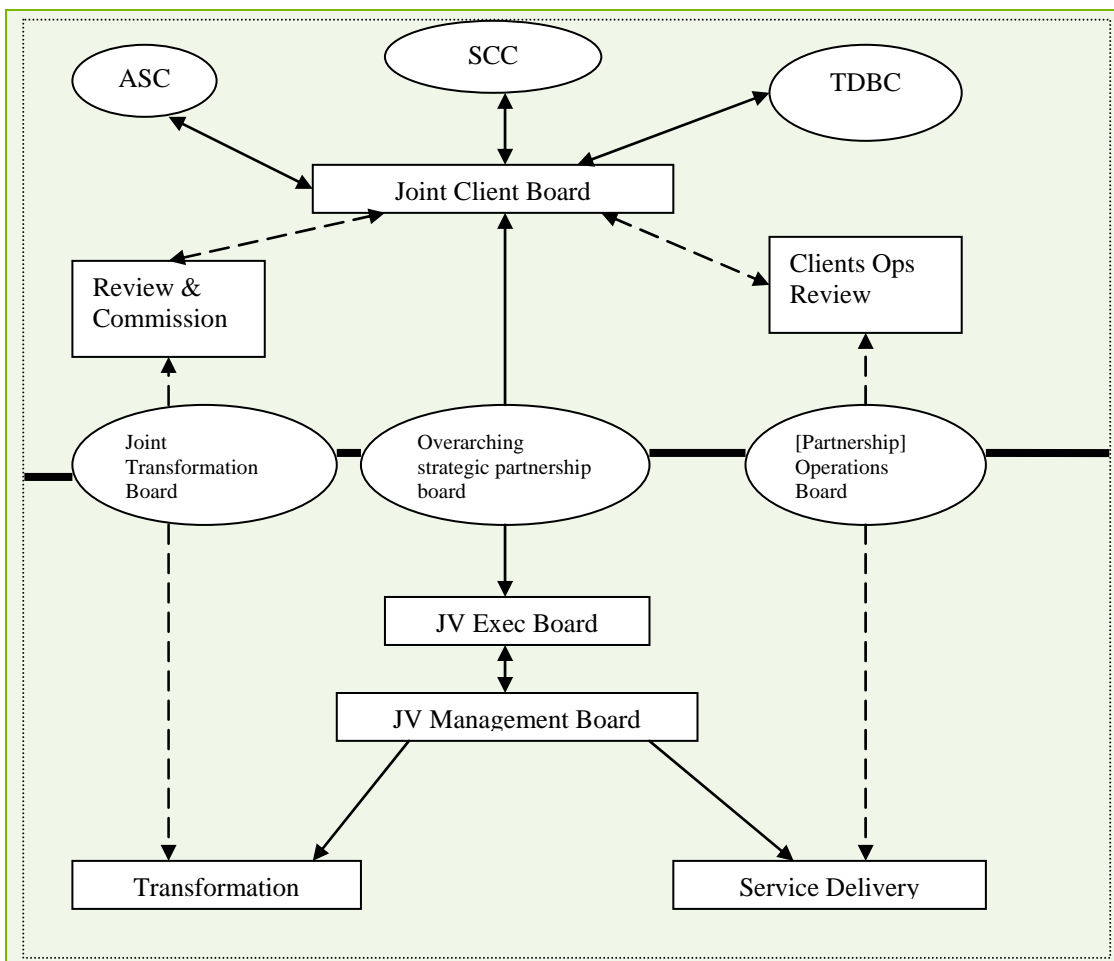
- 65 SW1 and the councils need to develop a business expansion plan which takes account of potential resource conflicts between providing services and taking on new business. Whilst the councils will also benefit financially from additional clients, this will need to be assessed against the risks associated with business expansion.
- R6 Assess the potential impact of business expansion and use 'reserved matters' powers to ensure that growth is not at the detriment of core service delivery.

**Risk and contract management arrangements**

**Risk management**

- 66 The councils' risk management arrangements are satisfactory but will require ongoing review to maintain effectiveness. The governance model in place takes the form of regular reporting of business performance and is supported by an overarching framework as illustrated in Figure 1 below.

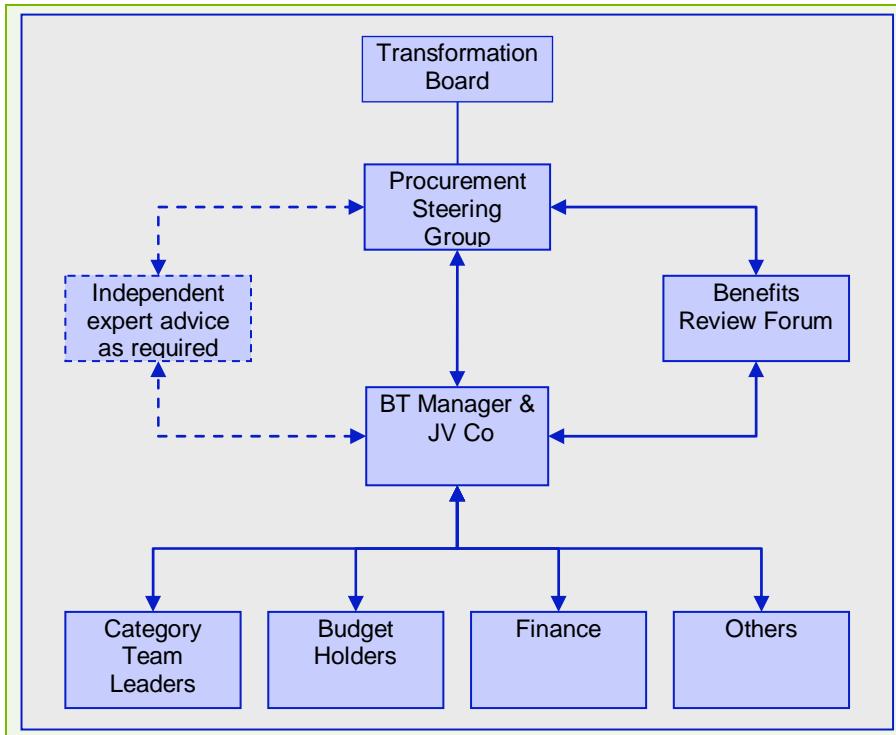
**Figure 1 Overall governance arrangements**



## Detailed findings

67 A key part of the governance framework for the transformation aspect of the contract is the Procurement Steering Group which includes representatives from each council and IBM. The governance arrangements for this aspect of the contract are illustrated in Figure 2 below.

**Figure 2 Transformation governance arrangements**



68 The core responsibilities of the Procurement Steering Group (PSG) are as follows:

- final authority for signing-off benefits;
- review and agree the JV Co Benefits Tracking billing schedule;
- resolve any issues which have been escalated;
- represent their part of the business;
- provide overall direction for the Procurement Transformation Programme;
- approve overall direction, resources, milestones;
- make judgement on priorities when required;
- monitor delivery of benefits;
- make the appropriate resources available;
- supervise any change requests; and
- address change management issues;



69 In addition, the PSG is required to consider key issues arising in respect of stakeholder commitment, the benefits realisation plan, team performance and risk management. The PSG meets monthly and is supported by a Benefits Review Forum which meets weekly. This information is also regularly presented to the senior management teams at each council. These arrangements appear reasonable in assessing overall contract performance and ensuring that the risks associated with the delivery of savings are monitored on a regular basis.

### Contract management

- 70 The present contract management arrangements provide a good starting point for managing a complex contract. Key members of the procurement team from each of the councils have been retained to manage the contract. The councils will however, need to monitor the success of the client side in managing and reporting performance and develop appropriate succession planning arrangements.
- 71 The client side function of each organisation is responsible for management of the contract. These functions are led by officers who were involved in negotiating the contract which helps in ensuring continuity of knowledge. This is good practice as poor contract management has been noted where procurement teams are disbanded after the tender process is complete.
- 72 The two client side teams consist of officers from both councils who are responsible for the contract as a whole. This arrangement helps to manage the potential differences in resources which each council can contribute to the client side and is appropriate as in service terms over 80 per cent of the contracted services are common to both councils.
- 73 The contract allows deductions for poor performance. The total at risk in any one year is £2 million. This will be based upon the level of performance described by a series of key performance indicators (KPIs). This is a key part of the leverage which the councils can exert upon the operation of the contract although it is also good practice to provide an opportunity to allow the rectification of performance and we understand that arrangements have been established to facilitate this. The client side will, however, still need to regular report contract performance and deductions to councillors.
- 74 The appropriateness of the current client side should be reviewed as there are presently two of these functions, one for each council, and there are differences in the ability to resource this crucial function. Whilst the current arrangement can be effective from the point of view of accountability, a client side team made up of the most skilled and knowledgeable officers regardless of which organisation employs them might be more effective.

### Recommendations

**R7** Review the current client side model and assess the adequacy of client side capacity.

**R8** Review training and succession planning arrangements for the client side function.

### Arrangements to secure value for money

75 The need to continue to ensure value for money within the performance and achievements of the JVC will be of critical importance and an ongoing priority for both councils. Whilst the present arrangements to achieve this appear to be satisfactory, they will need to be regularly tested and subject to ongoing scrutiny, as do the achievement of benefits realisation reviews.

#### 'In scope' services

76 The councils pay for the services provided by the contract in a single unitary payment which can be abated for service failures. The contract is priced to allow for a reduction in the cost of core services of at least 2.5 per cent per annum which was market tested as part of the procurement process. The councils selected a variant bid which included a number of additional transformation projects. The cost of these services was benchmarked as part of the consultancy provided by KPMG which provides additional assurance over their value for money.

77 Ultimately, value for money will be secured through effective contract management arrangements which results in cost reductions, increased efficiency or improved delivery of services. We understand that a series of comprehensive performance measures and benchmarking activities will be used to assess the delivery and value for money of the contract. We will continue to monitor the progress in this area as part of future audits.

#### Transformation services

78 The transformation services will be assessed in relation to an agreed timetable containing specific service and financial objectives. The overall arrangements for securing value for money appear to be robust. The contract management and reporting arrangements will assist in providing the councils with value for money.

79 Overall value for money will depend upon delivery of expected benefits and gauging the delivery of the expected benefits will form a vital part of the contract monitoring activities. The value provided by the transformation services will be reflected in the delivery of key and specified project objectives.

80 The councils have a benefits realisation plan which aims to provide milestone reviews of contract achievement. This is good practice and is usual for all large scale public sector projects. It will be important that the councils ensure that they make use of this tool as part of demonstrating the value for money of the contract.

# Appendix 1 – Action plan (Somerset County Council)

Ref.	Recommendation	Priority	Responsibility	Agreed	Comments	Date
R1	Ensure that representatives on the JVC Board are able to access appropriate training and support and that succession planning arrangements are in place.	High	Roger Kershaw	Yes	SWo to share Board Member training plans with the client authorities to understand level of support. County Solicitor to meet with JVCo Member to explain roles and responsibilities. Head of Client to deliver monthly brief to Board Member on current issues and JVCo performance, providing access to information as required. SRO to monitor Board Member to ensure any specific training or information needs and support can be provided. The Leader of the Council understands the need for and role of the Board Member which is one of many important, strategic appointments to be managed. SRO to review with the Leader options for succession planning.	Ongoing
R2	Provide for succession planning in the client side teams to maintain contract knowledge and contract management effectiveness.	Medium	Roger Kershaw	Yes	We will continue the ongoing maintenance of an effective archive system for client team records to properly log the development and audit of key decisions and processes. We will ensure the effective use of our governance structure so that decisions are known and supported by many layers of staff. The contract will be managed across the team by officers leading on individual elements within the contract to collectively make up the required total body of knowledge. Steps will be taken to ensure shared learning within the Client Team.	Ongoing

## Appendix 1 – Action plan (Somerset County Council)

Ref.	Recommendation	Priority	Responsibility	Agreed	Comments	Date
R3	Make contract monitoring a priority for the early period of the contract and only vary this in response to good performance and excellent contract monitoring information.	High	Roger Kershaw	Yes	The Client Team receive comprehensive monthly monitoring reports from SWO which are analysed using a traffic light system. Officer time is then prioritised accordingly. We have established Highlight Reports for services. Quarterly reports are made to Audit & Resources sub Scrutiny. There will be a strategic review of the contract at key anniversaries. We have an agreed set of Business Critical PI's which carry additional penalties.	Ongoing
R4	Regularly review the adequacy of resources available for monitoring and managing the contract.	Medium	Roger Kershaw	Yes	This is done via the work of the Corporate Director and Head of Service through the normal management channels. We regularly review the workload and priorities of the client team through PRADs, DMT and team meetings which will provide an early indication of potential pressures. Additional resources from within the Resources Directorate are assigned where required.	Ongoing
R5	Establish robust arrangements for monitoring progress in identifying and delivering savings and ensure that this has appropriate regard to affordability.	High	Roger Kershaw	Yes	The Client Team routinely monitor the benefits tracking systems for the transformation projects to ensure they match expectation. We have established clear financial management systems and reporting lines to inform relevant stakeholders of results. The Client Team will monitor contract deliverables across time to ensure compliance with milestones.	Ongoing
R6	Assess the potential impact of business expansion and use 'reserved matters' powers to ensure that growth is not at the detriment of core service delivery.	Medium	Roger Kershaw	Yes	Governance arrangements exist to ensure full engagement of partners in any new business. Protocols exist for the development of agreed implementation and transition plans in the event of further customers.	Ongoing

**Appendix 1 – Action plan (Somerset County Council)**

<b>Ref.</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Responsibility</b>	<b>Agreed</b>	<b>Comments</b>	<b>Date</b>
R7	Review the current client side model and assess the adequacy of client side capacity.	High	Roger Kershaw	Yes	Agreed.	Ongoing
R8	Review training and succession planning arrangements for the client side function.	Medium	Roger Kershaw	Yes	Agreed.	Ongoing

## Appendix 2 – Action plan (Taunton Deane Borough Council)

Ref.	Recommendation	Priority	Responsibility	Agreed	Comments	Date
R1	Ensure that representatives on the JVC Board are able to access appropriate training and support and that succession planning arrangements are in place.	High	Shirlene Adam	Yes	Training for all Board Members took place in January 2008. Ongoing training and support will be provided by Democratic Services and by SW1 lawyers.	N/A Ongoing
R2	Provide for succession planning in the client side teams to maintain contract knowledge and contract management effectiveness.	Medium	Shirlene Adam	Yes	There are good contract knowledge and contract management skills across all Partners. We will continue to review our client side arrangements with the aim of sharing as many tasks as possible.	Ongoing
R3	Make contract monitoring a priority for the early period of the contract and only vary this in response to good performance and excellent contract monitoring information.	High	Shirlene Adam	Yes	Contract monitoring has been a priority in the early months of the partnership. Now that we have robust performance information in place (integrated with the corporate performance monitoring reports), we will focus attention on managing the overall partnership objectives.	Ongoing
R4	Regularly review the adequacy of resources available for monitoring and managing the contract.	Medium	Shirlene Adam	Yes	We will review how we deploy resources to this – as we would on any service within the Council.	Ongoing

## Appendix 2 – Action plan (Taunton Deane Borough Council)

Ref.	Recommendation	Priority	Responsibility	Agreed	Comments	Date
R5	Establish robust arrangements for monitoring progress in identifying and delivering savings and ensure that this has appropriate regard to affordability.	High	Shirlene Adam	Yes	Monitoring arrangements are already in place and will continue to be monitored throughout the life of the partnership.	Ongoing
R6	Assess the potential impact of business expansion and use 'reserved matters' powers to ensure that growth is not at the detriment of core service delivery.	Medium	Shirlene Adam	Yes	Governance around the business growth decisions are being finalised currently and will be shared with Members. PFH and Board Member, and Group Leaders receive regular briefings on potential business growth.	October 2008
R7	Review the current client side model and assess the adequacy of client side capacity.	High	Shirlene Adam	Yes	TDBC's arrangements were reviewed in July 08 and will be reviewed again as part of the Core Council Review in November/December 2008.	December 2008
R8	Review training and succession planning arrangements for the client side function.	Medium	Shirlene Adam	Yes	This will be progressed across all partners.	Ongoing

---

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

---

## Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2008

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



# TAUNTON DEANE BOROUGH COUNCIL

## CORPORATE GOVERNANCE COMMITTEE 16 DECEMBER 2008

### REPORT OF THE FINANCIAL SERVICES MANAGER

This matter is the responsibility of Executive Councillor Henley (Leader of the Council)

### ANNUAL EFFICIENCY STATEMENT 2007/08 & NATIONAL INDICATOR 179

#### **1 Executive Summary**

- 1.1 This report details the Councils final outturn figures against our Efficiency targets and provides forecast data for National Indicator 179, which has now superseded the Annual Efficiency Statement.

#### **2 Introduction**

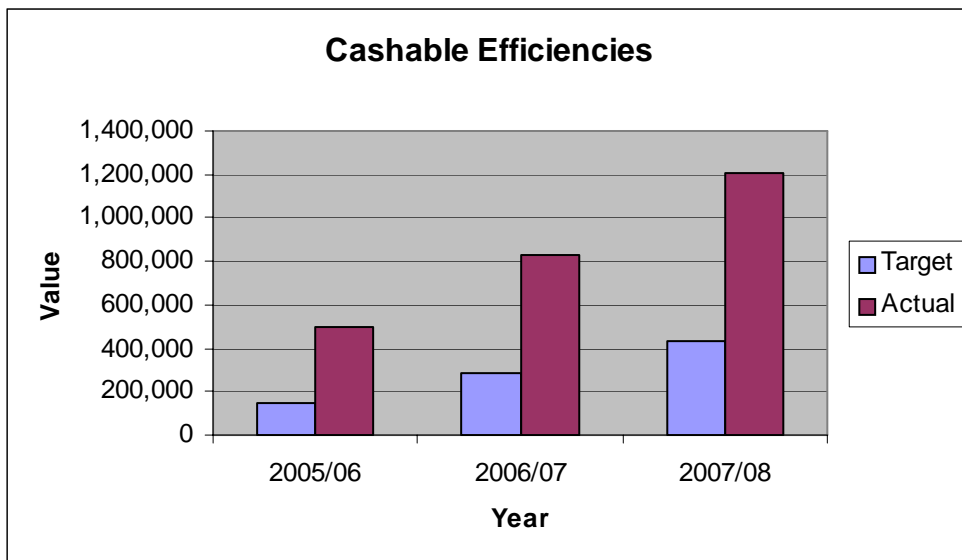
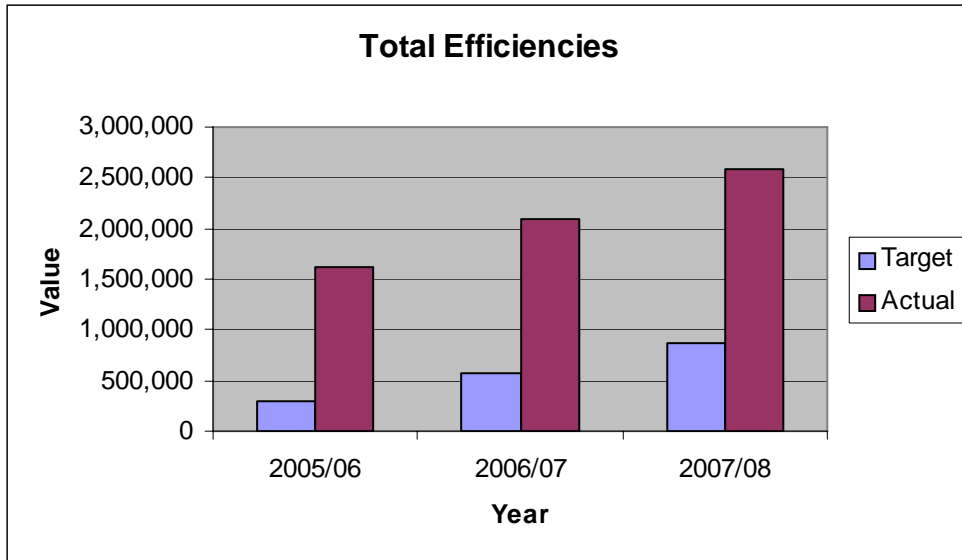
- 2.1 The Government have announced that the Annual Efficiency Statement is to be replaced with a single new performance indicator. This indicator focuses on the value of cashable efficiencies generated by the Council and this feeds into the LAA. This report details the final 2007/08 figures reported by the Council in meeting its 2.5% efficiency target and also provides forecast data for NI179 for 2008/09.

#### **3 Annual Efficiency Statement – 2007/08 Outturn**

- 3.1 The Council has recently submitted its final Annual Efficiency Statement (AES) for 2007/08 to Government. Members may recall that the requirement was for the Authority to demonstrate 2.5% annual ongoing efficiencies each year and as a consequence the Council had been issued target efficiency gains to be made between 2005/06 and 2007/08. At least 50% of efficiencies had to be cashable. The targets are shown below:

<b>Year</b>	<b>Overall Efficiency Target £000</b>	<b>Cashable Target £000 (50%)</b>
2005/06	289	144
2006/07	578	289
2007/08	867	434

- 3.2 The graphs below show the progress made by the Council in meeting the targets:



3.3 The most recent AES submissions show total expected efficiencies of £2.6m, of which £1.2m are cashable. This is clearly well above the targets set and significant contributing factors are the efficiencies created via the Joint Waste collection contract and the expected efficiencies to be generated via Southwest One. This report does not contain a detailed schedule of the particular areas where we have generated efficiencies but the table below does give this information in summary form. Should any Member require the detailed efficiencies then please contact the officer named below.

<b>Sector</b>	<b>2004/05 to 2005/06 £000</b>	<b>2006/07 £000</b>	<b>2007/08 £000</b>	<b>Total £000</b>
Local Transport	9	11		<b>20</b>
Cultural & Sport	5			<b>5</b>

Environmental	35	76	22	<b>133</b>
Social Housing	171	72	209	<b>452</b>
Corporate Services	136	119	146	<b>401</b>
Procurement	95	28	10	<b>133</b>
Transactional Services (ie Revenues)	144	88		<b>232</b>
Misc. (inc web site interaction)	1,066	36	105	<b>1,207</b>
<b>Total</b>	<b>1,661</b>	<b>430</b>	<b>492</b>	<b>2,583</b>

3.4 The overall level of total efficiencies achieved by the Council means that over £337k of these can be carried forward into 2008/09, and count towards the successor to the AES, namely National Indicator 179 which is detailed below.

#### **4 National Indicator 179**

4.1 NI179 has now superseded the AES. This indicator is defined as:

*“the total net value of ongoing cash releasing value for money gains since 2008/09.”*

4.2 This indicator is broadly the same as the cashable element of the AES, and targets for the local authority sector have been increased to 3% per annum from 2.5%, and these are now required to be wholly cashable. Individual targets for each Council will be discontinued, unless as agreed as part of a Local Area Agreement (LAA). This indicator is still required to be signed off by the Chief Executive, S151 Officer and Leader, but reporting is less onerous than the old AES format.

4.3 TDBC has included this indicator within its LAA and has stretched the target from 3% of net revenue and capital expenditure to 3.5%. This is in common with the other Somerset councils and monitoring against this target will be the main way of demonstrating how Pioneer Somerset joint working can produce savings across the County. For TDBC this means that the target for 2008/09 is just over £700k per annum. The Council has calculated that for 2008/09 the estimated level of qualifying value for money gains against this target are £682k, when this is added to the amount that is eligible to be carried forward from the AES, the total gains rise to £1.02m. This is well in excess of the target required under the LAA.

4.4 The main sources of value for money gains come from:

- Savings arising from the creation of the Somerset Waste Partnership (£231k),
- Southwest One contract cashable savings (£104k),
- Estimated Southwest One Procurement Gains (£144k).

## **5 Recommendations**

5.1 As central government funding becomes more limited it will become increasingly important for the Council to generate cashable efficiencies itself and therefore initiatives such as Southwest One will be vital to ensure that the Council can continue to meet its targets and also produce a balanced budget.

5.2 The Corporate Governance Committee are requested to note:

- The final results of the Council in meeting the AES targets, and
- Achievement to date against NI179 stretched targets.

### **Contact Officer:**

Paul Carter

Financial Services Manager

Tel 01823 356418

Email: [p.carter@tauntondeane.gov.uk](mailto:p.carter@tauntondeane.gov.uk)

# TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 16<sup>th</sup> December 2008

## INTERNAL AUDIT PLAN – PROGRESS REVIEW

**REPORT OF THE GROUP AUDITOR (South West Audit Partnership) This matter is the responsibility of Councillor Henley, the Leader of the Council.**

### EXECUTIVE SUMMARY

This report highlights significant findings and recommendations that have occurred since the Committee last considered the findings of Internal Audit reports in September 2008.

#### 1. Purpose of Report

To provide members with an update on the activities of the Internal Audit team for the period September 2008 to December 2008.

#### 2. Work undertaken by Internal Audit September to December 2008

**Operational Audits** - Operational audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. For Operational Audits SWAP aim to provide management and Members with a level of assurance on the robustness of the internal control environment. The following categories of assurance have been agreed:

<p>▲ ★ ★ ★ <b>Full Assurance</b></p>	<p>The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.</p>
<p>▲ ★ ★ ★ <b>Reasonable Assurance</b></p>	<p>Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives</p>
<p>▲ ★ ★ ★ <b>Partial Assurance</b></p>	<p>Most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>
<p>▲ ★ ★ ★ <b>No Assurance</b></p>	<p>The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>

The following operational audit has been finalised since the Committee last met in September 2008 as below:-.

**Stores ▲★★★ Reasonable Assurance** - I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed and although there were a number of issues raised in the report these are in the main opportunities for improvement in the system of controls rather than significant control failures.

Although there are some weaker areas reported we are confident that management are addressing the key areas of risk and that further progress will be made to bring about improvements in the overall control framework.

The main issues raised and management responses are as follows:-

The stores holds a wide range of stock items which are over 1 year old with dates of last issue going back to 2002. The total value of these stocks is £10,469.66 which is nearly 10% of total stock value. Whether many of these items will be used in the future is open to question. Stocks have accumulated for various reasons. Carrying unusable, or redundant or excessive stocks inflates stock holding values and working capital requirements.

*Management Response* : Work has begun and stocks have been returned to supplier for credit in some cases. The Senior Storekeeper is working with DLO managers to use existing stocks where possible. A list will be drawn up of stock that cannot be used and written-off / disposed in line with Financial Regulations.

The stores run a programme to stock check the main stores although it is not a documented programme. The strategy is to stock check stock throughout the year using the continuous inventory approach with the intended aim of checking stocks at least once each year. There are occasions during the year when there are no available resources to carry out and reconcile such stockcounts.

The current stock checking programme does not plan to count fast moving and high value stocks more frequently than other stocks.

*Management Response* : The recommended approach has some merit. However this will require an amendment to the stores system so it is possible to report items that have been counted and more importantly those that have not. Poor stocktaking of slow moving stock may result in stock out situations that have significant operational consequences. However this required development work will be delayed until the current SAP implementation is complete due to the freeze on development work. The final solution will be a balance between the recommendation and the current approach.

### 3. Workload Update

Although there are a substantial number of reports at draft stage the workload for quarter 4 will allow for those audits to be finalised before the end of the financial year.

In addition to the audit work detailed below there are a number of other areas of work that SWAP have undertaken including the on-going provision of audit advice, ad-hoc special investigations and involvement in the SAP project providing advice and guidance on control issues.

The following reviews are in progress or are going through the reporting process :-

<b>Audit area</b>	<b>Type of review</b>	<b>Progress</b>
Housing Repairs	Operational Review	Draft Report – Partial
Cemetery & Crematorium	Operational Review	Report being drafted
Partnership Arrangements	Operational Review	Testing
Procurement	Operational Review	Report being drafted
Economic Development	Operational Review	Draft Report
Transport Policy	Operational Review	Testing
Council Tax	Operational Review	Report being drafted
Treasury Management	Operational Review	Testing
IT Audit - Compliance against ISO27002 level one	Computer Audit	Draft Report

#### **Managed Audits are underway in the following areas:-**

National Non-Domestic Rates (Report being drafted), Debtors, Housing Benefits, Housing Rents (Draft Report), Main Accounting, Capital Accounting, Payroll (Draft Report)

### 4. Recommendation

The Committee should note the content of this report.

#### **Contact Officer:-**

Chris Gunn - Group Auditor – South West Audit Partnership  
01823 356417 [chris.gunn@southwestaudit.gov.uk](mailto:chris.gunn@southwestaudit.gov.uk)