

# Annual Audit Letter

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City of York Council

Audit 2009/10

**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.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 7 to 8); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 9 to 10).**

## Financial statements

**1** The Council has faced complex changes to local government accounting requirements in 2009/10. Overall officers coped well, and the quality of the financial statements and working papers has improved since last year. Action is needed to improve fixed asset records as some significant amendments had to be made to the accounts originally approved by Members.

**2** Work to implement new international financial reporting standards by the due date of 31 March 2011 is progressing as planned and Members have received regular progress reports on this issue.

## Value for money

**3** All of the relevant value for money criteria specified by the Audit Commission have been met. The Council has improved its financial planning and performance management processes this year, whilst at the same time continuing to deliver services that represent good value for money for the public.

## Audit fees

**4** 2009/10 audit fees are set out in Appendix 1. There have been no changes to fees previously agreed with you.

## Current and future challenges

**5** The scale of financial pressures facing public bodies in the current economic climate is unprecedented in recent years. The Council is reformulating its spending plans in the light of recent Government announcements, and estimates that budget savings of up to £50m could be required between now and 2014/15.

6 A comprehensive strategic efficiency programme, 'More for York' has been developed to identify potential savings, and is well under way. Given the scale of the savings required, it seems unlikely that these can be made without changes to front line services and established models of service provision.

7 At the same time, the absence of a nationally determined framework for comparative information and assessment will put the onus on the Council's own performance management processes to:

- implement improvements; and
- maintain the quality of public services.

8 Against this background, demands placed on management will be significant and capacity inevitably stretched. Members will need to:

- provide strong and focussed leadership;
- make difficult decisions;
- ensure that deliverable forward plans are in place; and
- develop robust monitoring procedures to ensure that these are delivered.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, in line with statutory requirements.**

## Overall conclusion from the audit

**9** The Council was faced with complex changes to local government accounting requirements in 2009/10. The areas most affected were fixed asset and agency accounting, and new disclosures for senior officer remuneration. Overall officers coped well with the new requirements, and I gave an unqualified audit opinion and certificate by the due date of 30 September 2010.

**10** The quality of the financial statements and working papers had generally improved since last year. However, action is required to improve fixed asset records as some significant amendments had to be made to the accounts originally approved by Members.

## Errors in the financial statements

**11** The following issues were identified during the course of our audit work, and officers agreed to make the necessary amendments to the accounts:

- Capital expenditure on voluntary aided schools had been included in fixed assets but should have been treated as 'revenue expenditure funded by capital under statute' because such schools are not within the Council's control.
- The value of the Energise centre had been double counted in fixed asset balances.
- Depreciation and impairment charges had been incorrectly treated in the fixed asset register.
- The draft accounts included equal and opposite entries in the balance sheet relating to voluntary additional debt repayments in 1999/2000. These balances were written out of the accounts to reflect current accounting practice.

12 Officers also agreed to make a number of presentational and disclosure changes to the accounts.

## Significant weaknesses in internal control

13 In my July 2010 audit progress report I highlighted that bank reconciliations had not been carried out on a regular basis during the year. I am pleased to report that this issue has now been resolved, with a full bank reconciliation prepared at 31 March 2010.

## Tackling fraud and corruption

14 The Council takes a proactive stance to tackling fraud and corruption. During 2009/10 it participated in the Audit Commission's National Fraud Initiative, and the 'Red Card' anti-fraud campaign attracted national recognition. 327 instances of proven benefit fraud were identified during the year (total value £340,000) with appropriate recovery or prosecution action taken in each case.

## Preparations for IFRS

15 A major challenge for all local authorities is the move to International Financial Reporting Standards (IFRS). Changes to the accounting treatment for PFI schemes and agency arrangements have already been implemented. Issues to be addressed in 2010/11 relate to:

- leasing;
- employee benefits; and
- valuations and disclosures in respect of property, plant and equipment.

16 At City of York Council work in respect of all these areas is well in hand and Members have received regular progress reports. The next key stage for officers is to restate the 2009/10 opening balance sheet position and devise a skeleton set of 2010/11 accounts. We intend to review these early in 2011.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**17** At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**18** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

## **VFM conclusion**

**19** I assessed the Council's arrangements for achieving economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**20** On 30 September 2010 I issued an unqualified conclusion, confirming that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. A summary of my findings is set out below.



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Strategic asset management	Yes
Workforce	Yes

**21** The Council has maintained the strengths we identified last year in relation to:

- risk management;
- displaying a strong anti-fraud culture; and
- delivering services that represent good value for money for the public.

**22** We have also noted a number of improvements. In particular:

- Medium term financial planning has been improved through a combination of detailed risk assessment, analysis of demographic trends, financial modelling, and extensive consultation
- To tackle its medium term funding gap the Council has developed "More for York", an ambitious, 3 year strategic efficiency programme which delivered all key year 1 targets in 2009-10;
- The Council has made significant progress in implementing data quality policies, and in developing comprehensive performance reports in a format that focuses on priorities and supports decision making at strategic and operational levels by integrating financial and performance information;
- There have also been noticeable improvements this year in respect of performance management arrangements – piloting Challenge and Innovation Panels, more use of benchmarking and more challenging target setting as a result of comparison with others.

**23** Good procedures are in place for procurement and asset management, and the Veritau shared service arrangement has received national recognition. Plans are in place to explore more innovative delivery models as part of the More for York programme.

**24** Workforce planning and management have traditionally been managed on a departmental basis and were assessed against value for money criteria for the first time in 2009-10. The Council can demonstrate very effective arrangements in some departments, but a more corporate approach is needed to bring all service areas up to the standard of the best.

**25** Our work also highlighted that the Council's workforce is not fully representative of the community it services, with comparatively few BME and disabled employees.

## **Approach to local value for money work from 2010/11**

**26** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work.

**27** As a result, the Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number reporting criteria, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**28** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Financial pressures

**29** The scale of financial pressures facing public bodies in the current economic climate is unprecedented in recent years. These pressures represent a combination of:

- increased demand for benefits and council services;
- reductions in central government funding;
- an increased risk to cash collection from delays in payment or inability to pay; and
- reductions in income generated locally from fees and charges

**30** City of York Council was amongst the first wave of local authorities to recognise that a strategic response was necessary. The 'More for York' programme was established in 2008 as a council wide initiative to generate £15m savings by 2012 without compromising the quality of front line services.

**31** The Council has also improved its general ability to meet financial challenges. Strategic planning and budgetary control have improved, with balances set aside to cover unforeseen contingencies. Realistic treasury management strategies are in place, and 'More for York' projects are currently on track to deliver £6.95m savings in 2010/11 and a further £2.5-3m next year.

**32** But financial pressures are increasing. At a local level the Council is coping with the combined effects of an ageing population and increasing numbers of looked after children. The Government's recent spending review has also indicated that:

- there will be on average a 7.1 per cent cut in local government revenue funding each year until at least 2014/15;
- capital funding will fall by up to 45 per cent in the same period; and
- interest rates on PWLB loans are expected to rise.

**33** A radical overhaul of the welfare system has been announced, although it is not yet clear how this will impact local authorities in terms of benefits administration and subsidy.

**34** Officers have estimated that recent financial announcements could require budget savings of up to £50m and the Council is reformulating its financial plans accordingly.

## Improving performance

**35** The Government has recently announced the abolition of:

- CAA and Use of Resources;
- National indicators; and
- Local area agreements and stretch targets.

**36** Many welcome this as an opportunity for local government to set its own agenda and focus on locally determined priorities and objectives. The absence of a nationally determined framework for comparative information and assessment however raises important questions about how local councils will continue to identify and implement improvements in the future.

**37** The Council improved performance management arrangements in 2009/10. It needs to continue this impetus to meet the changing circumstances. This is likely to have a particular impact on the role of Members, especially those charged with governance and scrutiny roles.

## Future developments

**38** The Council is focussed on delivering 'More for York' as a comprehensive, strategic approach to improving services and reducing costs. The following are examples of the detailed work streams included in the project, which will be reviewed by us as part of audit work next year:

- a move to new office accommodation;
- creating a 'commercial hub' to help develop more strategic change through procurement; and
- the joint waste project in partnership with North Yorkshire County Council.

**39** The cultural change engendered through 'More for York' will become even more important in the future, with a 'Council wide' approach to identifying and delivering savings; and redeploying efficiency gains.

**40** The Council has recognised the need to review performance management and monitoring processes in the absence of a nationally determined framework for comparative information and assessment going forward. This is reflected in the corporate risk register and the structure of the recently established 'Office of the Chief Executive'.

## Closing remarks

**41** I discussed and agreed this letter with the Director for Customer and Business Support Services, and presented it to the Audit and Governance Committee on 6 December 2010. A copy has been provided for all Members.

**42** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Committee during the year, as set out below. Members have also received a number of verbal reports on emerging issues.

Report	Date issued
2009-10 Opinion Audit Plan Summary report on grant claims work	February 2010
2009-10 External Audit Progress Report	July 2010
Annual governance report Auditor's report giving an opinion on the financial statements External audit opinion on Whole of Government Accounts Return	September 2010

The Council has taken a positive and helpful approach to our audit, and I wish to thank City of York Council staff for their support and cooperation during the course of our work.

Steve Nicklin  
District Auditor

November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£153,480	£153,480	0
Value for money	£94,920	£94,920	0
Total audit fees	£248,400	£248,400	0
Certification of claims and returns	£43,520	£43,520	0
Total	£291,920	£291,920	0

## Appendix 2 – Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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