

Progress report

March 2011

City of York Council

Audit 2010/11

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.

Contents

Introduction	2
Progress on the 2010/11 audit	3
Financial statements audit	3
Value for money conclusion	4
Advisory Services	4
Countdown to IFRS.....	5
Progress to date	5
Technical briefings and chief accountants' workshops	5
Learning lessons from the NHS	6
Looking ahead.....	7
Fee proposals 2011/12 and 2012/13	7
Future audit arrangements	7
Other developments and national publications	8
Challenges faced by Audit Committees	8
Protecting the Public Purse: Fighting fraud against local government and local taxpayers.....	8
Delivering more for less: Strategic financial management in local councils..	9
Housing market renewal	9
Managing personal budgets	9
Two briefings for the community safety sector	10
Auditing the accounts 2009/10	10
Local government pensions in England.....	10

Introduction

1 This update report reflects progress on our external audit work as at the end of March 2011.

2 The report also tells the Committee about other matters of interest, including:

- 2011/12 and 2012/13 fee proposals and rebates;
- implementing International Financial Reporting Standards (IFRS);
- future audit arrangements; and
- work undertaken nationally by the Audit Commission.

Progress on the 2010/11 audit

3 We presented our 2010/11 Opinion Plan to the February meeting of the Audit and Governance Committee. This plan set out our initial assessment of audit risk, and the work that we will undertake in order to meet Code of Audit Practice responsibilities. We confirmed an audit fee of £248,900 as previously agreed, and this remains appropriate.

Financial statements audit

4 Our detailed testing on the Council's financial systems is well underway. We have liaised with Internal Audit to maximise audit coverage and we have avoided duplication by relying wherever possible on their work.

5 Testing to date confirms that for the most part financial systems have operated as expected. Problems with completing timely bank reconciliations were highlighted by Internal Audit last year and these have largely been addressed through:

- compensating controls within financial systems; and
- reconciling various components of the bank reconciliation at different points during the year .

6 It is important however that a full bank reconciliation be completed as at 31 March 2011.

7 The Council is planning to implement a new payroll system later in the year and may benefit from a post-implementation review to consider the lessons learned from introducing new general ledger, accounts payable and accounts receivable packages during 2009/10.

8 We note that there has been a significant move to increase homeworking options during the year. Homeworking can provide significant benefits in terms of reducing premises costs, increased flexibility and improving work/life balance, but it does pose some specific issues in terms of monitoring staff activity, data protection and IT security. We have discussed these issues with IT staff but they should also be reflected in corporate risk management arrangements.

9 We have recommended that all system password parameters meet as a minimum requirement the current Government guidelines as set out below

- at least 7 characters,
- complex password involving upper and lower case and alphanumeric,
- forced password changes between 45-90 days maximum; and
- no re-use of the same password for at least 20 changes.

10 Currently this is not the case for all financial systems.

Value for money conclusion

11 Our assessment is based on two criteria, specified by the Audit Commission, related to your arrangements for:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and improving productivity and efficiency.

12 Our work is progressing according to plan. Initial findings have been discussed and agreed with officers, and at this stage there are no matters of concern to bring to your attention.

13 Further meetings with key staff are due to take place during March and early April. We also will review the Council's year end financial and performance reports, and 2010/11 draft accounts, as soon as they are available:

Advisory Services

14 We have recently established a national Advisory Services team. The purpose of the team is to provide clients with more responsive and flexible non-audit support in areas where our staff have particular expertise. This includes:

- Governance;
- Financial management and reporting;
- Business planning;
- Performance management and review;
- Housing ; and
- Economic development.

15 Any such work would be outwith the Code of Audit Practice and would be separately charged for. However we will at all times continue to operate within appropriate ethical and professional guidelines.

16 Stephen Gregg, our regional lead on Advisory Services, will be meeting the Director of Customer and Business Support Services in the near future to discuss the team's remit, staff profiles and product offers in more detail.

Countdown to IFRS

Progress to date

17 Over the past 18 months we have monitored the Council's progress in preparing for IFRS. Our most recent assessment, in January 2011, confirmed that officers had a good understanding of the technical requirements and timescales. Preparations were largely on track, although some slippage had occurred while officers reworked medium term financial plans and budgets in the light of the Government's comprehensive spending review.

18 Two key issues were still outstanding as at 31 January 2011:

- the fixed asset register needs to be significantly re-worked to provide the information required for IFRS restatement, and to resolve problems identified at audit over the past two years; and
- work was still ongoing to produce a template set of 2010/11 accounts, revised accounting policies and restate prior years' balances before the year end.

19 Ideally we would like to carry out an early review of these documents as soon as they are available. This would help to highlight complex or potentially contentious areas at an early stage of the audit.

20 At a national level the Audit Commission has provided local authorities with a range of publications and support, as set out below.

Technical briefings and chief accountants' workshops

21 A number of technical briefing papers have been issued in recent months to support the local government sector in its transition to IFRS:

- accounting for employee benefits;
- reporting on operating segments;
- accounting for non current assets; and
- identifying and accounting for leases and service concessions.

22 The briefing papers focus on the core principles of relevant reporting standards, how these have been applied to the public sector context, practical issues authorities might face, and the areas likely to be of most interest to auditors.

23 Our technical specialists have also held a number of workshops with chief accountants up and down the country to focus on the new requirements. These were well attended and we have received positive feedback from delegates.

Learning lessons from the NHS

24 All NHS bodies were required to produce IFRS-compliant accounts in 2009/10, a year ahead of local government. A recent report highlights that there are valuable lessons local government could learn from their experience:

- implementation was successful largely because NHS bodies focused extra time on complex areas well in advance;
- the national exercise to restate and audit comparative information well before the year end was important in helping to identify and resolve major issues in accounting for PFI schemes, leases and legal charges; and
- new disclosure notes, accounting for leases and property, plant and equipment disclosures were the most prone to error.

Looking ahead

Fee proposals 2011/12 and 2012/13

25 The Audit Commission plans to cut costs and deliver fee reductions of about £70 million (or 30 per cent) through a combination of one-off rebates and lower fees. Rebates are being paid because of the end of Comprehensive Area Assessments, inspection work, and scored use of resources judgements. The Council should receive rebates of 3.5 per cent for 2010/11, and up to 8 per cent for 2011/12 (subject to affordability).

26 Proposals for 2011/12 audit fees are as follows:

- a reduction in scale fees because of our new approach to value for money work (between 2 and 20 per cent for local government bodies;
- a reduction in audit fees of 3 per cent for local authorities, police and fire and rescue bodies to reflect the reduction in the ongoing audit costs arising from the transition to IFRS; and
- no inflation increases;

27 The Commission has also specified a fixed fee for each audited body in 2011/12, rather than a formula with fixed and variable elements as was previously the case. The 2011/12 audit fee for City of York Council is £224,000 compared to £248,900 in 2010/11.

28 A more detailed fees letter will be presented later in the year, setting out the scope of our work and initial risk assessment.

29 The Commission is committed to making further reductions in scale fees of up to 15 per cent for 2012/13.

Future audit arrangements

30 We have previously discussed with you the Government's proposals to abolish the Audit Commission. Current indications are that the timescale for abolition will be from 2012/13. New audit appointment processes, the timetable for implementing them, and any transitional arrangements have yet to be determined and will need to be reflected in legislation.

31 Ministers have also said that the Commission's audit practice is to be transferred into the private sector. This represents an exciting opportunity for us and we are already exploring a number of potential options, including mutualisation as an employee owned practice, and strategic partnering arrangements. Throughout this process we remain committed to providing an excellent service to our clients, offering unrivalled expertise in public audit at a competitive price.

32 Ministers are expected to make a decision in principle on the exact form of the new audit practice during 2011, and we will keep you informed as to future developments.

Other developments and national publications

33 This section of the report promotes some of the national work undertaken by the Audit Commission over the last three months. It highlights various areas of interest, some of which may prompt further consideration by officers and/or members. Where relevant, specific references to the position at the Council are included. The full reports can be found on the Commission's website at:

<http://www.audit-commission.gov.uk/localgov/Pages/default.aspx>

34 Examples of notable practice in local government and other sectors, identified from local work by auditors as well as national studies, are also available on the website.

Challenges faced by Audit Committees

35 On 18 November 2010 the Financial Reporting Council (FRC) published a report to highlight the latest challenges faced by audit committees, including a series of questions that committees might find helpful. Although the report is aimed mainly at the private sector there are also some important messages relevant to public sector bodies:

- the FRC reports some of the recent problems associated with accessing conventional debt markets and organisations hoarding cash. The report stresses the importance of forecasting cash flows accurately and the role that audit committees can play in this important area.
- The FRC has also identified room for improvement in risk management. It comments that some organisations do not prioritise identified risks, and that it is not always clear that risks have been evaluated and taken into account when preparing budgets and financial forecasts.
- We have already briefed the Council's Audit and Governance Committee on our more rigorous approach to the audit of accounting estimates. The FRC states that audit committees may also want to be convinced that key judgements are appropriate.

Protecting the Public Purse: Fighting fraud against local government and local taxpayers

36 Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes illegally occupied have been recovered.

37 In this report the Audit Commission describes what has happened in the field of fraud detection and prevention since 2009 and sets out the findings from its recent fraud survey. It identifies current fraud risks, urges local councils and related bodies to focus on them, and highlights the actions taken by some Councils to tackle fraud. The report provides links to tools to help councils improve their counter-fraud defences.

Delivering more for less: Strategic financial management in local councils

38 The report finds that organisations with a strategic approach to financial management are better able to plan and manage for the medium term, more adaptable and more resilient. The report is intended to stimulate debate and discussion about financial processes and cultures within councils.

39 The report includes self assessment tools and checklists aimed at finance specialists, service managers and elected members.

Housing market renewal

40 Ten Housing Market Renewal Pathfinder projects for housing regeneration have been established in the North and Midlands, between them attracting £3.2 billion of public and private funding. The Audit Commission has been assessing performance since the programme began in 2003.

41 The report looks back at the original objectives and the impact of the programme, and considers how Housing Market Renewal can adapt to stay relevant as local partnerships continue to prioritise spend in the absence of national dedicated funding. Individual reports for each project take a detailed final look at their impact on the local areas.

Managing personal budgets

42 Councils are undergoing a major transition from being providers of adult social care services to becoming providers of personal budgets. This Audit Commission report highlights how some councils will need to make a significant effort to achieve the milestones agreed by the Department of Health, Association of Directors of Adult Social Services and the Local Government Association in 2009.

43 The report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

44 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement.

Two briefings for the community safety sector

45 Two briefings for community safety partnerships and overview and scrutiny committees build on the messages of the [Sustaining Value for Money in the Police Service report](#) published jointly by the Audit Commission, HMIC and the Wales Audit Office in July 2010.

46 Previous Audit Commission tools have targeted police forces and authorities directly, but these briefings challenge community safety partnerships and their responsible authorities to question how well:

- the police deliver value for money and meet local safety needs; and
- local agencies work together to reduce costs and improve efficiency.

Auditing the accounts 2009/10

47 This report covers:

- auditors' work on the 2009/10 financial statements and value for money conclusions at local councils, fire and police; and
- public interest reports and statutory recommendations issued by auditors since December 2009.

48 The report congratulates seven councils, one police authority and three local government bodies for early publication. There is great interest in financial transparency by public bodies at the moment and early publication of audited accounts is an important contribution to openness and accountability.

49 The report notes that auditors were unable to give opinions on the accounts by 31 October 2010 at seven councils and 11 local government bodies. The report also names two councils where the auditor gave a qualified opinion.

Local government pensions in England

50 The cost of employee pensions is a live issue for both the public and the private sector. People are living longer in retirement age, wage levels have increased, and investments have failed to deliver anticipated returns.

51 The Local Government Pension Scheme in England has 1.7m active members. Nearly three quarters of its members are women and nearly half work part time. But funds currently cover only about three quarters of the expected future liabilities.

52 A recent Audit Commission paper does not make any specific recommendations but contributes to the national debate by highlighting a number of areas for potential consideration. These include:

- raising employee contributions and retirement age;
- adjusting the level of future benefits offered; and
- keeping liabilities in check by controlling wage costs.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946