

Annual governance report

City of York Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

- My audit is now substantially complete and subject to satisfactory clearance of outstanding queries, I plan to issue an audit report including an unqualified opinion on the financial statements.

- My report highlights numerous amendments that have been made to the Council's financial statements since they were originally presented to you in July.

Value for money

- I am required to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. This is known as the value for money conclusion.
- I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11, except for claims certification.

I ask you to confirm to me

I ask the Audit and Governance Committee to:

- take note of the adjustments to the financial statements which are set out in this report, and the errors identified during the course of the audit where management has decided not to adjust;
 - provide me with written assurances to confirm how you have discharged your responsibilities during 2010/11 as “those charged with governance”; and
 - approve the letter of representation, provided at Appendix 2, on behalf of the Council before I issue my opinion and conclusion.
-

Financial statements

The financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Status of the Audit

My 2010/11 audit work is now substantially complete, with the exception of the following matters:

- I await written confirmations from the Council's property services team regarding asset valuations
- There are a small number of outstanding queries and explanations from officers in relation to debtor and creditor balances and grant income

Providing these issues are resolved by 29 September 2011, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Submission of the Council's audited Whole of Government Accounts pack is scheduled to be completed by 14 October 2011.

Errors in the financial statements

Implementing the new requirements of International Financial Reporting Standards, which have full retrospective effect, has been a challenging process for all local authorities. At City of York Council this challenge was compounded by staffing and organisational changes. Consequently a significant number of amendments have been made to the unaudited financial statements originally presented to you.

The Cash Flow Statement, Movement in Reserves Statement, segmental analysis and restatement of prior years' balances have all been significantly reworked following our initial review and officers' own reflections on the draft accounts. Additional disclosures were also made in the Housing Revenue Account (HRA) to meet Code requirements, together with reclassification and analysis of investment property transactions, grant income and cash and cash equivalents.

The following errors were identified during the course of the audit and which officers have amended the financial statements:

- £27.2m pension gain to be removed from non distributed costs and treated as an exceptional item
- £115m housing stock valuation adjustment to be treated as an exceptional item in the HRA
- Accounting entries for schools PFI schemes have been changed to meet Code requirements and comply with Audit Commission technical guidance
- £6.2m West Office expenditure included in the accounts twice in error
- £11.3m sheltered housing revaluation adjustment incorrectly calculated
- Re-analysis of debtor and creditor balances to meet Code requirements.

A number of other, more minor amendments have also been made to improve the presentational aspects of the accounts, meet Code disclosure requirements, and to ensure internal consistency between core statements and disclosure notes. These related particularly to disclosures in:

- note 12 (property, plant and equipment)
- note 24 (unusable reserves)
- notes 18 and 20 (net current assets); and
- note 47 (pensions).

The explanatory foreword has been amended as a consequence of the above changes to the accounts.

Errors and uncertainties not adjusted

The following errors were identified where management has decided not to adjust:

- 2009/10 council house sales totalling £0.5m have been incorrectly reflected in 2010/11 accounts
- Court costs £0.3m have been shown separately on the face of the Comprehensive Income and Expenditure Statement, not as part of central services to the public
- Future lease income and future finance lease obligations are correctly stated in total but have not been analysed between long and short term debtors and creditors as required by the Code.

I am satisfied that these discrepancies are not material to the Council's financial position either individually or in aggregate. However, they have been reported to you, and are referred to in management's Letter of Representation, for completeness and to assist you in meeting your governance responsibilities.

Key risks and audit findings

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. Implementation of new IFRS requirements	We have considered Audit Commission and CIPFA guidance and referred more complex and contentious issues to our central technical team. Restatement of prior years' balances has been reworked following initial review, and an adjustment has been made to restate accounting entries in respect of church school PFI schemes in line with Audit Commission guidance.
2. The joint waste PFI contract and new office accommodation both represent material and potentially complex transactions in the Council's accounts.	We have reviewed progress on these two projects at regular intervals during the year and reviewed accounting treatments. We are satisfied that the contingent liability and subsequent events disclosures in respect of the joint waste contract are fairly stated and we have agreed amendments to the accounts with officers in respect of costs incurred to date on West offices.
3. 2009/10 audit work identified material errors in fixed asset valuations and accounting	We have undertaken detailed testing on fixed asset records, capital accounting and capital financing adjustments. In overall terms there has been some improvement. However, a number of adjustments have been made to the relevant disclosure notes, (primarily to ensure internal consistency within the accounts and to meet Code requirements), and the revaluation adjustment in respect of sheltered housing has been re-calculated.
4. Income recognition, cut off and housing benefit assertions represent inherent risks of mis-statement due to fraud and error.	We have undertaken substantive testing in these areas, and have reviewed work undertaken by Internal Audit in relation to housing benefit fraud. No significant issues were identified as a result of our audit work.

Following our initial review of the Council's draft financial statements we also identified specific audit risks in relation to the Movement on Reserves and Cash Flow Statements, and related disclosure notes. We have undertaken additional audit work accordingly and both of these core statements have been significantly reworked since the unaudited accounts were presented to you in July.

Significant weaknesses in internal control

The internal controls I consider during the course of the audit are only those relevant to the financial statements. My audit work does not necessarily consider all the components of internal control that might be relevant to you.

Issues identified prior to receipt of the Council's financial statements have been reported to you as part of my regular progress reports during the year. The only additional weaknesses I wish to bring to your attention is that the Framework I system, used to record approved care contracts, was not regularly reconciled to the general ledger during the year.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There are three such matters that I wish to bring to your attention.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
The financial statements submitted for audit included significant errors and inconsistencies.	The Council should strengthen its internal review of the draft financial statements so that obvious errors and inconsistencies are eliminated prior to audit.
New IFRS and Code accounting requirements introduced this year presented a risk for all local authorities that their financial statements will not be completed correctly.	I did not receive sight of the proposed IFRS restatement in time to identify potential issues at an early stage. In the event, restatement of prior years' balances and note 51 (transition to IFRS) required adjustment. I also identified a number of disclosures that needed to be amended or included in the financial statements to meet the requirements of the Code.
The deadline for Whole of Government Account submissions have been brought forward this year. The Council was unable to submit its Whole of Government Accounts pack by the due date and the number of required amendments meant that we in turn were unable to meet our target date for completing the audit.	The Council should plan and manage its closedown processes to allow sufficient time for both preparation and audit of the Whole of Government Accounts pack by the deadline dates.

Other matters to bring to your attention

As part of my audit work each year I review the Council's capital financing requirement and ensure that adequate provision has been set aside to meet repayment of future debt. I am satisfied that the set aside is adequate in 2010/11. However, officers have informed me that they intend to review set aside arrangements in the coming year. Any such changes should be properly approved by members, and supported by a full review of the Council's treasury management strategies and supporting calculations.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have included the draft letter of representation at Appendix 2.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Criteria met.</p> <p>The Council has adopted an integrated process for updating the medium term financial plan and setting annual budgets. Both have been significantly reworked in the light of the Government's spending review and reflect anticipated reductions to funding levels of over coming years.</p> <p>Extensive consultation with staff, stakeholders, local people and businesses has enabled the Council to revisit its priorities and a series of reports to members, staff newsletters and public meetings have taken place to ensure that the Council's financial position is clearly and widely understood. Key changes approved for 2011-12 include:</p> <ul style="list-style-type: none">■ Focussing services on vulnerable people and those most in need■ Reducing the cost of management and back office services■ Reducing expenditure following government reductions to specific grants.

Criterion	Findings
	<p>Members have played their full part in this debate, and draft budgets were subject to detailed review by portfolio holders and Executive before finalisation and Full Council approval.</p> <p>Financial plans clearly set out the key risk areas and how these will be managed, and make reasonably prudent assumptions about funding levels, interest rates, pay and price increases. Plans indicate that the Council is intending to deliver a balanced budget going forward without significant reductions to reserves and working balances, which have been maintained at £6.1m in line with Council policy.</p> <p>The Council has developed a good track record of delivering to budget in recent years. Pressures on budgets in specific service areas such as social care and looked after children are now promptly identified and tackled. Treasury Management is also sound, with no statutory breaches or impairment losses reported in 2010-11 and above average rates of return. Quarterly reports to members are comprehensive and comprehensible, providing forecast outturn as well as year to date. More centralised financial management arrangements are being put in place for 2011-12 to implement a more standardised approach to budget setting and monitoring between Council departments.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Criteria met.</p> <p>The Council has generally low service costs per head of population, low management and back office costs and low Council Tax levels, when compared to others. Performance reports, scrutiny reviews and other reports to members contain comparative information so there is generally a sound awareness of how costs and quality of service compare with others.</p> <p>There is a good track record of delivering efficiencies from an already low cost base. An ongoing efficiency programme looks to identify and deliver savings, based on comparing the Council to “best in class”. A staff suggestion scheme is also in place to foster a value for money culture and identify more opportunist operational savings. There are some examples of shared service provision and outsourcing, and plans for a joint waste PFI scheme are well underway. Most services are still delivered in-house however and the Council may need to consider alternative models of service delivery in the future.</p> <p>Most support services have now been centralised, area based service delivery and more</p>

Criterion**Findings**

homeworking for revenues and benefits staff are also helping to reduce costs. Fees and charges are regularly reviewed and services the Council can provide to partners and third parties are pro-actively marketed.

Office relocation plans are progressing well, and should secure significant financial savings as well as improved facilities for customers and staff. However there has been minimal investment in Council property over recent years, and asset records require improvement.

A significant number of management and back office posts have been taken out of the establishment over recent years. This has reduced costs but also in some areas increased risk. For example now that the central partnership team has been wound up it is not clear how the Council will ensure that it is receiving value for money from partnerships.

Appendix 1 – Independent auditor’s report to the Members of City of York Council

Opinion on the Council’s accounting statements

I have audited the accounting statements of City of York Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Customer and Business Support Services and the auditor

As explained more fully in the Statement of Responsibilities, the Director of Customer and Business Support Services is responsible for the preparation of the Council’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the Council; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of City of York Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on City of York Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Steve Nicklin
District Auditor
Audit Practice, Audit Commission
Nickalls House
Gateshead

September 2011

Appendix 2 – Draft management representation letter

To:

Mr S Nicklin, District Auditor
Audit Practice, Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

City of York Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of City of York Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The following items have been identified during the course of the audit, however I am proposing not to adjust the financial statements because I am satisfied that they do not have a significant impact, either individually or in aggregate, on the Council's financial position:

- 2009/10 council house sales totalling £0.5m have been reflected in 2010/11 accounts
- Court costs £0.3m have been shown separately on the face of the Comprehensive Income and Expenditure Statement, not as part of central services to the public
- Future lease income and future finance lease obligations have not been analysed between long and short term debtors and creditors as required by the Code.

Supporting records

All relevant information and access to persons within the Council has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, including insurance and equal pay and single status claims, have been disclosed to the auditor and have been identified, accounted for and disclosed in accordance with the applicable financial reporting framework. There are no additional contingent liabilities or post balance sheet events that I am aware of, other than those already disclosed in the financial statements.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value, as disclosed in the financial statements. I am satisfied that in all material respects:

- depreciation charges are adequate; and that
- property, plant and equipment has been identified, valued, and categorised in accordance with Code requirements

Related party transactions

I confirm that I have disclosed the identity of related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Specific representations

- All relevant information required for the correct calculation of pension fund liabilities have been made to the administering authority and their consulting actuaries, as requested. All unfunded liabilities have been included within the IAS 19 liabilities, so far as I am aware.
- I am satisfied that adequate steps have been taken to identify group arrangements, and that group accounts are not required in view of the non-material nature of the transactions involved

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 29 September 2011

Signed on behalf of City of York Council

Name

Position

Date

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion [where there is no regularity leg]

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

[Where there is a regularity leg]

- I find that some spending or income was irregular.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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

