

Annual Audit Letter

City of York Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit, which comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I am also required to consider any matters brought to my attention by the public, and whether there is a need for me to exercise my formal audit powers.

Key audit risk	Our findings
Unqualified audit opinion	√
Proper arrangements to secure value for money	√
Certificate issued	√

Audit opinion on the financial statements

I have issued an unqualified opinion on the 2010/11 financial statements and my annual governance report was presented to Members on 29 September 2011.

A significant number of adjustments were made to the accounts originally presented for audit, but none of these had any significant impact on the Council's underlying financial position or levels of useable reserves and balances.

Value for money

The Council has a good track record of delivering efficiencies from an already low cost base. I have issued an unqualified conclusion stating that the Council had proper corporate arrangements in place to secure financial resilience, and to challenge how it delivered economy, efficiency and effectiveness in the use of resources for 2010/11.

This is known as the value for money conclusion.

Audit certificate

I have not received any formal notices of objection from the public, and no other issues have arisen during our audit this year which required me to exercise my formal audit powers.

Consequently I was able to issue my certificate alongside the audit opinion on 29 September 2011.

Current and future challenges

Challenges	Key issues
Economic downturn and financial pressure on the public sector	<p>Financial plans have been reworked to reflect expected funding reductions in the next five years and deliver a balanced budget that maintains established levels of balances. 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. <p>The Council has developed a good track record of delivering to budget in recent years but there are continued pressures on specific service areas such as social care and looked after children which will continue to need careful management.</p> <p>It is also likely that the scale of spending reductions required in future years will require local authorities to adopt more strategic solutions. The Council has some examples of shared service provision and plans for a joint waste disposal facility are well underway, but most services are still delivered in-house and the Council may need to consider alternative models of service delivery in the future.</p>
Future funding streams	<p>The Council has taken appropriate steps to maximise future funding streams. Fees and charges are kept under regular review. The Council has also reconsidered the future of several areas of expenditure in the light of reductions to specific grant funding schemes, and is more proactively marketing the services it can provide to partners and third parties. But proposed changes to Housing Revenue Account financing, housing benefits subsidies and NNDR pooling arrangements could all have a significant impact on local authority finances in future years. The potential impact of these at a local level will need to be kept under review and assessed as part of future budget preparations.</p>
Asset Management	<p>Well-planned asset management can improve public services, reduce costs and generate additional income. We reported on the Council's approach to asset management in December 2009 and made a number of recommendations for improvement. Some progress has been made and the move to new office accommodation next year should secure significant financial savings as well as improved facilities for customers and staff. Further action is necessary however as there has been minimal investment in Council property over recent years, and a somewhat fragmented approach.</p> <p>The Council has asked us to review asset management as Advice and Assistance work and our findings will be reported to Members early in 2012.</p>

Challenges	Key issues
Treasury management	<p>Treasury management strategies and policies, in particular judgements about the sums set aside to meet future repayments of debts, have a significant impact on the Council's finances. The Council has achieved above average rates of return on its investments in future years but to help meet future financial challenges it intends to review treasury management strategies and set aside arrangements in the coming year. Any such changes should be properly approved by members, and supported by a comprehensive review of not just strategic objectives and policies but also the supporting capital financing calculations.</p>
Implementing International Financial Reporting Standards	<p>Meeting new reporting requirements has been challenging for all authorities and the financial statements submitted for audit required significant adjustment. We are already discussing with Council officers how the closedown processes can be better managed next year with a view to:</p> <ul style="list-style-type: none"><li data-bbox="499 507 2107 539">■ allowing sufficient time for preparation and audit of both the accounts and Whole of Government return by the due dates.<li data-bbox="499 555 1834 587">■ strengthening internal review so that obvious errors and inconsistencies are eliminated prior to audit.

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.

Overall conclusion from the audit

Implementing the new requirements of International Financial Reporting Standards, which had full retrospective effect, was a challenging process for all local authorities in 2010/11. At City of York Council this challenge was compounded by staffing and organisational changes. Consequently a significant number of amendments were made to the financial statements originally presented for audit:

- The Cash Flow Statement, Movement in Reserves Statement, segmental analysis and restatement of prior years' balances were all significantly reworked following our initial review and officers' own reflections on the accounts and reporting requirements.
- Additional disclosures were made in the Housing Revenue Account, together with reclassification and analysis of investment property transactions, grant income and cash and cash equivalents.
- Errors in relation to pension changes and property, plant and equipment transactions were corrected together with a number of other, more minor amendments to improve the presentational aspects of the financial statements and internal consistency between core statements and disclosure notes.
- The explanatory foreword was also amended as a consequence of the above changes to the accounts.

Fortunately none of these adjustments had any significant impact on the Council's underlying financial position or levels of useable reserves and reserves.

Significant weaknesses in internal control

The only internal controls I considered during the course of the audit were those relevant to my opinion on the financial statements. External audit work is not designed, and should not be relied upon, to identify all the weaknesses in internal control that might exist.

Any internal control issues identified by us, together with suggestions for improvement, were included in my regular progress reports to Members during the year. I have undertaken additional procedures where necessary to compensate for any weaknesses in internal control which are relevant to the audit. My conclusion for 2010/11 was that the Council's financial systems overall were adequately controlled, but that improvement was needed in two specific areas:

- Problems with completing timely bank reconciliations were highlighted last year. These have largely been addressed through compensating controls within the relevant financial systems, and by reconciling various components of the bank reconciliation at different points during the year. However a full bank reconciliation covering daily cash records, bank statements and all relevant general ledger account codes was only carried out at the year end. We have recommended that in future this is undertaken on a quarterly basis.
- The Framework I system, which is used to record approved social care contracts, was not regularly reconciled to the general ledger during the year and it appears that the operation and evidencing of some detailed processing controls has changed without specific authorisation by management.

Whole of Government Accounts

Whole of Government Account returns are an important part of the Government's national financial management framework, and submission deadlines were brought forward this year. The Council did not submit its 2010/11 data on time and this meant that we in turn were unable to meet our target date of 30 September 2011 for completing and reporting on our audit work. I gave an unqualified opinion on the return on 14 October.

The Council should plan and manage its closedown processes in future years to allow sufficient time for both the preparation and audit of the Whole of Government Accounts pack by the national deadline dates.

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 conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. To help inform this assessment I have followed up recommendations from previous years' work and reports, and specific issues highlighted by continuous audit planning and the Council's own risk management processes. In 2010/11 this included consideration of:

- asset management;
- corporate efficiency programmes;
- corporate and finance function restructuring;
- office relocation plans;
- the joint waste PFI scheme; and
- partnership governance arrangements, particularly for demonstrating and reporting on value for money.

My overall conclusion is that the Council had proper arrangements in place, and my findings in respect of each of the two specific criteria are summarised overleaf

Value for money criteria and key messages

Criterion	Key messages
<p>1. 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; and■ reducing expenditure following government reductions to specific grants. <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>

Criterion

2. The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

Criteria met.

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.

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.

Most support services have now been centralised, area based service delivery and more 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.

Closing remarks

This letter has been discussed and agreed with the Chief Executive and the Director of Customer and Business Support Services, and will be presented to the Audit and Governance Committee on 5 December 2011. Copies will be provided to all elected members.

Detailed findings, conclusions and recommendations in the areas covered by our audit have been included in the following reports which I have issued during the year.

Report	Date issued
Initial Fee Letter	April 2010
Opinion Audit Plan	February 2011
Audit Progress Reports	April and July 2011
Annual Governance Report Audit opinion, certificate and value for money conclusion	September 2011
Whole of Government certification and assurance statement	October 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit, and I would like to thank the Council's staff for their support and co-operation.

Steve Nicklin

District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit Fee (1)	£248,900	£248,900	0
Mandated work – National Fraud Initiative	£3,650	£3,650	0
Grant claims and returns (2)	£42,700	£42,700	0
Total (3)	£295,250	£295,950	0

- 1 The Audit Commission scale fee for York City Council is £249,260.
- 2 This represents our current best estimate for grant claims and returns fees. The work is not likely to be completed until the end of December 2011.
- 3 The figures above do not reflect the fee rebates made to audited bodies on a national basis as a result of savings made by the Audit Commission. The rebate received by City of York Council in 2010-11 was £15,576.

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 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

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.

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.

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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