

Annual Audit Letter

East Riding of Yorkshire 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 (page 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

Audit opinion and financial statements

1 I issued an unqualified opinion on your 2009/10 financial statements, which included the East Riding Pension Fund.

Value for money

2 I also issued an unqualified conclusion stating I was satisfied you made proper arrangements to secure economy, efficiency and effectiveness of your use of resources. You continue to make very good progress in dealing with the improvement areas I highlighted in last year's assessment.

3 Officers have undertaken a comprehensive review of your procurement arrangements and have substantially revised contract procedure rules and associated guidance to address a number of matters I raised relating to the recruitment of an Interim Communications Manager.

Actions

4 The Audit Committee and, where appropriate, the Pension Fund Committee monitor progress on the recommendations detailed in audit reports issued this year.

Current and future challenges

5 The Council has introduced arrangements to assess the impact of expected funding reductions in future years by developing a business transformation programme. Early action has also been taken to identify savings and the introduction of the Efficiency Fund which is intended to ease the burden of the cuts and allow reductions in revenue budgets in a planned way. It too early to assess the impact on services until the detail from the financial settlement is known. I will be reviewing your arrangements as part of my audit next year.

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

6 I gave an unqualified audit opinion on your financial statements for 2009/10 on 30 September 2010.

Financial statements

7 You have a good record for producing the Council's annual financial statements. The arrangements for producing East Riding Pension Fund financial statements have improved but a consistent quality assurance process is required.

Weaknesses in internal control

8 I reported two control weaknesses relating to the Pension fund AXIS system.

- The monthly reconciliation of contributions received for each admitted body was not subject to monthly management scrutiny.
- The monthly reconciliations between AXIS (benefits paid, transfers in and transfers out) and the General Ledger had not been undertaken since January 2009.

9 Officers have agreed a course of action to rectify these weaknesses.

Implementing International Financial Reporting Standards (IFRS)

10 In response to major accounting scandals in the private sector, new accounting rules have been introduced that aim for greater comparability of financial statements internationally and across sectors. Your 2010/11 accounts are to be the first set produced in accordance with the new standards. The Audit Commission has been monitoring preparedness for the introduction of these new rules across the country and your officers are making very good progress.

Whole of Government Accounts (WGA)

11 WGA introduced to ensure that best practice accounting methods are used to construct accounts covering the public sector as a whole. I am required to audit your annual submissions. I am pleased to report that you had good arrangements in place for financial year 2009/10.

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. This year, I also completed my review of Pension Data Information Flows between the four main contributors: East Riding of Yorkshire; Kingston upon Hull City Council; North East Lincolnshire, and finally North Lincolnshire Council.

Pension Information Flows - North Lincolnshire Council

12 The objective of my review was to review the manual and electronic information flows of employee data between the contributing employer, North Lincolnshire Council, and the administering authority, East Riding Pension Fund, and to identify ways in which these processes may be improved so as to improve data quality in the pension administration system.

Main conclusions

13 East Riding Pension Fund and North Lincolnshire Council staff have an excellent working relationship built up over a number of years. Generally there are fewer queries and issues with North Lincolnshire Council than with any of the other main contributing authorities.

14 The Pension Fund considers that, of the four main contributing authorities, North Lincolnshire Council provides the most accurate and timely data. This means that there is a low level of queries and no backlog; members base their decisions on good quality information; and members have a good pension experience.

15 I have identified a few minor areas where further improvements could be made and have agreed an action plan with North Lincolnshire Council and East Riding Pension Fund to help improve pension services for members in the future.

2009/10 use of resources assessments

16 At the end of May 2010 the Commission wrote to all chief executives to inform them that following a Government announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments. I am, however, still required by the Code of Audit Practice to issue a value for money conclusion. I have been able to use the results of the use of resources work, in addition to other evidence obtained during the course of the audit to inform my conclusion.

VFM conclusion

17 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission and my findings are summarised in the following table.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	
Yes	
Strategic asset management	Yes
Workforce	Yes

18 I issued an unqualified conclusion stating that I was satisfied you made proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

19 Officers provided evidence to show that you had good arrangements in all areas with exceptionally good performance in asset management and workforce planning.

20 Officers have undertaken a comprehensive review of your procurement arrangements and have substantially revised contract procedure rules and associated guidance to address a number of matters I raised earlier in the year relating to the recruitment of an Interim Communications Manager. I will take account of these new arrangements as part of my 2010/11 audit.

Approach to local value for money work from 2010/11

21 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. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

22 I will be basing my independent judgements on a reduced number of criteria, specified by the Commission, concentrating on:

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

23 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 position

24 The Council has maintained a stable financial position in recent years with spending within budgets in 2009/10 and general reserves of £24.8 million, well above the planned level of £6.5 million.

25 It is anticipated that the impact of the Government funding cuts over the next four years will be around 30 per cent in real terms. The three year Medium Term Financial Plan indicates that this means that the Council has to find approximately £25 million of savings in the next three years, without these savings having an adverse impact on the services provided. The Leader of the Council has announced plans to achieve at least a £7.5 million cut in base budgets for 2010/11 and currently action is being taken to meet this target.

26 The Council strategy is to take early action to identify savings and build up an Efficiency Fund which will ease the burden of the cuts and allow reductions in revenue budgets to be introduced in a planned way. Work has started to assess the impact of the funding reductions in future years by developing a business transformation programme.

National Fraud Initiative

The Audit Commission has run the National Fraud Initiative (NFI) since 1996. The exercise matches electronic data within and between audited bodies in local government and Health to prevent and detect fraud and is carried out every two years.

27 The NFI helped to trace £215 million in fraud, overpayments and errors in 2008/09. The figure for 2008/09 represents a 54 per cent increase on the figure of £140 million identified in 2006/07.

28 In February 2009, the Audit Commission issued the most recent set of data matches to the Council. Locally savings generated from three frauds and four errors to date total £37,360. Your revenues staff are currently working through updated data to identify ineligible council tax single persons discount is likely to generate further savings.

29 The 2010/11 NFI exercise will continue as planned with matches available from January 2011.

Closing remarks

30 I have discussed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 28 January 2011 and will provide copies to all board members.

31 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2009
2008/09 Grants Report	February 2010
Opinion Audit Plan	March 2010
Pension Information Flows With North Lincolnshire Council	August 2010
Annual Governance Report	September 2010
Annual Audit letter	November 2010

32 The Council has taken a positive and helpful approach to my audit. I wish to thank officers and members for the support and cooperation provided during the audit.

Mark Kirkham
District Auditor
November 2010

Appendix 1 Audit fees

	Actual Council £	Actual Pension Fund £
Financial statements and annual governance statement	186,092	46,985
Value for money	109,038	-
Total audit fees	£295,400	46,985
Managing Performance	16,630	-
Total fee	312,030	46,985
Non-audit work - grants	estimate £75,000	-
Extraordinary Audit investigation - Procurement of Interim Communications Manager	£9,979	-
Total	£397,009	46,985

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.

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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