

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**East Riding Of Yorkshire Council**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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## Key messages

- 1 The main messages for the Council included in this report are as follows.
  - The Council continues to perform well in the comprehensive performance assessment and is now rated as four stars and improving well.
  - The Council has increased the pace of improvement since last year over two thirds (67 per cent) of key performance indicators improved, above the average for similar councils. There has also been a significant improvement in the proportion of top performing services: now almost half the council's indicators are in the best quartile. There has however been limited improvement in the key areas of development control, waste minimisation and some aspects of community safety.
  - In common with the other local authorities in Humberside the Council had to deal with the severe weather and its impacts in the Summer of 2007 - the Council and its partners worked very hard to minimise floods' impact and deal with the aftermath.
  - The Local Strategic Partnership is well established and is making good progress in developing a new local area agreement.
  - Corporate arrangements for achieving value for money and performance managements are robust but the links between service plans and the Council's priorities could be clearer.
  - The Council continues to consult with local people, including groups that have been harder for it to hear. However community engagement whilst improving remains under development in relation to community and voluntary sector groups.
  - The Council still has good arrangements for ensuring resources are used effectively but its performance in some aspects of its financial reporting, internal control and value for money fell back from 2005/06, specific circumstances notably a significant fraud impacted on the latest assessment.
  - The Council continues to have problems calculating some performance indicators and we have seen an increase in errors in the housing benefit grant claim.

## Action needed by the Council

- 2 Councillors need to:
  - see that the robust framework for improving value for money results in tangible achievements;
  - ensure local community groups are adequately supported to play a full part in the LSP to deliver the shared vision for the area;

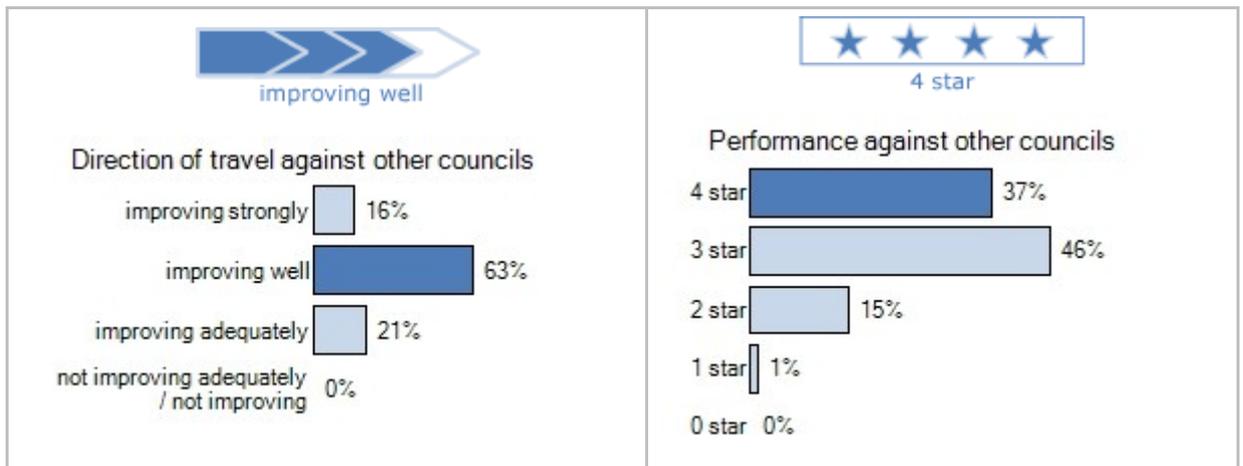
- clarify the links between service plans and the Council's priorities to make certain that achieving these priorities is at the heart of its actions;
- provide more consistent evidence of a visible challenge through the Council's scrutiny arrangements and the audit committee; and
- get assurance that arrangements for data quality are being strengthened consistently across all departments and that arrangements for reducing error rates in housing benefit claims are in place.

## Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 6 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

## How is East Riding of Yorkshire Council performing?

- 9 The Audit Commission's overall judgement is that the Council is improving well and we have classified the Council as **four star** and **improving well** in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.



*Councils with a CPA star rating under review or with a Direction of Travel judgement that is subject to review are excluded from this analysis.*

*Source: Audit Commission*

10 The detailed assessment for the Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving well
Overall	4 Star
Corporate assessment/capacity to improve (not re-assessed in 2007)	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	4 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	4 out of 4

(Note: \* these aspects have a greater influence on the overall CPA score)  
(1 = lowest, 4 = highest)

### The improvement since last year - our Direction of Travel report

11 Overall, the Council has increased the pace of improvement since last year. Over two thirds (67 per cent) of key performance indicators improved – this is above the average for similar councils. There has also been a significant improvement in the proportion of top performing services: now almost half the council’s indicators are in the best quartile. This improvement is due predominantly to the development of a strong performance management culture. There has been improvement across all of the Council’s priority themes, although some areas have improved more strongly than others. In particular, there has been limited improvement in the key areas of development control, waste management and community safety.

- 12 There have been improvements in the Council's priority theme of sustainable communities and transport, although this is inconsistent. The Council has maintained its score of 3 in the CPA environment block and improved its score in the culture block from 2 to 3, which means that overall, the Council is exceeding minimum standards in these areas of provision. Key service areas such as recycling, and the condition of council homes continue to improve. Consequently, public satisfaction with these services is above average. However, the Council has made limited progress in minimising the volume of waste produced by residents in East Riding. The performance of development control has improved, but remains below average. As a result, public satisfaction with planning is below the average of similar councils.
- 13 Improvement in the priority theme of Safer and Stronger Communities has been mixed. Progress is being made in reducing the number of people killed or seriously injured in road incidents, although the pace of improvement is slower than that of other councils. Crime rates are low, but improvement is inconsistent. Over the past year, the rates of thefts of motor vehicle, theft from motor vehicle and sexual offences have reduced but there have been increases in the levels of domestic burglaries, robberies and violence against the person. These crimes are ones that can not be addressed the Council alone or even principally. The Council has worked with partners to target its efforts on areas of high crime – through for example, the introduction of community safety wardens in Bridlington and this has had some success.
- 14 The Council continues to perform well in its priority theme of children and young people. The Council consistently delivers services for children at a good level. Services have been assessed as making a good contribution to improving outcomes for children and young people, despite being a rural area where distance and travel are often a challenge. An improving trend in attainment at all levels has been maintained and is above both national averages and similar councils.
- 15 The Council has strengthened its contribution to improving people's health and sense of well being. A recent inspection of services for older people by the Health Care Commission and the Commission for Social Care Inspection found that overall, the Council has made considerable progress in improving services for older people, including improving access to services throughout the borough. However, scope for further improvement was also identified in areas such as the integration of health and social care provision.
- 16 Arrangements for working with partners to improve the quality of life for local people have been strengthened. The local strategic partnership (LSP) is well established and has recently reviewed its arrangements. Partners are fully engaged and consultation is well under is well underway on developing the next generation of the local area agreement. This provides an important focus for future improvement.

- 17 There is a strong corporate planning framework in place to drive future improvement. This has been strengthened further over the past year. However, there remain some weaknesses in the links between service plans and corporate priorities. There is a three year corporate plan in place, with annual updates and clear links to the local area agreement. The Council has recently renewed its organizational development framework, Striding Ahead. This is used to provide an enhanced corporate focus on key areas such as reshaping service delivery. A robust service planning framework is in place, linked to the Council's performance management system. However the links between service plans and the Council's priorities are inconsistent. This weakens the organizational focus on the corporate priorities.
- 18 Performance management arrangements are strong and progress is being made in developing a performance management culture. The Council continues to develop the use of its performance management arrangements. For example, corporate performance clinics have been introduced to tackle areas of persistent underperformance. Access to the corporate system has been extended to enable service managers to make better use of performance information. Consequently, performance issues are taken seriously throughout the Council.
- 19 The Council continues to consult regularly with local people, including hard to reach groups and has a strong corporate approach. However, community engagement remains underdeveloped. Over the past year, the Council has strengthened links with parish councils by establishing area forums. Lessons have been learned from this initiative and now a multi-agency approach to community engagement is being developed by the LSP. This is critical to the Council's community leadership role.
- 20 The Council has improved its capacity to deliver its plans. Previous developments such as the partnership with avarto are now starting to have an impact. For example, there have been improvements in areas such as council tax collection rates. The Council has also made progress in improving its own capacity. Skill hotspots are being tackled through training and developing staff. This approach has been successful in reducing vacancy rates in social care. Sickness levels are still above average. The Council has recently revised its attendance at work policy to tackle this more effectively. New developments include giving more flexibility to managers in dealing with attendance issues and improving access for staff to external services such as counselling and physiotherapy.
- 21 Progress is being made in working with community and voluntary groups (third sector) but this area is still underdeveloped. The third sector is involved in the LSP and relationships are good. The third sector was also involved in organising events for the annual 'Striding Around' community consultation activity. However, there is currently insufficient support for the 3rd sector to enable it to play a full part in shaping the strategic direction of the borough. As a result the Council is not in a position to make best use of the third sector to augment its capacity.
- 22 Arrangements for securing continuous improvement are strong. The Council has robust arrangements in place for improving value for money (VfM). Value for money is taken seriously throughout the Council and has a high corporate profile.

## **Support for young people through Connexions-Humber**

- 23 The Council, in conjunction with Connexions Humber, East Riding, North Lincolnshire and North East Lincolnshire Council engaged the Commission to undertake a piece of voluntary improvement work during summer 2007. This work was in preparation for the Council receiving a direct grant from 2008/09 for commissioning integrated youth services. Currently the funding is paid direct to Connexions Humber, a separate organisation.
- 24 The focus of the work was to investigate the transition planning in place and consider how prepared each Council was to operate the service independently. The conclusion was that in summer 2007 none of the four Councils were advanced enough in their planning to operate the service independently and this was the preferred arrangement in East Riding. All four Councils have now agreed to formally contract with Connexions Humber for the provision of the service for a further 12 months from April 2008.

## **Health Inequalities**

- 25 The Commission has undertaken a high level piece of performance work to assess the effectiveness of joint working between the Council, East Riding Primary Care Trust (the PCT) and other partners to improve the health and well being of the community. Health inequalities are not as big a problem in East Riding, compared to neighbouring councils. Nevertheless, we identified both strengths and some areas for improvement.
- 26 We are in the progress of agreeing our findings which will feed into our Corporate Assessment work in Summer 2008.

## **Service inspections**

- 27 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. Input from other regulators including Ofsted, the Commission for Social Care Inspection and the Benefit's Fraud Inspectorate is factored into the comprehensive performance assessment. We have reflected on the assessments provided by these regulators in the direction of travel paragraphs of this letter.

## The audit of the accounts and value for money

- 28 As your appointed auditor I reported separately to the Audit Committee, in the annual governance report, on the issues arising from our 2006/07 audit. The governance report drew attention to two errors in the accounts which were amended. I have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 28 September 2007; and
  - my report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of Resources

- 29 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial standing (including the strength of the Council's financial position).
  - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 30 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

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**Table 2 Use of resources scores for 2006/07**

<b>Element</b>	<b>Assessment</b>
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

*(Note: 1 = lowest, 4 = highest)*

## **The key issues arising from the audit**

- 31** Whilst the Council continues to operate well above the minimum standards the overall score of 4 in 2006 was not sustained fully into 2007. The Council's strong financial position was maintained and budgets balanced despite significant budget pressures in Children, Family and Adult Services. There were specific circumstances in 2007 notably the significant fraud involving two senior officers of the Council which impacted on the assessment. The council now has an action plan in place to respond to the issues raised following the successful prosecution of the officers.
- 32** Addressing the wider Use of resources Issues an action plan has been agreed to:
- improve the medium term financial plan and some key working papers supporting the accounts;
  - ensure that there is clear evidence of the impact of tax payers and partners views on the format and contents of future annual reports;
  - develop more challenge from the audit committee; and
  - further promote the anti fraud and corruption culture within the Council.

The Audit Commission continues to promote higher standards for councils. The 2008 measure gives more emphasis, to sustainability, working in partnership and using IT to secure service and value for money improvements, strategic asset management and joint procurement.

## **Data Quality**

- 33** The Council's overall management arrangements for ensuring data quality are good although these arrangements are not equally strong across all the areas of our review. We identified a number of improvement recommendations, these aim to consolidate existing levels of performance and the Council has plans in place to address these areas.
- 34** In our detailed spot checks of indicators we identified:
- 3 out of 8 fairly stated;
  - 2 out of 8 with minor errors; and
  - 3 out of 8 requiring amendment.

- 35 The results were disappointing for the Council as a considerable amount of effort has been put into emphasising the importance of data quality to all service departments. The Council still has some way to go in embedding data quality throughout the organisation. The excellent arrangements around the central performance section are not in place in all other departments and further effort needs to be made to:
- understand and evaluate weaknesses in control arrangements to produce the PIs and to determine the risks; and
  - ensure that cost effective checking arrangements are in place to minimise basic errors or misinterpretations of the Best Value Performance Indicators themselves.

### Grant claims

- 36 A significant part of the Council's income comes from government grants and subsidies, some of which are subject to certification by the Audit Commission. The Council has continued its strong track record of producing quality working papers to support claims submitted to audit with further improvements seen in 2006/07 as can be seen in Table 3.

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**Table 3 Qualification and amendments to grant claims**

	2006-07	2005-06
Number of individual claims certified	30	37
Number of amended claims	6	8
% Amended	20%	22%
Number of qualified claims	1	10
% Qualified	3%	27%

*Source Audit Commission*

- 37 The largest single grant return is the housing benefit grant which was in excess of £60.7 million in 2006/07. In last years letter I reported improvements in the arrangements for this claim but the improvement seen did not continue into 2006/07. In our detailed testing in 2006/07 we found a significant increase in the error rate 3.74 per cent compared to 0.81 per cent in 2005/06. The processing of housing benefit claims is carried out by the Council's contractor avarto, and the Council monitors speed and accuracy of processing but these arrangements had not identified any substantial increase in errors. The Council are currently investigating the reason for this increase.

## **Pension Fund**

- 38** The management arrangements for the Pension Fund are separate from the corporate arrangements of the Council. However, East Riding Pension Fund (ERPF) is an integral part of ERYC and shares common systems and procedures.

### **Financial Reporting Standard (FRS) 17**

- 39** Whilst FRS 17 has no direct impact on the pension fund accounts themselves, the fund has a responsibility to provide the Fund Actuary with information to facilitate the FRS 17 fund valuation.
- 40** Following our review and detailed testing of assets, contributions and membership we concluded that the processes were satisfactory and the information provided to the Actuary for FRS17 purposes is free from material misstatement.

## Looking ahead

- 41 The Council is due to have a corporate assessment in June 2008 as part of the final phase of the current CPA (Comprehensive Performance Assessment) assessment framework for single tier and county councils. The Council has put significant effort into preparing for this over the past year. In addition to presentations to staff and councillors, preparations have included a peer review by the IDeA (Improvement and Development Agency).
- 42 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 43 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 44 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.
- 45 The CAA will be lead locally by a senior Audit Commission manager who will work closely with the District Auditor and the other inspectorates to deliver our aspirations for an even more proportionate and forward-looking assessment.

## Closing remarks

- 46 This letter has been discussed and agreed with Steve Button Head of Finance and Nigel Pearson Chief Executive. A copy of the letter will be presented at the audit committee on the 27 March 2008. Copies need to be provided all Council members.
- 47 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

**Table 4      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	October 2007
Use of resources	February 2008
Grant Claims summary report	February 2008
Annual audit and inspection letter	March 2008

- 48 This is my last Letter to the Council as Relationship Manager and District Auditor. I am therefore taking this opportunity to thank it for its positive and constructive approach to audit and inspection work. Whilst being rightly proud of its achievements to date I am sure that it is aware of the challenges that it and its partners still face. Assessing their success in dealing with these will be a key task for my successors. I wish to thank the Council's staff for their support and cooperation during my appointment and wish the Council well in improving further the lives of the communities which it serves.

## Availability of this letter

- 49 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Michael Newbury**  
**Relationship Manager and District Auditor**

March 2008