

# Annual Audit Letter

East Riding of Yorkshire Council

Audit 2008/09

December 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work undertaken to assess your arrangements to secure value for money in your use of resources.

## Audit opinion and financial statements

- 1 I issued an unqualified audit opinion on your 2008/09 accounting statements on 29 September 2009. My audit cannot be formally concluded and an audit certificate issued until I have considered matters brought to my attention by a local authority elector. However, I am satisfied that these matters do not have a material effect on the financial statements.

## Use of resources and value for money

- 2 My value for money conclusion is largely based on our use of resources assessment. I am satisfied in all significant respects, that you have made proper arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2009.

## Audit fees

- 3 Table 1 below shows the analysis of the actual fees compared to the initial estimated fee. The actual audit fees for the Pension Fund are as originally estimated at £36,582.

**Table 1**      **Audit fees East Riding of Yorkshire Council**

	<b>Actual £</b>	<b>Audit Plan £</b>	<b>Variance £</b>
Financial statements and annual governance statement	183,101	183,101	0
Value for money conclusion	69,283	57,266	12,017
Refund. Adult Services review cancelled. Assurance obtained through inspection work.	-7481		-7481
<b>Audit Fees</b>	244,903	240,367	
Inspection	127,470	139,487	-12,017

	<b>Actual £</b>	<b>Audit Plan £</b>	<b>Variance £</b>
<b>Audit and inspection Fees</b>	372,373	379854	-7,481
Non- audit fees - PFI accounting treatment assessment	7473	0	+7,473
<b>TOTAL 2008/09 Fees</b>	<b>379,846</b>	<b>379,854</b>	

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### Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**Your financial statements and annual governance statement are an important means by which you account for stewardship of public funds.**

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## Financial statements

- 5 There were no material errors to report to you relating to your financial statements, although I highlighted a number of presentational issues relating to compliance with recommended accounting practice.
  - 6 My annual report to your Audit Committee reported a number of immaterial accounting and financial reporting issues relating to the Pension Fund.
  - 7 I also brought the issue of valuing unquoted Pension Fund securities by the Investment Manager at cost to the attention of the Audit Committee. The Pension Fund Trustees now have a mechanism to gain assurance that an appropriate valuation basis for unquoted investments is adopted.
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## Material weaknesses in internal control

- 8 I did not identify any material weaknesses in the internal control arrangements I assessed as part of my audit.
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## International Financial Reporting Standards (IFRS)

- 9 In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
  - 10 I completed an Audit Commission survey and recorded your progress in preparing for the implementation of the IFRS. You have made very good preparations and have a detailed plan in place to ensure required timeframes are met.
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## Treasury management

- 11 I completed an Audit Commission return on your Treasury Management arrangements. The Council and the Pension Fund had no investments with Icelandic banks in 2008/09 and my review did not identify any significant issues requiring action.
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# Use of resources and value for money

**I considered how well you are managing and using resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.**

**I also assessed whether you have put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

**This year, my team also reviewed the arrangements for the transfer of pension data information between North East Lincolnshire Council (an admitted body) and the Pension Fund.**

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## Use of resources judgements and value for money

- 12** In 2009 I used the Audit Commission's new use of resources criteria in three areas: managing finances; governing the business and managing resources. Judgements were made for each key line of enquiry (KLOE) using the four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 13** I also assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources using criteria specified by the Audit Commission.
- 14** You have responded well to the new Use of Resources assessment and secured an overall assessment that 'exceeds minimum requirements - performs well'. Of particular note are your strategic asset management arrangements, which have been assessed as 'significantly exceeding minimum requirements'.
- 15** Challenges relating to future Use of Resources assessments include the following.
  - Maintaining the level of performance achieved in the assessed areas during 2009 and demonstrating that your arrangements have not deteriorated.
  - Demonstrating progress in your management of natural resources.
  - Responding to the 2010 new assessment area relating to workforce planning.
  - Where you consider you have made improvements clear and supportable evidence must be provided to my audit team that demonstrates:
    - innovation or best practice;
    - strong outcomes for the community including through partnership working; and
    - evidence of performing well above minimum acceptable levels and achieving excellent value for money.

## Use of resources and value for money

16 The detailed scores and VFM conclusion for 2009 are set out in Table 2 below.

**Table 2 Use of resources scores**

Use of resources theme	VFM Criteria Met	Sub-theme Score	Overall Score judgement
<p><b>Managing finances</b></p> <p>How effectively does the organisation manage its finances to deliver value for money?</p> <ul style="list-style-type: none"> <li>Financial Planning</li> <li>Understanding Costs</li> <li>Financial Reporting</li> </ul>	<p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>3</p> <p>3</p> <p>3</p>	3
<p><b>Governing the business</b></p> <p>How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?</p> <ul style="list-style-type: none"> <li>Commissioning and Procurement</li> <li>Data Quality and the Use of Information</li> <li>Good Governance</li> <li>Risk Management and Internal Control</li> </ul>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>3</p> <p>3</p> <p>3</p> <p>3</p>	3
<p><b>Managing resources</b></p> <p>How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?</p> <ul style="list-style-type: none"> <li>Natural Resources</li> <li>Asset Management</li> </ul>	<p>Yes</p> <p>Yes</p>	<p>2</p> <p>4</p>	3

17 The detailed findings from my Use of Resources work are set out below.

### Managing finances

- 18 Financial planning and annual budgeting reflect your strategic objectives. The Medium Term Financial Strategy is consistent with your corporate priorities and also links to the priorities agreed with the Local Strategic Partnership (LSP) in the Sustainable Community Plan. You have a leading role on the LSP and the work being done by the LSP Resource Advisory Group to jointly fund the delivery of the shared priorities is good and has been awarded a 'green flag' in the Comprehensive Area Assessment.
- 19 Your Medium Term Financial Strategy provides a framework for detailed service and budget planning and is integrated with other planning processes. Work is underway to fully integrate workforce planning.

- 20 You have met your key statutory requirements for a number of years. Efficiency savings required to be made are clearly identified and are supported by plans to deliver them. Your treasury management arrangements aim to strike a balance between securing your assets whilst recognising the need to achieve value for money.
- 21 Officers can demonstrate and explain how unit and transaction costs compare with others. Costs are benchmarked against a number of sources. More stringent monitoring of costs and income is now in place to counter the impact of the recession on your income. Remedial actions have been taken to manage variances.
- 22 There is evidence of improved productivity through reduced unit costs and increased service levels and efficiency. Expenditure per head of population is significantly lower than that of the average unitary authority and customer satisfaction with services is generally high.
- 23 You have consistently demonstrated that you have good arrangements in place supporting the production of your accounts. The accounts are produced by the deadline and historically have contained only minor errors. The accounts are backed by good working papers that support the accounting information and requests for additional information are responded to promptly.

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### Governing the business

- 24 You have a good understanding of the differing needs across its area, the services which are required in future and its priorities. These are set out in the Sustainable Community Plan and the three-year Business Plan.
- 25 Extensive use is made of service users at each stage of the commissioning process including the evaluation of outcomes. The procurement process evaluates a variety of options including internal and external suppliers and joint purchasing with other bodies. Performance against contract is regularly monitored and reported. The organisation has a track record of delivering services which offer value for money, deliver customer satisfaction and improve over time.
- 26 You have a robust framework for ensuring good data quality. Improvements in Data Quality are driven from the top down and upwards from managers and staff. Your IT systems support the 'collect data once and use many times' principle with processes to reduce the incidence of data errors. Data Quality is included in service plans and the strategic risk register.
- 27 Performance management is embedded and linked to the management of resources not only at corporate level, but also at LSP level. You demonstrate self-awareness and have a good track record of achieving targets and planned efficiency gains and are moving away from concentrating on performance targets to also include outcomes. A strong culture of using information to support performance improvement is now being shared with partner organisations.

## Use of resources and value for money

- 28 The standards of conduct for both Members and officers are defined in Codes of Conduct and reinforced through training. Complaints made against Members for code breaches are low and are referred for further investigation where appropriate. Employee breaches are dealt with by managers under your disciplinary policy.
- 29 Your risk management strategy is reviewed and reported to the Cabinet annually which includes action planning to ensure continued improvement. Roles and responsibilities of both Members and officers are clear. Responsibility for risk rests with Cabinet and the Audit Committee plays an effective role in providing assurance that your arrangements and controls are effective.

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## Managing resources

- 30 You have made a public commitment to reducing your carbon footprint and have set out a strategy for managing use of natural resources though the current strategy does not incorporate schools. You are establishing systems and processes to manage your own performance to reduce your use of natural resources.
- 31 While officers demonstrate an adequate understanding of your use of natural resources, understanding in some areas, such as internal waste, requires further development. There is no single plan for reducing your use of natural resources. From 2009/10 all service plans have objectives to measure performance for continual improvement and there is a Climate Change Strategy which includes an early target to reduce your emissions of greenhouse gases.
- 32 You are not making consistent progress in achieving your targets. There was a slight increase in CO2 emissions from 2006/07 to 2007/08 and an increase in water use. However, over a longer period, reductions have been made with a reported 27 per cent reduction in CO2 emissions between 2005/06 and 2007/08.
- 33 You are a recognised and accredited high performer in the area of asset management. Developments have led to a number of improved outcomes for the public. Your Capital Investment and Asset Management Strategy 2007-2037 identifies how capital plans over the next 30 years will be tailored to move towards a more sustainable future for the provision of assets, improving access to services and equity of provision whilst optimising value for money.
- 34 In response to the slump in the economy, an acceleration of capital investment has been approved in the construction industry of an additional £100 million on top of the normal £80 million annual programme. This would not be possible without a well-managed forward programming for capital investment and identification of needs.
- 35 The approved capital investment programme is closely aligned with the Medium Term Financial Strategy and Service Plans. You have worked well with key partners in the provision of services from shared facilities.

**Information Flows between North East Lincolnshire Council and the Pension Fund**

- 36 Inaccurate or incomplete data may lead to wrong pension calculations for members and an incorrect valuation of the Pension Fund, which could mean higher or lower than necessary employers' contributions being fixed.
- 37 The Pension Fund provides members with information on what options are available to them. There are many variables and the best option is not always obvious. Members will have the opportunity to make a more informed choice on what is best for them if the options presented to them are calculated on the basis of sound information.
- 38 A lack of resources within North East Lincolnshire Council's (NELC's) payroll section, together with slow information from service areas to human resources and the payroll section, impacted on the timeliness of data sent to the Pension Fund at the time of our review.
- 39 NELC has responded well to the audit and is in the process of implementing the required improvements to ensure that timely and accurate information is provided to the Pension Fund.

# National Fraud Initiative

**Since 1996 the Audit Commission has run the National Fraud Initiative (NFI); an exercise that matches electronic data within and between audited bodies in local government and Health to prevent and detect fraud.**

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- 40** In February 2009 the Audit Commission issued the latest set of data matches. You are currently making good progress in investigating these matches and have already identified 1 fraud totalling £2,155 and 1 error of £23,806.

# Closing remarks

- 41 I have discussed this letter with the Chief Executive, Director of Corporate Resources and the Head of Finance. I will present this letter at the 29 January 2010 Audit Committee and thereafter provide copies to all Members. Further detailed findings, conclusions and recommendations are included in the reports issued during the year. See Table. 3.

**Table 3**

Report	Date issued
Audit Fee Letter	June 2008
Corporate Assessment	October 2008
Pension Fund North East Lincolnshire Data information flows	March 2009
Annual Governance Report	September 2009
Use of Resources Report	September 2009
Annual Accounts Memorandum	October 2009

- 42 The economic downturn is having a very significant impact on public finances. It is envisaged that there will be wide ranging and more fundamental effects on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term. There are further challenges for policy priorities where patterns of demand for services are also changing. In addition you continue to implement your own efficiency and improvement review programme. These changes and your response will be a key focus of my attention for future audits.
- 43 You have continued to take a positive and constructive approach to our audit, I wish to thank you for your support and co-operation.

Mark Kirkham  
District Auditor  
December 2009

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# The Audit Commission

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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