Partnership Management Board
29th June 2011

Financial results 2010/11; report of the Head of Partnership

Purpose of the report:
This report is to advise members of the financial results for the year 2010/2011.

1) The Partnership was formed under the provisions of the 1972 Local Government Act, and is a joint committee delivering internal audit services to the Partner Councils. Therefore as a 'specified body' it has a duty to prepare accounts separate to the Partner Councils.

2) Members will be aware, therefore, that the Partnership produces an independent set of accounts to comply with the requirements of the Act.

3) The accounts have to be approved by the Partnership Management Board and in accordance with the Accounts & Audit Regulations. These specify, inter alia, that the accounts must be approved by 30th June annually.

4) There is a requirement in the Accounts & Audit Regulations requiring that 'specified bodies' conduct, annually, a review of their Internal Control Systems and prepare an Annual Governance Statement (AGS) which is to be signed by the 'most senior member' and 'most senior officer' of the body. An AGS has been drafted and after taking advice from the Partnership's external auditors it is proposed that this should be approved by the Board and then signed by the Chairman of the Board, the Chief Financial Officer of the host council (the s.151 officer), and the Head of the Partnership. The AGS is incorporated in the Accounts.

5) There is also further requirement from the Audit Commission, as we are classed as a 'smaller body'. We have to complete an Annual Return, which, in effect replaces the external audit that was previously undertaken by the local Audit Commission staff. This return has to be discussed by the Board and the governance component signed off by the Board. As stated above the Partnership has prepared a separate AGS which is a formal document extending the governance component of the Annual Return.

6) In the Annual Return there is an Internal Audit component, which will be completed by our internal auditors (Veritau) once they have completed their work.

7) The Accounts and Audit regulations also stipulate that a body must undertake a review of the effectiveness of its internal audit and that the results are reviewed by the body. This is incorporated into the Annual Return. Given our small size, and that our internal audit places a significant amount of reliance that the Partnership's main financial systems are those of the host, consequently their work is reduced. It is proposed that the fact that the internal auditors are Veritau internal audit staff, are professionally qualified, and are subject to tri-ennial review by the Audit Commission, that this is sufficient review to allow members of the Board to approve that element of the Annual Return.

8) The Partnership requires some reserves, as the Partnership stands financially independent of the Partner Councils. Therefore any unforeseen financial demands fall to the Partnership itself, rather than as with a standard internal IA service, to its parent council. So, for example, if the partnership had a member of staff with a long-term illness, the costs of engaging agency staff could be met.

9) This is important as the partnership's income is predicated on delivering the agreed audit plan. The loss of staff time would therefore reduce output; hence income and so could lead the partnership into a deficit. (For comparison, with a standard IA service, those additional costs would be met by the council, or the audit plan would be reduced.)

10) Current agency rates are around £30+ per hour for experienced staff, which equates to around £1,250 per week. Reserves of £50,000 would therefore cover up to 40 weeks (c.10% of overall IA plans) before being exhausted.

11) It has been accepted and agreed, that there should be a limit on the amount of reserves that the Partnership holds, and a level of approximately 10% of turnover with a ceiling of £50,000 was approved. Any reserves held above the agreed level at the year-end, could be distributed back to the partner councils in a manner to be determined by the Board.

12) The accounts attached as Appendix 1 show that at the end of the year we have a surplus on the years trading of £36,400, which is around 7.5% of turnover. This surplus will be added to the reserves of the partnership, which will now be in the order of £69,500 plus £7,000 in IT reserves.

13) These reserves 'owned' by the 5 Partner Councils represent around 14.3% of the 2010/11 fee income. The table in Appendix 2 shows the amount of the reserve attributable to each Partner.

14) As there are now 'additional' reserves of around £19,400 the Board must determine how these are to be disbursed.

15) There are three principal options; -

a) Reimburse Partner Councils the additional reserves, in proportion to the reserves each holds at 31/3/2011.

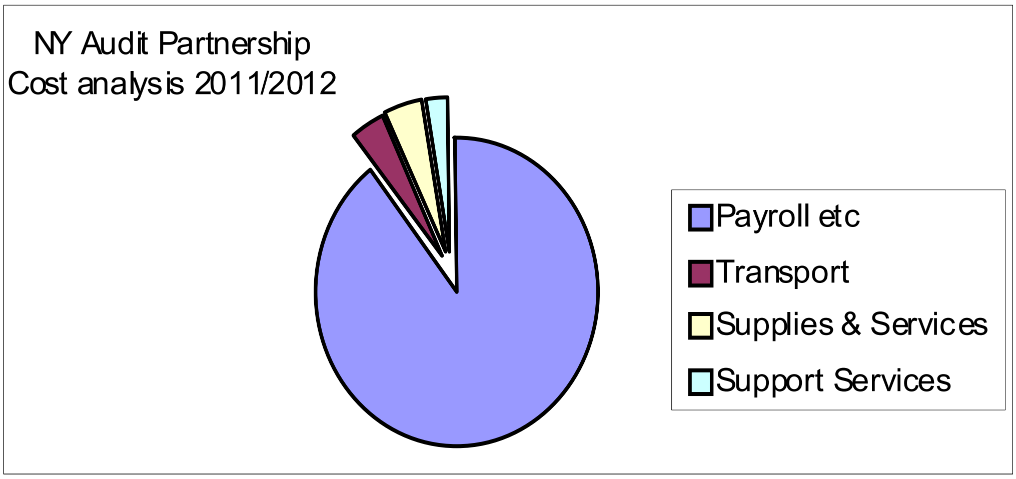
   i) The issue here is that this would leave the Partnership with exactly the maximum reserves allowed, and if a surplus of only £100 were to be made in 2011/12 that would necessitate a further determination to be made over the distribution of that £100.

b) Reduce the surplus by an agreed sum, and reimburse Partner Councils their share of that sum in proportion to the reserves each holds at 31/3/2011.

   i) This would resolve the dilemma outlined above.

c) Retain the additional reserves through to March 2012, the end of the current Partnership Agreement, as it is anticipated that there may well be additional costs arising in 2011/12 and possibly 2012/13 as the Partnership goes forward. If at that point there continues to be additional reserves these could be reimbursed as described in b) above talking account of the financial position at 31/3/2012.

16) At the December Partnership Board meeting the members decided that the daily rate for 2011/12 would be maintained at £235. This recognises that the national pay award for 2011/12 will be 0%. It recognises that cost savings must continue to be made, and pushes the efficiency envelope for the Partnership staff a little further.



17) We, in addition, have to continually bear in mind the mix of expenditure, and the Partnership's mix is such that, practically 90% of the expenditure is payroll and employee costs, so any variations to non payroll costs have a significantly lesser impact on the final expenditure for the Partnership.

18) Furthermore, we have traditionally planned for 100% recovery of time so our daily rate is set at cost recovery level with only a minimal %age incorporated for the unforeseen, or reserve accumulation. We have always set our budget on this recovery rate of 100%, which therefore assumes that all audits will be completed and so our income is optimised. This, with hindsight, was probably optimistic, carrying over from the in-house provision concept where there was no tangible (financial) link between performance and income.

Recommendation

It is recommended that the Financial Report for the year 2010/2011 be received, and: -

1) The additional reserves above the approved level are retained to meet anticipated additional costs in 2011/12 and potentially 2012/13.
2) The Statement of Accounts are approved, and
3) The Annual Return and Annual Governance Statement are approved, and formally signed.

Appendix 1

NORTH YORKSHIRE AUDIT PARTNERSHIP BUDGET ESTIMATE 2010/2011

EXPENDITURE & INCOME

2010/11		2010/11	2011/12	
Estimate £		Actuals £	Estimate £	£
	Employees			
352,524	Payroll	333,215	325,528	
101,487	Superannuation and NI	75,942	96,236	
454,011	Payroll costs	409,157		421,764
	Supplies & Services			
1,500	Training – Professional	546	1,500	
1,250	Professional subscription	820	1,250	
1,500	Equipment	525	1,500	
1,000	Miscellaneous	858	500	
0	Printing	0	0	
1,000	Stationery	1,088	1,000	
250	Photocopying	111	250	
750	Books and Publications	210	750	
4,500	Conference & Seminar Fees	5,058	4,500	
75	Postage & Franking	0	100	
1,000	Software Licences	1,085	1,000	
	Consultants (Dunn & Bradstreet)	961	0	
15,000	Car Allowance	19,268	17,500	
27,825		30,530	29,850	
1,500	Recruitment & advertising	1,623	1,500	
2,400	Audit Fee	3,350	2,400	
3,500	Professional Indemnity Insurance	3,096	3,500	
1,250	Contribution to IT reserve fund	0	1,000	
10,500	Support Services	9,677	12,000	
19,150		17,746	20,400	
46,975	Support Services	48,276	50,250	50,250
500,986		**457,433**		**472,014**
	Income; **Daily rate: - £235** **2011/12; 2010/11; 2009/10;** **2008/09 ~ £225.00 (2007/08 ~ £229.00)**			
451,814	Recharge to Partners (planned audit)	465,838		426,525
49,289	Additional Contract & Partner Income	28,014		50,525
501,103		**493,852**		**477,050**
217	Surplus (Deficit)	**36,419** **(7.37%)**		**5,036** **(1.05%)**

Appendix 2

NORTH YORKSHIRE AUDIT PARTNERSHIP RESERVES 2010/2011

	Hambleton £	Richmondshire £	Ryedale £	Scarborough £	Selby £	NYAP total £
Brought Fwd	4,395	2,838	6,229	11,437	8,130	33,029
2010/11	6,486	4,363	4,946	13,093	7,531	36,419
C/Fwd	10,881	7,201	11,175	24,530	15,661	69,448
'Share' of the additional reserves.	3,047	2,017	3,129	6,869	4,386	19,448