

City of York Council

Audit Completion Report
Year ended 31 March 2013

September 2013

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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Non-Executive Directors, Members or officers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Member or Officer in their individual capacity or to any third party.

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1. Purpose of this document

This document records the findings of our audit for the year ended 31 March 2013 and forms the basis for discussion at the Audit and Governance Committee meeting on 26 September 2013.

Our communication with you is important to:

- share information which will assist both the auditor and those charged with governance of to fulfil their respective responsibilities;
- provide constructive observations arising from the audit process to those charged with governance of;
- ensure that we, as external auditors, gain an understanding of the attitude and views of City of York Council with regard to operational, financial, compliance and other risks (both internal and external) which might affect the statement of accounts, including the likelihood of those risks materialising and how they are managed; and
- receive feedback from those charged with governance as to the performance of the engagement team.

2. Independence

As part of our on-going risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

No further threats to our independence have been identified since we issued our Audit Strategy Memorandum.

3. Our audit approach

Our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

There have been no changes to our audit approach as communicated to you in the Audit Strategy Memorandum issued in February 2013, and no additional audit risks were identified. Where appropriate we have sought specific assurances from management, and a draft of their letter to us is set out in Appendix 1.

4. Overall conclusion and opinion

At the time of issuing this report we anticipate:

- issuing an unqualified opinion on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Our draft audit opinion is set out in Appendix 2.

5. Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the statement of accounts, have included the examination of the

transactions and the controls thereon. The International Standards on Auditing (UK and Ireland) do not require us to design audit procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

Our audit included consideration of internal controls relevant to the preparation of the statement of accounts in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

6. Audit status

We have substantially completed our audit of the statement of accounts for the year ended 31 March 2013. At the date of drafting this report, we awaited letters of assurance from the North Yorkshire Local Government Pension Fund auditor, and invoices and other supporting information from some of the Council's service departments to confirm income and expenditure transactions in the accounts. We also need to update our subsequent events review to the date of signing, and complete our own internal review procedures.

Subject to the satisfactory completion of these outstanding matters, we expect to be able to complete our audit by 26 September 2013.

A number of amendments have been made to the accounts as a result of the audit, and these are set out in section 10 of our report. Principally these related to presentational adjustments in connection with:

- the prior period adjustment made as a result of implementing a new Fixed asset register in 2012/13;
- technical aspects of capital accounting; and
- the presentation of the Comprehensive Income and Expenditure Accounts, and a number of disclosure notes.

We have also made a number of recommendations for the Council to consider, and highlighted areas where action may be necessary in 2013/14.

We are pleased to report that none of these recommendations or adjustments has any impact on levels of reserves or cash balances, or on the Council's overall financial position as previously reported to members.

We have not received any objections to the Council's 2012/13 statement of accounts from electors and have no outstanding matters or correspondence with electors.

Alongside our audit of your statement of accounts we are required to review your Whole of Government Accounts submission and report to the National Audit Office in line with their group instructions and guidance produced by the Audit Commission. We anticipate completing this work by 26 September 2013, so that by 30 September 2013 we can provide both:

- an opinion on the Council's Statement of Accounts, and;
- our certificate to confirm that the audit has been completed.

7. Significant risks and key judgement areas

Set out below are the significant risks and key areas of management judgement that we identified at the planning stage of the audit and included in the Audit Strategy Memorandum, together with a summary of the work we have performed to address each risk, and our conclusions.

Significant audit risks	How we addressed this risk	Audit conclusion
<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records by overriding internal controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, there is an inherent risk of financial misreporting due to fraud which represents a significant risk on all audits.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the framework of internal controls in key financial systems, • assessed the Council’s overall control environment; including a fraud risk assessment; • obtained specific assurances from the Audit and Governance Committee and management ; • sample tested general ledger journal postings; and • reviewed accounting estimates and key accounting policies. 	<p>No evidence of management override has been identified.</p>
<p>Revenue and expenditure recognition</p> <p>There is a presumption under the ISAs of significant risk in relation to judgements made by management as to whether income not yet received has been earned. For public sector organisations the same risk applies to the recognition of expenditure and contractual obligations.</p> <p>Therefore, income may be artificially inflated, or expenditure suppressed, to improve the reported</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated arrangements put in place by management to ensure transactions are recognised in the correct period; • undertaken cut off tests on transactions around the year end; • sample tested income and expenditure transactions, and year end balances; • reperformed year end bank and feeder system reconciliations; 	<p>No errors were identified in relation to revenue and expenditure recognition in the Comprehensive Income and Expenditure Account.</p>

Significant audit risks	How we addressed this risk	Audit conclusion
financial position at the year end.	<ul style="list-style-type: none"> confirmed government funding allocations; and reviewed any identified ring-fencing or clawback arrangements. 	
<p>Retirement benefits entries and disclosures</p> <p>The financial statements contain material entries and disclosures in respect of retirement benefits. The calculation of these figures can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement., which we treat as a significant risk for audit purposes.</p>	<p>We ascertained the reasons for any significant variations in IAS19 accounting entries, and confirmed that the entries were consistent with information provided by the Council's actuary (Mercers),and in line with Code requirements.</p> <p>We considered the reasonableness of the actuary's (Mercers') output, by referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.</p> <p>We also sought assurance on the operation of the pension fund, from the external auditor of North Yorkshire LGPF.</p>	<p>Subject to confirmation awaited from North Yorkshire LGPF external auditor, retirement benefit entries and disclosures are fairly stated.</p>
<p>Property, Plant and Equipment</p> <p>The financial statements contain entries and disclosures in respect of property, plant and equipment, investment and heritage assets which are material both individually and in aggregate. These entries are inherently complex in terms of accounting requirements, and based upon a combination of estimates, judgements, and specialist valuations relating for example to categorisation, impairments and asset life. In addition, the Council has implemented a new fixed asset register system during 2012/13 which underpins these balances and transactions within the accounts.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed and sample tested fixed asset records; tested the integrity of opening balances and other data transfers; checked that accounting records are supported by valuations on the correct basis as set out in relevant guidance; reviewed depreciation calculations and the processes for identifying and accounting for any impairments; and ensured that accounting treatments and disclosures meet Code requirements. 	<p>Based on sample testing, we are satisfied that underlying asset records are reliable. A number of adjustments were made to the accounts to ensure that capital accounting and financing entries met all relevant requirements. These are set out in section 10.</p>

Areas of management judgement	How we addressed this judgement	Audit conclusion
<p>Group Accounts</p> <p>The Council has a number of interests in joint ventures, partnerships and limited companies, but is not proposing to prepare group accounts as it believes that the value of these interests is not significant, either individually or in aggregate, in the overall context of the 2012/13 financial statements.</p>	<p>We have reviewed and where necessary challenged the basis of your judgement that group accounts were not required, having regard to Code group accounting requirements.</p>	<p>Audit work confirmed that adequate steps had been taken to identify investments and interests in other organisations, and that group accounts were not required for 2012/13.</p>
<p>Equal pay claims</p> <p>This is a significant legal issue for a number of local councils nationally, and the recent “Birmingham” judgement indicates that both the scope of potential exposure, and the time limit for claims, may be greater than previously anticipated</p>	<p>We requested that officers carry out a detailed assessment of their exposure to equal pay claims in the light of the recent “Birmingham” judgement, and the financial implications for 2012/13 financial statements in terms of provisions and contingent liabilities. We have then reviewed this assessment, and obtained specific written representations from management in this regard.</p>	<p>The Council’s 2012/13 Statement of Accounts already includes a provision for £1.3m in respect of equal pay claims (£1.35m at 31 March 2012). At this stage we concur with management’s view that no additional financial exposure exists.</p>
<p>Property Plant and Equipment</p> <p>This is an area of the accounts where management exercise judgement in a number of important respects, including assessment of assets’ useful lives and depreciation policies, impairment reviews and the timing of revaluations, componentisation, repair and maintenance and replacement policies. These judgements and estimations are likely to have a material impact not just on balances and transactions in the current year but also on opening balances and prior periods’ accounts.</p>	<p>We have challenged the reasonableness of judgements made by management, and the consistency with which they have been applied. Where necessary we have requested specific written representations from management, and reviewed the supporting information which underpins them. We have also considered whether the accounting treatment adopted in respect of prior period adjustments meet Code requirements.</p>	<p>Based on sample testing, we are satisfied that the basis of asset valuations meet Code requirements and with the overall accuracy of fixed asset records. A number of adjustments have been made to the accounts in relation to capital transactions, and we have sought specific representations from management in relation to asset values, capital accruals and commitments and depreciation.</p>

8. Audit recommendations

ISA 260 requires that any matters relating to the qualitative aspects of financial reporting, and any audit recommendations for future improvements, are communicated to those charged with governance. We have the following matters to report to you.

Area of accounts	Audit recommendation
<p>Accounts template</p> <p>Some difficulties were experienced with the existing accounts template which meant that the accounts submitted for audit contained missing or incorrect information in some disclosure notes. Also, as accounting disclosure requirements have changed incrementally over time the template has not been comprehensively updated.</p>	<p>All significant errors identified in the accounts have now been corrected, but the Council should consider a more fundamental overhaul of its accounts template for 2013/14.</p>
<p>Heritage assets</p> <p>Some heritage assets included in the financial statements are included on the basis of insurance valuations carried out over 10 years ago. This meets current Code requirements as it is the most up to date information available, but it is almost certainly no longer reliable for either accounting or insurance purposes</p>	<p>Heritage assets should be revalued in 2013/14.</p>
<p>West Offices</p> <p>This has been a major project for the Council, due to be completed in 2013/14</p>	<p>To ensure correct accounting going forward, following final completion this asset should be revalued not just in total but in terms of its component parts (such as land, significant building components, equipment and IT infrastructure) for inclusion in the fixed asset register.</p>
<p>Operating and finance leases</p> <p>Leasing records were updated in preparation for IFRS implementation five years ago but have not subsequently been reviewed to ensure that for existing leases the information remains up to date.</p>	<p>Our sample testing identified one instance where lease details had changed but the register had not been updated. We therefore recommend that lease records are reviewed and updated during 2013/14.</p>

9. Internal control

We have one recommendation to improve internal control, as shown in the table below.

Description of deficiency	Potential effects	Remedial action	Management response
The Council has 5 bank accounts, all of which are reconciled to bank statements on a regular basis. However, a full reconciliation between cash and general ledger balances is only undertaken as part of closedown at the year end.	Mispostings, errors and other differences between the general ledger and feeder systems (which process individual transactions) will not be identified and corrected on a timely basis.	We have recommended to management that these reconciliations are carried out at least quarterly during the year.	Year end closedown is the only point during the year when feeder file processing is restricted so that officers have a clean point to reconcile to. Management are satisfied that current processes are adequate and no further action is necessary,

The purpose of our audit is to express an opinion on the statement of accounts. As part of our audit we consider the internal controls in place which are relevant to the preparation of the statement of accounts in order to design audit procedures, but not for any other purpose.

The matters reported are therefore limited to those deficiencies and other control recommendations that we have identified during our audit and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported.

10. Adjusted and unadjusted misstatements

The following issues were identified during the course of the audit and discussed with management who have agreed to amend the accounts. No misstatements were identified during the course of audit that have not been corrected, unless they were clearly trivial in nature.

Prior period adjustment

The Council has implemented a new fixed asset register in 2012/13. During this implementation it identified that previous years allocations between the revaluation reserve and capital adjustment account (both unuseable reserves in the balance sheet) had been incorrectly calculated. An adjustment of £11.4m has therefore been made to comparative information in this year's accounts.

We were able to agree the basis of the calculations underlying this adjustment, but requested a number of amendments to the accounts presented for audit as the adjustment had not been presented in a format that met relevant Code requirements. This included an additional third balance sheet.

Comprehensive Income and Expenditure Account (CIES)

Items of income and expenditure initially classified as exceptional in the Comprehensive Income and Expenditure Account did not meet relevant Code requirements and have been moved into other relevant service headings as appropriate. Additional disclosure notes have also been included in the accounts to better explain the exceptional items included in comparative data for 2011/12. The overall format of the CIES below service level headings was also amended to bring it into line with Code requirements.

Capital Accounting

Errors were identified and corrected in respect of:

- accounting for assets disposed of (net book value £0.8m);
- £0.4m capital income incorrectly analysed between capital receipts and 3rd party contributions.

Disclosure amendments were also made in respect of:

- brought forward depreciation on council dwellings (presentation of note 12 not in line with requirements)
- income, expenditure and the change in market value of investment properties (note 14),.

Accounting policies

Additional accounting policies were included to clarify the Council's approach to calculating depreciation on council dwellings, and to accounting for various types of school. The wording of some other accounting policies was refined to meet Code requirements or better explain the Council's approach.

Other adjustments

Amendments were made to the following disclosure notes:

- Note 43 disclosures (expected future income where the Council acts as lessor) was amended by £0.6m in respect of one lease where our sample testing identified the Council's calculations had been incorrect;
- Note 16 (financial instruments) was amended to bring the contents into line with Code requirements;
- The costs of exit packages and termination payments (note 37) have been separately analysed between compulsory and other redundancies;

Minor amendments were made to correct inconsistencies between the foreword, the body of the accounts and other financial information. A number of less significant amendments have also been made to improve the overall presentation of the accounts in terms of typing, cross referencing and the format and content of other disclosure notes.

11. Value for money

We assess your arrangements against the two criteria specified by the Audit Commission, namely securing financial resilience; and ensuring economy, efficiency and effectiveness in the use of resources.

For 2012/13 the Audit Commission identified and published a number of sector specific factors likely to be relevant to all local authorities in the current economic climate. Our work has been directed towards these issues. In addition we have considered the value for money aspect of individually significant transactions undertaken by the Council during the year. A summary of our findings and conclusions is set out below.

Criteria	Summary of findings	Audit conclusion
Financial Resilience	<p>Delivering a balanced budget, and successfully managing grant funding reductions, has been identified as a key corporate risk for the Council. Its 5 year medium term financial plan is updated annually, and supplemented by a more detailed 2-year budget. Financial plans are based on realistic assumptions regarding pay and prices, pension costs, grant funding and other sources of income. The 2011/13 budget required a £20m reduction in spending over this period, with savings to be delivered through a combination of efficiency gains, service reductions, and increased fees and charges.</p> <p>Through public meetings, online media and press coverage, stakeholders, staff and local people have a good understanding of the Council's financial position and the difficult choices that need to be made. A Fairness Commission has been established to ensure that services are targeted at those most in need – 10 "Fairness principles" have been agreed and these are used as underlying principles when considering the impact of savings proposals on services. For example, the Council has invested additional moneys in adult social care and looked after children's services as these were identified as the City's most vulnerable groups, and reduced ward budgets as these did not direct resources to priority areas. There has also been online consultation on the budget (YorChoice) and the Big York Survey which is carried out every 3 years.</p> <p>The Council has a number of sites available for redevelopment, including former schools and waste collection sites, and has also been relatively successful at accessing additional sources of grant funding eg arts commission funding for Theatre Royal repair works, a new cycle circuit funded by the British Cycling Foundation, Green Deal grant for carbon reduction, and the New Homes</p>	Criteria met

Criteria	Summary of findings	Audit conclusion
	<p>bonus (up to £8.5m over the next 5 years). Charging policies are reviewed regularly with an updated policy (including a number of 5% increases) approved in December 2012. Treasury management strategies are also kept up to date, and performance on managing loans and investments is good.</p> <p>The Council has, in recent years, a good track record of managing expenditure within budget overall, and underspent by £80,000 in 2012/13. It continues to experience particular pressure on adult social care budgets and this is being tackled by extending the use of direct payments and personal budgets, reviewing eligibility criteria and outsourcing all but 1 elderly persons home.</p> <p>Useable reserves at 31 3 2013 stood at £6.4m, in excess of the £6.1m minimum level approved by members. There are no plans to reduce reserves below this level, and the medium term financial plan expresses the intention to increase reserves by £0.25m over the 2012-17 period.</p>	
<p>Securing economy, efficiency and effectiveness</p>	<p>The Council demonstrates a good awareness of how its own costs and performance levels compare with others, and where scope for change may exist. Reports to Cabinet and scrutiny committee reviews make good use of comparative and contextual information and comparative data in terms of council tax rates/increases, spend per head of population and use of CT freeze grant has informed budget setting exercises, together with more general financial data on national and global economic trends, average pay and price increases and expected future trends in energy costs. Financial modelling techniques have been used to extrapolate the impact of predicted demographic trends on the demand for services and costs. According to Audit Commission profiles, unit costs of Council services and levels of Council Tax compare well with both similar and neighbouring authorities</p> <p>Detailed savings plans are in place at directorate level after total savings targets have been approved as part of the budget. Savings vary from low level opportunistic items eg reducing mobile phone bills taxi fares and advertising costs, to more far reaching changes such as reduced funding to local theatres and the arts, reduced opening times at leisure centres and closure of one recycling/waste collection site. More than half of the savings plans involve staff costs and there is a moratorium on filling vacant posts. These directorate plans are supplemented by more strategic corporate initiatives, such as the office relocation project which has moved staff from 17 locations across the city to 2 (West Offices or Hazel Court) and is expected to save running costs of £12m over the next 25 years.</p> <p>Members play their part in identifying scope for savings, through scrutiny and call in arrangements which have helped to identify</p>	<p>Criteria met</p>

Criteria	Summary of findings	Audit conclusion
	<p>scope to increase the use of s106 agreements, generate additional income from CCTV services, and have challenged the business case for the new community stadium. A range of joint ventures and outsourcing arrangements are already in place or being actively considered, these include a shared Yorkshire Highways Alliance (shared service arrangements for highways maintenance), and social enterprise organisations to operate branch libraries.</p> <p>Action has been taken in 2012/13 to improve asset management, by centralising estates staff and rationalising budgets. A corporate asset management strategy has been put in place to maximise value for money, with surplus assets proactively marketed, shared use schemes are encouraged and “community assets” transferred to local groups who can demonstrate appropriate capacity.</p>	

Appendices

Appendix 1 – Management representations

[Client address]

[Date]

Dear Mr Nicklin,

City of York Council - audit for year ended 31 March 2013

This representation letter is provided in connection with your audit of the statement of accounts for City of York Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council that you determined necessary to contact in order to obtain audit evidence.

I confirm as Director of Customer and Business Support Services and as section 151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable. I am satisfied that property, land and buildings, including council dwellings, have been valued in accordance with Code requirements and that the charges for depreciation are based upon reasonable estimates of the assets' useful lives. I am also satisfied that all capital accruals and capital commitments at 31 3 2013 have been included or disclosed in the financial statements as appropriate.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates the probability that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. I am satisfied that no additional liabilities exist in respect of equal pay and single status claims, other than those already included in the accounts and discussed with you.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Customer and Business Support Services and s151 Officer, for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I confirm that I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Unadjusted misstatements

I confirm that there are no unadjusted misstatements in the 2012/13 accounts so far as I am aware.

Yours faithfully

Appendix 2 – Draft audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CITY OF YORK COUNCIL

Opinion on the Council’s financial statements

We have audited the financial statements of City of York Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Customer and Business Support Services and auditor

As explained more fully in the Statement of Responsibilities, the Director of Customer and Business Support Services, as section 151 officer, is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Business Support Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial

information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 1 November 2012, we are satisfied that, in all significant respects, City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

I certify that I have completed the audit of the accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mr Steve Nicklin, For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham, DH1 5TS

September 2013

Appendix 3 – Required communication

ISA 260 ‘Communication With Those Charged With Governance’ and ISA 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach. You are required to ensure that all points listed below are communicated to those charged with governance.

Required communication	When and how we will communicate
<p>Respective responsibilities of auditor and those charged with governance.</p> <p>Our responsibility for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the statement of accounts.</p> <p>The audit of the statement of accounts does not relieve management or those charged with governance of their responsibilities.</p>	<p>This information was included in the Audit Strategy Memorandum.</p>
<p>Communication of the planned scope and timing of the audit.</p> <p>Matters communicated include:</p> <ul style="list-style-type: none"> ▪ Significant audit risks and how we will address them; ▪ Our approach to internal control relevant to the audit; ▪ The application of the concept of materiality in the context of an audit; ▪ Our use of the work of internal audit; ▪ Your approach to internal control and how you oversee the effectiveness of internal control procedures; ▪ The attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and <p>Your response to new accounting standards, corporate governance practices and related matters.</p>	<p>This information was included in the Audit Strategy Memorandum.</p>

Required communication	When and how we will communicate
<p>Our views on significant qualitative aspect of accounting practices including accounting policies, accounting estimates and financial statement disclosures.</p> <p>When applicable, why we consider a significant accounting practice not to be appropriate to the entity.</p>	<p>Included in this report.</p>
<p>Significant difficulties, if any, encountered during the audit.</p> <p>Significant difficulties encountered during the audit may include such matters as:</p> <ul style="list-style-type: none"> ▪ Significant delays in management providing required information; ▪ An unnecessarily brief time within which to complete the audit; ▪ Extensive unexpected effort required to obtain sufficient appropriate audit evidence; ▪ The unavailability of expected information; ▪ Restrictions imposed on the auditor by management; and ▪ Management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern. 	<p>No significant difficulties were encountered.</p>
<p>Details of significant matters discussed with, or subject to correspondence with management.</p>	<p>Included in this report.</p>
<p>Details of written representations we require for our audit.</p>	<p>Appendix 1 to this report.</p>
<p>Any other matters which we consider to be significant to the oversight of the financial reporting process.</p>	<p>Where applicable, included in this report.</p>
<p>Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence.</p>	<p>The Audit Strategy Memorandum, and this report, confirms that there have been no such discloseable relationships.</p>

Required communication	When and how we will communicate
Written disclosure of relationships which have a bearing on our independence and safeguards we have put in place, details of non audit services provided and written confirmation of our independence.	
Form, timing and general content of communications.	We have issued our annual fee letter, Audit Strategy Memo, our Audit Completion Report, and have made both verbal and written progress reports to those charged with governance as the audit progressed during the year. Should you require us to communicate in a different way please let us know.
Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include observations on appropriateness and timing of action taken by you in response to matters we have raised, the openness of your communication with us, your willingness and capacity to meet with us without management being present, your opportunity to fully comprehend matters we have raised, the extent to which you probe issues raised and our recommendations, any communication we have had in establishing with you the form, timing and general content of communications, your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.	We attend all meetings of the Council’s Audit and Governance Committee and in addition to presenting our formal reports we welcome your comments, questions and observations. On at least an annual basis, the Engagement Lead and Chair of the Audit Committee meet without management being present. On this basis we are satisfied that our communication arrangements meet legal and regulatory requirements.
Any significant deficiencies and other control recommendations in respect of internal control that we have identified during the audit.	Included in this report.