

Notice of meeting of

Audit & Governance Committee

To:	Councillors Hyman (Chair), Holvey (Vice-Chair), Moore, R Watson, Jones, Scott and Hill
Date:	Monday, 25 September 2006
Time:	4.00 pm
Venue:	The Guildhall

AGENDA

1. Declarations of Interest

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. Public Participation

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Panel's remit can do so. Anyone who wishes to register or requires further information is requested to contact the Democracy Officer on the contact details listed at the foot of this agenda. The deadline for registering is **Friday, 22 September 2006 at 10:00 am.**

3. Minutes (Pages 1 - 4)

To approve and sign the minutes of the Audit and Governance Committee meeting held on 26 June 2006.

4. Annual Governance Report of the District Auditor (Pages 5 - 40)

Members are asked to:

- Consider the matters set out in the Audit Commission's Annual Governance Report on City of York Council for the year 2005-2006 presented for discussion by the District Auditor;
- Consider the action plan arising from the report to be tabled at the meeting by the District Auditor;
- Approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council.

5. Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Dawn Steel

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For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	26 JUNE 2006
PRESENT	COUNCILLORS HYMAN (CHAIR), HILL, MOORE, SCOTT AND R WATSON
APOLOGIES	COUNCILLORS HOLVEY AND JONES

14. DECLARATIONS OF INTEREST

The Chair invited Members to declare at this point any personal or prejudicial interests they might have in the business on the agenda. Cllrs Hyman, Scott and Moore, as school governors, each declared a personal, non-prejudicial interest in agenda item 5 (Statement of Accounts 2005/06) insofar as this item related to schools finances.

15. PUBLIC PARTICIPATION

It was reported that there had been no registrations to speak at the meeting under the Council's Public Participation Scheme.

16. MINUTES

RESOLVED: That the minutes of the meeting of the Audit and Governance Committee held on 6 June 2006 be approved and signed by the Chair as a correct record.

17. 2005-06 STATEMENT OF INTERNAL CONTROL

Members considered a report which invited them to discuss and comment upon the draft 2005/06 Statement of Internal Control (SIC) prior to it being reported to the Executive for their approval and recommendation to full Council. The draft SIC was attached as Annex 1 to the report.

It was a legal requirement for all local authorities to publish an SIC as part of their Statutory Accounts. Preparation of the 2005/06 SIC had been co-ordinated by the Officer Governance Group (OGG) and each Directorate had completed a self-assessment of the key controls within their respective areas. A copy of the draft SIC, which included ten significant control issues, was attached as Annex 1 to the report. In future, the OGG would monitor delivery of the action plan to address these issues and the progress made by each Directorate to rectify control weaknesses, through periodic focused reviews. It was also proposed that this progress be reported to the Audit and Governance Committee as part of the OGG monitoring reports.

Members queried the differences between this year's and last year's significant control issues. Officers confirmed that there was some overlap, but that 4 new issues had been identified this year and 5 of last year's

issues had been dealt with. In future, reports would include details of progress on issues from previous years.

RESOLVED: (i) That the contents of the draft 2005/06 SIC be noted.

REASON: In accordance with the Committee's role to consider the SIC prior to its consideration by the Executive and full Council.

(ii) That the monitoring arrangements for the overall SIC action plan and the individual action plans for each Directorate, together with the proposals to update Members on progress through OGG monitors, be noted.

REASON: To enable Members to comment on the proposed monitoring arrangements.

18. STATEMENT OF ACCOUNTS 2005/06

Members considered a report which asked them to review and comment upon the Council's financial accounts for 2005/06 prior to approval of the Statement of Accounts by full Council on 29 June. Copies of the draft Accounts had been circulated separately to Members.

Under the new Comprehensive Performance Assessment (CPA) scoring system a higher score could be given to accounts that had been subjected to a "robust" scrutiny before approval. It was therefore important for the Committee to discuss the accounts in some detail. The report set out some key areas that Members might wish to examine or question further. The Director of Resources, in his role as Section 151 Officer, advised that the main issues for concern were:

- the Council's level of reserves
- the ongoing level of Schools balances
- the size of the pension fund deficit in comparison to the overall budget
- the records and clarity of the Council's overall Section 106 funds and the planned use of those funds.

Members queried and commented on the following aspects of the Accounts:

- Delegated School Reserves and why these were not decreasing fast enough (p.63 of the draft Accounts). Officers referred to a report to the Schools Forum on 22 June which explained the reasons behind this issue. It was noted that "clawback" arrangements were now in place enabling any unused reserves to be redistributed.
- The increased level of Temporary borrowing. Officers explained that this was due to the investment of the increased borrowing that the Council had undertaken in preparation for its forecast capital funding requirements over the coming years
- The use of Finance and Operating Leases (p.64). Officers explained that, although leases were still used in some cases (eg for

vehicles), there was a general move away from leasing and towards Prudential borrowing, which was generally more cost effective.

- The performance and management of the Pension Fund. Officers reported that the next revaluation of the Fund was likely to show a marked improvement, as the last one had been carried out at a time when the stock market was particularly low. City of York was in a better position than the rest of the county in terms of addressing its deficit. The local aspects of the scheme were currently under review and a report setting out a range of options would be brought to Members in due course.
- The valuation of Council properties under the right to buy provisions. It was suggested that the current system, using a single valuer, ran the risk of undervaluing properties. Officers agreed to look into this.
- The potential effects of the government's decision on capping. Officers confirmed that a decision to cap would result in estimated losses of £455k, for which funding would have to be found this year.

There was also some discussion about school bank accounts, interest earned and Council Tax collection rates and methodology.

RESOLVED: That the questions and issues raised be reported to the Executive.

REASON: In accordance with the requirement to undertake a full Scrutiny of the Council's Accounts and to enable the Committee's comments to be taken into account when the Statement of Accounts is considered by the Executive on 27 June.

19. AUDIT COMMISSION REVIEW OF ISSUES RAISED BY COMPLAINANTS RELATING TO OSBALDWICK/DERWENTHORPE DEVELOPMENT PROPOSALS

Members considered a report which informed them of the findings and recommendations of the Audit Commission following their review of aspects of the Osbaldwick / Derwenthorpe development.

The review had arisen from issues raised by John Greenway MP and two residents. These related to the nature of the partnership between the Joseph Rowntree Foundation (JRF) and the Council, the process of selecting JRF as a partner, achieving "best consideration" for the land, the profit share agreement, consultation, and the "model village" approach.

The Audit Commission's recommendations in respect of each issue were detailed in Annex 1 to the report. The Council had not been found to have acted illegally or improperly. The recommendations related mainly to issues of process and documentation, particularly regarding the future selection of partner organisations. "Best consideration" had not been achieved for the land, so the scheme would require Secretary of State consent. It was noted that, at the time JRF was chosen, the partnership concept had been relatively new and formal selection procedures had not been in place.

RESOLVED: That the actions listed in Annex 1 to the report be approved.

REASON: In order to address the recommendations of the Audit Commission.

20. FOLLOW UP REVIEW OF IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (APRIL 05 – SEPT 05 AUDITS)

Members considered a report which set out progress made in departments towards implementing the recommendations made in final internal audit reports issued between April and September 2005.

A total of 176 recommendations had been followed up. Of these, 16 (9%) had been superseded and 149 (84%) had either been satisfactorily implemented or were in the process of being implemented or addressed. 11 recommendations had not been addressed at all and five of these were of a high priority, relating to audits of commercial waste, family support and Edmund Wilson and Yearsley swimming pools. However, Officers were satisfied that plans were now in place to resolve these outstanding issues.

The report outlined a proposed process for following up and reporting on progress against agreed audit recommendations. This would require internal audit to follow up recommendations on a monthly basis and, where no action had been taken, to escalate the issue in accordance with an agreed process. Overall progress would be reported to Audit and Governance Committee on a six monthly basis. Members were asked to approve these procedures.

RESOLVED: (i) That the progress made in implementing audit recommendations made during the period April to September 2005 be noted and that no further action be recommended at this stage.

REASON: In accordance with this Committee's role in providing independent assurance on the Council's control environment.

(ii) That the proposed follow-up reporting arrangements be agreed.

REASON: To enable Members to monitor the work of the Audit and Fraud team effectively and to ensure that outstanding audit recommendations are addressed, to reduce unacceptable risks to the Council.

K Hyman, Chair

[The meeting started at 5.00 pm and finished at 6.25 pm].



Audit & Governance Committee

25 September 2006

Report of the Assistant Director of Resources (Audit & Risk Management)

Annual Governance Report of the District Auditor

Summary

- 1 This paper summarises the key messages, findings and conclusions set out in the Annual Governance Report of the District Auditor in respect of the 2005/06 audit year and advises Members of the action plan arising from the report for monitoring and reporting purposes.

Background

- 2 The Audit Commission nationally introduced a revised reporting requirement over the summer, which, with effect from this year, now includes a new report to those 'charged with governance' at the Council. The report replaces the previous SAS610 report which previously focused on matters arising from the audit of the statement of accounts. The scope of the new report has been extended and must be considered by the Council before a statutory deadline of the 30 September each year. This report is made in addition to the Annual Audit Letter rather than replacing it. However, the Annual Audit Letter will now be reported later in the reporting cycle than in previous years, slipping from January to March.
- 3 The report focuses on:
 - a) the opinion given on the Council's annual Statement of Accounts (which were extended to include a full Statement of Internal Control (SIC) in the financial year 2005/06) and any matters relating to the audit of the accounts that the District Auditor considers appropriate to raise with Council Members;
 - b) the conclusion reached by the District Auditor on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (the VFM conclusions);
 - c) any other matters specifically required by auditing standards such as non-compliance, fraud & corruption, or any inconsistencies in reporting the financial affairs of the Council;
 - d) any other matters of governance interest.

- 4 In addition, the new International Standards on Auditing, which apply from this year, now require a 'letter of representation' to be signed by those charged with Governance (in effect the Chair of this Committee) in addition to the S151 Officer.

Key issues

- 5 In summary, the key matters arising from the report are that the District Auditor:
- a) anticipates issuing an unqualified opinion on the accounts by the 30 September 2006 in accordance with the statutory deadline subject to the satisfactory conclusion of a small amount of audit work still on-going at the time of this report (*paragraphs 10 & Appendix 5*);
 - b) notes a number of matters relating to their audit of the accounts for the Committee's attention, number (*paragraphs 14-24*);
 - c) identifies two matters of general governance interest to high-light for Members' attention (*paragraph 26, Table 1*);
 - d) has provisionally concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of its resources for the year ending 31 march 2006 (*paragraphs 30-31, Table 2*);
 - e) has not had any reason to exercise his statutory powers to issue any reports in the public interest, make written recommendations to the Council requiring public response or refer the Council for best value inspection to the Audit Commission or direction by the Secretary of State further to the provisions of the Local Government Act 1999 (*paragraphs 32, Table 3*).

Next steps

- 6 The report has been discussed with officers and an action plan drawn up taking account of officers comments. This needs to be finally agreed with the District Auditor at the time of writing this report and will be tabled at Committee on the 25 September 2006 (following the auditor's return from holiday that day).
- 7 A letter of representation has been prepared for signature by the Chair of this Committee following Members consideration of this item. This has been drafted in accordance with the template provided by the Audit Commission, attached as Appendix 6 to the District Auditor's report and will be brought to the meeting for the Chair to sign. The letter will be pre-signed by the S151 Officer as he is unable to attend Committee that day. This arrangement has been agreed in advance with the auditor.

Consultation

- 8 The report of the District Auditor has been discussed with the relevant responsible officers and has been approved in draft by the S151 Officer. It is reported here for due consultation with those Members charged with governance at the Council.

Options

- 9 Not relevant for the purpose of the report.

Analysis

- 10 Not relevant for the purpose of the report.

Corporate Objectives

- 11 This report contributes to the overall effectiveness of the Council's management & assurance arrangements in helping to achieve of the following corporate objectives;
- a) Ensure probity, integrity and honesty in everything we do (Objective 8.3).
 - b) Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
 - c) Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
 - d) Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).
 - e) Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
 - f) Implement risk management and business continuity procedures. (Objective 8.10).

Implications

- 12 There are no financial, HR, equalities, legal, crime and disorder or IT&T implications arising from this report.

Risk Management Assessment

- 13 The Council will fail to properly comply with legislative and best practice requirements to provide for the proper audit of the authority if it does not consider this report or approve and sign off the letter of representation now required by International Auditing Standards . Any failure to do so would be unlawful and adversely impact on the Council's CPA score for

the Use of Resources in 2006 that would in turn adversely impact on the Council's overall CPA score in 2007.

Conclusions

- 14 The Annual Governance Report is generally positive and importantly concludes that the Council arrangements for securing VFM are satisfactory and that the District Auditor anticipates issuing an unqualified opinion on the accounts. Both of these matters are crucial to the Council scoring well in the annual Use of Resources CPA refresh exercise for 2006 (the full results of which will be reported in the Annual Audit Letter). Work is now needed to address the matters arising from the action plan and a verbal update of progress will be reported by officers at Committee further to the final action plan being tabled by the District Auditor at the meeting on the 25 September 2006.

Recommendations

- 15 Members are asked to:

- a) consider the matters set out in the Annual Governance Report presented for discussion by the District Auditor;

Reason

To ensure the proper consideration of the opinion and conclusions of the District Auditor in respect of the annual audit of accounts and review of the Council's arrangements for ensuring VFM

- b) consider the action plan arising from the report to be tabled at the meeting by the District Auditor;

Reason

To ensure appropriate action is being taken by officers to address any matters raised by the District Auditor further to his report

- c) approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council.

Reason

To ensure compliance with International Auditing Standards and relevant legislative requirements

Author:

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Assistant Director of Resources
(Audit & Risk Management)
Resources
Ext 1706

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director of Resources (ARM)

Report Approved

Yes

Date *14 September 2006*

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

For further information please contact the author of the report

Background Papers

None

Annexes

Annex A *The Annual Governance Report of the District Auditor*

Annex A

The Annual Governance Report of the District Auditor

Annual governance report

City of York Council

Audit 2005-2006

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; and
- 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 and 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 to the Authority

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit & Governance Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Annual Audit & Inspection Letter by March 2007.

- 8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is substantially complete, although there are still some outstanding issues to be resolved. In particular, our work on debtors and creditors balances, the collection fund and the housing revenue accounts has yet to be concluded. Should any further matters arise in concluding the outstanding work that require reporting, we will raise them with the Chair of this committee.
- 10 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).

Use of resources

- 11 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 30 September 2006 (a draft report is attached at Appendix 5).

Financial statements

- 12 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

- 13 Our work on the financial statements is substantially complete. Should any further matters arise we will raise them with the Director of Resources and the Chair of Audit & Governance Committee.

Matters to be reported to the Audit Committee

- 14 We have the following matters to draw to the Audit Committee's attention.

Expected modifications to the auditor's report

- 15 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

Finance staff have adjusted the financial statements for all the errors that we have identified, except for those that are 'clearly trivial' (as defined in professional auditing standards).

Adjusted misstatements

- 16 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. Our audit has identified that there was one material error in the accounts presented for audit.
- 17 The valuation of the housing stock in the fixed assets balance, was overstated by £61M.
- 18 The council house valuations are required to be reduced by a regional adjustment factor to recognise their status as social housing. The factor is determined by a multiplier provided by the ODPM. With effect from 1 April 2005 the multiplier changed from 0.55 to 0.47. The valuation of the housing stock was calculated using the old multiplier and this overstated the value of the assets by £61M.
- 19 Our initial review of the draft financial statements, done before the accounts were approved, highlighted that this error may have occurred. A basic 'analytical review' technique showed that the asset value had increased, where our expectation was that they would have reduced, and we informed finance staff of this.

- 20 In future, this type of error could be avoided through a formal review of the draft accounts for all known changes in regulations and accounting requirements.

Recommendation

R1 Introduce a formal, robust, review of the draft financial statements to provide assurance to the Director of Resources that the accounts presented for approval are free from material misstatement.

Qualitative aspects of accounting practices and financial reporting

- 21 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 22 We wish to report the following matter to you. The Authority has included £1.5M as a provision for the liability arising from equal pay claims. Evidence provided during our audit suggested that the liability could be at least £2.5M, although the latest equal pay offer matrices, which are being discussed with the unions, shows the estimated liability to be around £1.5M.

Recommendations

R2 Monitor the settlement of the equal pay claims and outstanding liabilities, and if necessary make further provision at the end of 2006-07.

Material weaknesses in internal control identified during the audit

- 23 Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you:
- The year end bank reconciliation was finalised on 17th July 2006, three and a half months after the end of the financial year. This identified a discrepancy of £20K in the accounts, and while this is a trivial amount (as defined by auditing standards), it highlights the importance of carrying out a prompt bank reconciliation to identify and rectify any discrepancies on a timely basis. Because of its importance in the Authority's control environment, it is important that the bank reconciliation is completed on a timely basis.

- The Authority has £22.5M of fixed assets classified as Assets under Construction. Assets under Construction should include only those assets that have not been completed and 'brought into use' by 31 March 2006. The accounts reported that £12.3M of this balance related to expenditure incurred before 1 April 2005. Based on our audit work we conclude that:
 - £2.7M of this £12.3M had been misclassified, and should have been reported as Investment Properties. This arose because the fixed assets disclosed in the accounts had not been formally and comprehensively reconciled to the fixed asset register.
 - It is likely that most of the remaining £9.6M will relate to schemes that are complete, and the assets should not be classified as Assets under Construction. Officers should analyse the schemes included in Assets under Construction, and where these have been completed, the assets should be reclassified in the asset register and the accounts. This should be a systematic exercise to ensure that the classification of assets is kept up to date through the year.
- 24 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

<i>Recommendations</i>
<i>R3 Complete the bank reconciliation on a timely basis after the end of the financial year.</i>
<i>R4 Reconcile the accounts to the fixed asset register.</i>
<i>R5 Analyse the Assets under Construction fixed asset balance, and when schemes are completed, reclassify the assets accordingly in the accounts.</i>

Matters specifically required by other auditing standards

- 25 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.

There are no matters that we wish to report to you.

Any other matters of governance interest

- 26 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 1 below.

Table 1 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	Our review of the SIC confirms that it complies with proper practice and is consistent with other information from our audit.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	We have yet to receive the Whole of Government Accounts consolidation pack from the Authority.

Letter of representation

- 27 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.
- 28 The International Standards on Auditing (UK & Ireland), with apply from this year's audit, require the letter of representation to be signed by 'those charged with governance' in addition to being signed by officers. Given the process for receiving this report, the letter should be signed by the Chair of the Audit & Governance Committee and the Director of Resources.

Next steps

- 29 We are drawing these matters to the Audit & Governance Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
 - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and

Use of resources

Value for money conclusion

- 30 The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 31 Our work in relation to the value for money conclusion is substantially complete, and there are no matters which we wish to draw to the attention of the Audit Committee. We report in Table 2 the value for money conclusion against each of the twelve criteria, identifying the links with the other audit work.

Table 2 Value for money conclusion

We expect to issue an unqualified conclusion on the Authority's arrangements to secure value for money in the use of its resources

VFM conclusion criteria	Source of assurance	VFM conclusion (Pass/Fail)
1. The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Review of previous audit reports, plus an update for any known changes to arrangements.	Work still ongoing
2. The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Review of previous audit reports, plus an update for any known changes to arrangements.	Work still ongoing
3. The body has put in place arrangements for monitoring and scrutiny of performance,	Review of previous audit reports, plus an update for any known changes to	Work still ongoing

VFM conclusion criteria	Source of assurance	VFM conclusion (Pass/Fail)
to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	arrangements.	
4. The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Data quality audit - stage 1.	Pass *
5. The body has put in place arrangements to maintain a sound system of internal control.	Use of resources KLOE 4.2 - The organisation has arrangements in place to maintain a sound system of internal control.	Pass
6. The body has put in place arrangements to manage its significant business risks.	Use of resources KLOE 4.1 - The organisation manages its significant business risks.	Pass
7. The body has put in place arrangements to manage and improve value for money.	Use of resources KLOE 5.2 The organisation manages and improves value for money	Pass
8. The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Use of resources KLOE 2.1 - The organisation's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	Pass
9. The body has put in place arrangements to ensure that its spending matches its available resources.	Use of resources KLOE 3.1 - The organisation manages its spending within available resources.	Pass
10. The body has put in place arrangements for managing performance against budgets.	Use of resources KLOE 2.2 - The organisation manages performance against budgets.	Pass
11. The body has put in place arrangements for the	Use of resources KLOE 2.3 - The organisation manages	Pass

VFM conclusion criteria	Source of assurance	VFM conclusion (Pass/Fail)
management of its asset base.	its asset base.	
12. The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Use of resources KLOE 4.3 - The organisation has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Pass

** Conclusion is provisional based on work carried out to date. Work will be finalised, and the conclusion completed by 30 September 2006*

Use of auditors' statutory powers

- 32 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

Table 3 Use of statutory powers

Insert text

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 33 This report has been discussed and agreed with the Director of Resources in his capacity as the Council's section 151 officer. A copy of the report will be presented to the Audit & Governance Committee before 30 September, and a subsequent Executive meeting.
- 34 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 35 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

Mark Kirkham
District Auditor

August 2006

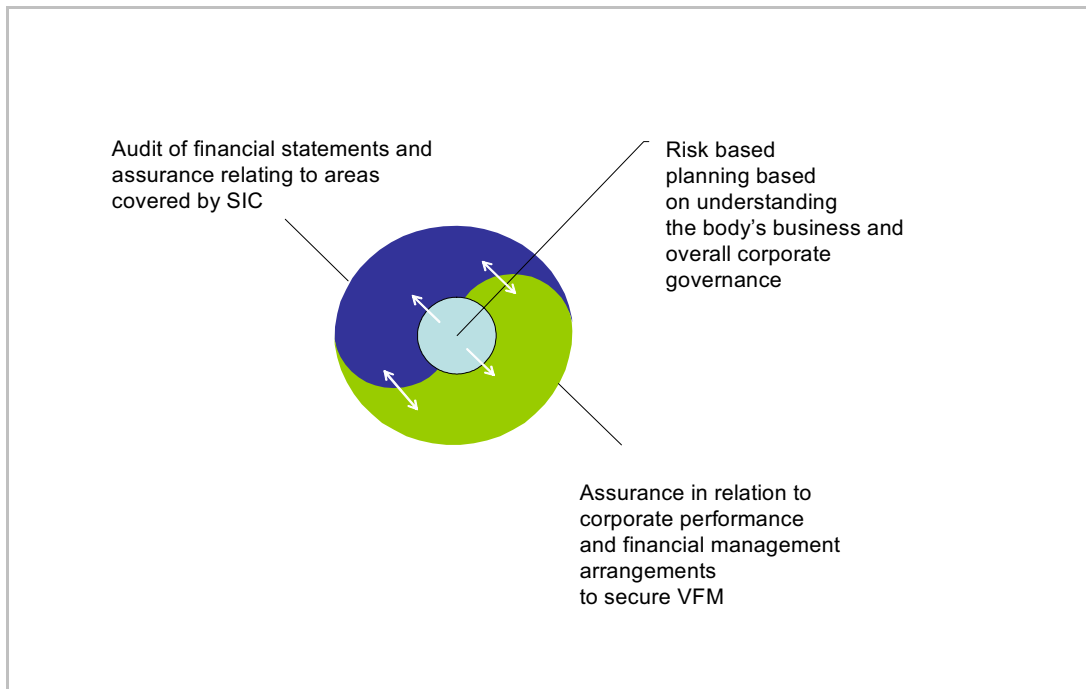
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.
- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
 - the Authority's whole system of internal control as reported in its statement on internal control;
 - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators);

- work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
- links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
- other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Planned output	Coverage	Planned date of issue	Actual date of issue	Responsible body	Reported to	Other advised parties
National or mandatory audit work						
Audit and inspection plan	Audit work for 2005-06	March 2005	April 2005	Executive	Executive	Audit & Governance (A&G) cttee
Annual governance report	Detailed report on the 2005-06 audit	September 2006	September 2006	A & G committee	A & G committee	Executive
Audit opinion on the accounts	Statutory report on the accounts	September 2006		Full Council	A & G committee	Executive
Value for money conclusion	Report on the value for money in the use of resources					
Final accounts memorandum	Detailed report of issues arising from audit of accounts	October 2006		Director of resources	Director of resources	
Annual audit & inspection letter ¹	Publicly available summary of the audit and inspection work in 2005-06	March 2007		Executive	Executive	All councillors
Use of resources	Auditors scored	February 2007		Executive	Executive	A & G

¹ The annual audit & inspection letter will be published by the Audit Commission on their website

Planned output	Coverage	Planned date of issue	Actual date of issue	Responsible body	Reported to	Other advised parties
score	judgement against 5 categories					committee
Direction of travel assessment	Auditors judgement of progress in implementing continuous improvement	February 2007		Executive	Executive	A & G committee
BVPP opinion	Compliance of Council Plan with statutory requirements	March 2007		Full Council	A & G committee	Executive
Data Quality report	Council's arrangements to ensure performance information is of high quality	January 2007		A & G committee	A & G committee	
Local risk based audit work						
Review of the service improvement programme		August 2006	August 2006	A & G committee	A & G committee	
Review of the debt recovery arrangements		July 2006	July 2006	A & G committee	Officers	
Prioritisation review		August 2006		A & G committee	A & G committee	

Planned output	Coverage	Planned date of issue	Actual date of issue	Responsible body	Reported to	Other advised parties
Local strategic partnership review		July 2006		A & G committee	Officers	
Review of programme management arrangements		August 2006	August 2006	A & G committee	Officers	
Easy@york review		August 2006		A & G committee	Officers	
Proposed disposal of land at Osbaldwick		February 2006	February 2006	A & G committee	A & G committee	
Arrangements for the disposal of the Barbican		August 2006	August 2006	A & G committee	A & G committee	

Appendix 3 – Fee information

Table 4

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts	112,000	112,000
Use of resources	103,000	103,000
Total audit fees	215,000	215,000
Inspection	30,000	19,000 *
Total audit and inspection fee	245,000	234,000

* The re-inspection of waste management was cancelled and a refund issued

DRAFT

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

DRAFT

Appendix 5 – Independent auditor’s report to the members of City of York Council

Opinion on the financial statements

I have audited the financial statements of City of York Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Mark Kirkham
Audit Commission
Kernel House
Killingbeck Drive
Killingbeck
Leeds LS14 6UF

September 2006

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

Authority's Responsibilities

The authority 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, City of York Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

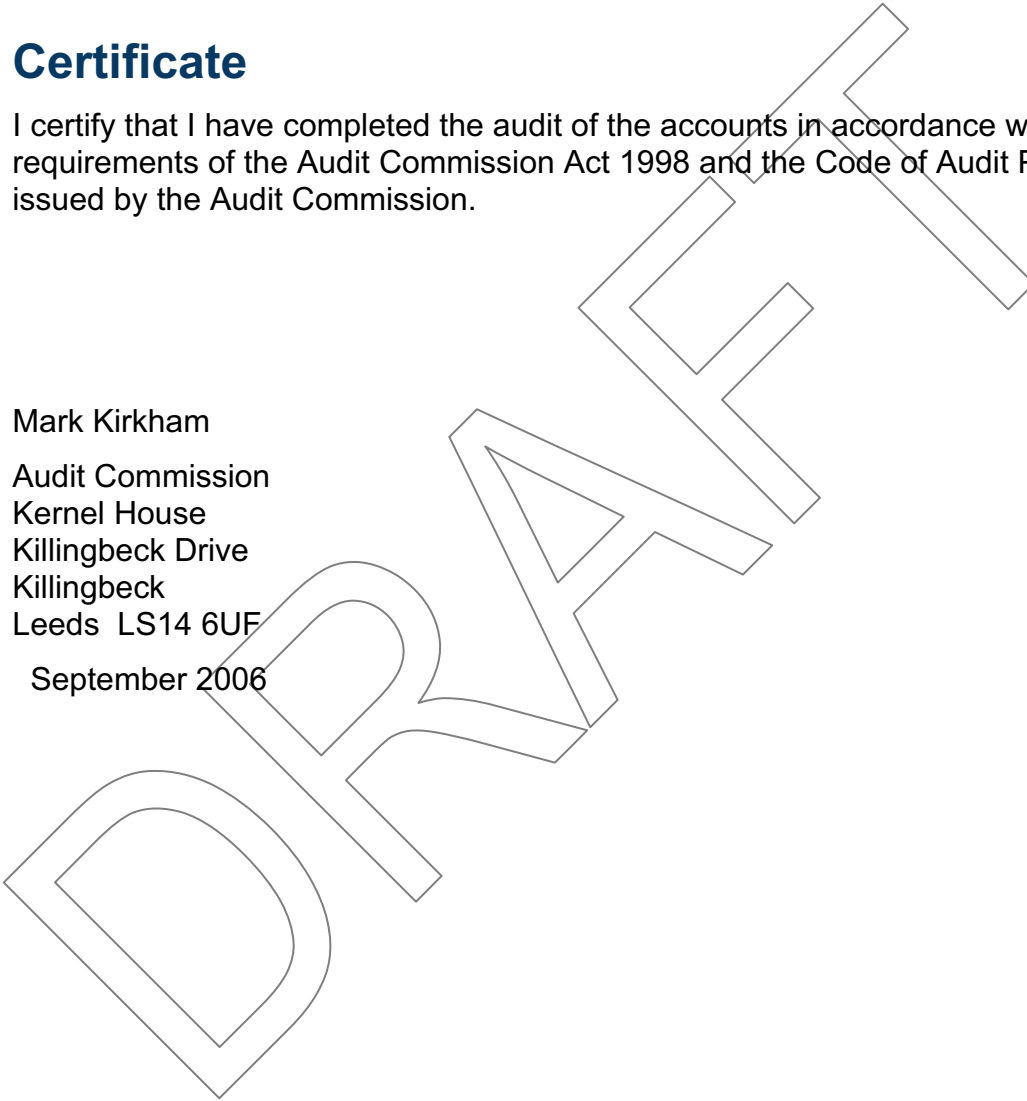
Best Value Performance Plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2005/06 in January 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Mark Kirkham
Audit Commission
Kernel House
Killingbeck Drive
Killingbeck
Leeds LS14 6UF
September 2006



Appendix 6 – Letter of representation

To:

Mark Kirkham, District Auditor
The Audit Commission
Kernel House
Killingbeck Drive
Killingbeck
Leeds LS14 6UF

City of York Council - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and members of City of York Council, that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;

- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the PCT.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

I confirm that the Council adopted the draft accounts at its meeting on (insert date) and that they were prepared on a going concern basis.

Signed on behalf of City of York Council

Signed

Name

Position

Date.

Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Introduce a formal, robust, review of the draft financial statements to provide assurance to the Director of Resources that the accounts presented for approval are free from material misstatement.	3				
8	R2 Monitor the settlement of the equal pay claims and outstanding liabilities, and if necessary make further provision at the end of 2006-07.	2				
8	R3 Analyse the Assets under Construction fixed asset balance, and when schemes are completed, reclassify the assets accordingly in the accounts.	2				
9	R4 Complete the bank reconciliation on a timely basis after the end of the financial year.	3				
9	R5 Reconcile the accounts to the fixed asset register.	2				