

## Notice of a public meeting of

### Audit & Governance Committee

<b>To:</b>	Councillors N Barnes (Chair), Dew (Vice-Chair), Cullwick, Fenton, Gunnell, Kramm and Lisle Mr Mendus and Mr Bateman
<b>Date:</b>	Wednesday, 13 April 2016
<b>Time:</b>	5.30 pm
<b>Venue:</b>	The George Hudson Board Room - 1st Floor West Offices (F045)

### AGENDA

#### 1. **Declarations of Interest**

Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable interests

which they might have in respect of business on the agenda.

#### 2. **Minutes** (Pages 1 - 12)

To approve and sign the minutes of the meeting held on 10 February 2016.

#### 3. **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 Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 12 April 2016.**

## **Filming, Recording or Webcasting Meetings**

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### **4. Audit and Governance Committee's Forward Plan (Pages 13 - 20)**

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to February 2017.

### **5. Internal Audit and Counter Fraud Plan 2016/17 (Pages 21 - 42)**

This report seeks the committee's approval for the planned programme of internal audit and counter fraud work to be undertaken in 2016/17.

### **6. Audit and Counter Fraud Monitoring Report (Pages 43 - 66)**

This report provides an update on progress made in delivering the internal audit workplan for 2015/16 and on current counter fraud activity.

### **7. Internal Audit Follow up Report (Pages 67 - 72)**

This is the regular six monthly report to the committee setting out progress made by Council departments in implementing actions agreed as part of internal audit work.

**8. Mazars Audit Progress Report (Pages 73 - 84)**

The purpose of this report is to update the committee on Mazars' progress in delivering its responsibilities as the Council's external auditors. The report also highlights key emerging national issues and developments which may be of interest to Members.

**9. Mazars Audit Strategy Memorandum (Pages 85 - 102)**

This report presents the Audit Strategy Memorandum for City of York Council for the year ending 31 March 2016. The document summarises the audit approach taken by Mazars, highlights significant audit risks and provides details of the audit team.

**10. Urgent Business**

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

Democracy Officer:

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

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports and
- For receiving reports in other formats

Contact details are set out above.

**This information can be provided in your own language.**

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim własnym języku. (Polish)

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ (Urdu)

 (01904) 551550

City of York Council

Committee Minutes

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Meeting	Audit & Governance Committee
Date	10 February 2016
Present	Councillors N Barnes (Chair), Dew (Vice-Chair), Fenton, Gunnell, Kramm, Lisle, Mendus, Bateman and Cuthbertson (Substitute) Mr Bateman and Mr Mendus
Apologies	Councillor Cullwick

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#### **46. Declarations of Interest**

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. None were declared.

#### **47. Exclusion of Press and Public**

Resolved: That the press and public be excluded from the meeting during consideration of Annex 1 to agenda item 10 on the grounds that it contains information relating to prevention, prosecution or investigation of crime. This information is classed as exempt under paragraph 7 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by the Local Government (Access to Information (Variation) Order 2006).

#### **48. Minutes**

Resolved: That the minutes of the meeting of 9 December 2015 be approved and signed as a correct record subject to minute 36 para 4 being amended to include a sentence stating *“These items were later picked up by the committee during their discussions”*.

Referring to minute 42, Councillor Cuthbertson stated that he was a member of the North Yorkshire Pension Fund Board and

he would be willing to give feedback to the committee on issues considered by the Board if requested.

#### **49. Public Participation**

It was reported that there had been one registration to speak at the meeting under the Council's Public Participation Scheme.

Ms Gwen Swinburn spoke on the following agenda items:

- Item 5 (Forward Plan) – Ms Swinburn requested that consideration be given to including an item on the Transparency Code 2015 on the agenda for the next meeting. She stated that the Council was not yet complying with the law in respect of the items that should be publically available on its website.
- Item 6 (Key Corporate Risk Monitor) – Ms Swinburn stated that strategic risks such as flooding, the Southern Gateway, York Central, the Local Plan and the economy of the city had not been specifically mentioned.
- Item 11 (Internal Audit Plan Consultation) – Ms Swinburn expressed concern that many of the priorities proposed were the same as previous years.

#### **50. Audit and Governance Committee's Forward Plan**

Members considered a paper which presented the future plan of reports expected to be presented to the committee during the forthcoming year to December 2016.

Members were invited to identify any further items they wished to see added to the Forward Plan.

The following items were put forward for inclusion on the Forward Plan:

- A report on the implementation of Council motions
- The role and terms of reference of Group Leaders' meeting
- Update on the implementation of the Transparency Code 2015
- Update on the work to review the Constitution

Members also requested that arrangements be made to enable them to meet in private with the internal and external auditors in advance of the regular committee meetings<sup>1</sup>.

It was agreed that a training and development plan should also be put in place for the committee. One of the items that the committee would wish to consider at these sessions would be the Annual Governance Statement to enable them to have input at an early stage.<sup>2</sup>

Members commented on the need to ensure that items did not continue to be included on the Forward Plan once the committee was satisfied that they had been addressed.

Resolved: That, subject to the additions detailed above, the committee's Forward Plan for the period to December 2016 be approved.<sup>3</sup>

Reason: To ensure that the committee receives regular reports in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment in accordance with its roles and responsibilities.

Action Required

- |  |    |
|--|----|
| 1. In consultation with Chair and Members make necessary arrangements      | JC |
| 2. In consultation with Chair and Members, make the necessary arrangements | JC |
| 3. Update Committee's Forward Plan   | EA |

**51. Key Corporate Risk Monitor 4 2015/16**

Members considered a report which provided an update on the key corporate risks for City of York Council and the refreshed Key Corporate Risk Report 2015.

Members were asked to consider and comment on the refreshed key corporate risks, as detailed in Annex A of the report. Members' attention was also drawn to the information provided in respect of the controls applicable to KCR 06 workforce/capacity.

Members were informed that initial discussions had taken place with Zurich with regards to the development of a risk appetite

statement. It was intended that this would provide context around the risk scores.

Members commented on the following Key Corporate Risks (KCR):

- KCR 02 – Governance (with particular reference to health and safety). In response to questions from Members, officers detailed the staffing arrangements that were now in place.
- KCR 09 – Communities. Members queried why no specific actions or target dates had been included. Officers stated that controls were in place and that these would be monitored by the Director.
- KCR 04 – Changing demographics. Clarification was sought as to why the target date had been put back. Officers explained that this was because work was ongoing in respect of place planning.
- KCR 11 – Capital Programme. A concern was expressed that the community stadium project had not been identified as a separate risk but had been included within KCR 11. Officers confirmed that a number of capital programmes had been grouped under this strategic risk but stated that more information was available on specific projects if requested. Members sought assurances that the relevant technical expertise and personnel were in place to ensure that the major capital projects such as York Central could be delivered.<sup>1</sup>
- KCR 06 – Workforce/Capacity. Clarification was sought as to the effectiveness of the Whistleblowing Policy. Officers stated that the policy had been developed over time and explained that the reporting process was to Veritau.
- KCR 06 – Workforce/Capacity. Referring to the target date of 31 December 2015, officers were asked about progress on the new workforce strategy. Members were informed that a draft had been produced and was currently out for consultation. Details were given of the reporting arrangements that were in place, including quarterly reports presented to the Corporate and Scrutiny Management Policy and Scrutiny Committee.

Clarification was sought regarding the point at which a complete review of the risks was carried out to identify whether the nature of the risks may have changed. Officers stated that a



fundamental review of risks was carried out approximately every three years and that this process was due to be implemented.

Members stated that it would be useful for reports to include brief reference to those risks which had been removed from the register because appropriate controls had been put in place.

A request was made for information on the arrangements that were in place to mitigate against any financial penalties the government may impose on councils who breach air pollution regulations.<sup>1</sup>

- Resolved:
- (i) That the report be noted.
  - (ii) That Members' comments on the refreshed key corporate risks, as detailed above, be noted.
  - (iii) That the additional information requested by Members be provided.<sup>1</sup>

Reason: To provide assurance that the authority is effectively understanding and managing its key risks.

Action Required

1. Provide additional information requested by Committee

LN

**52. Audit Progress Report**

Members considered a report from Mazars which provided an update on their progress in delivering its responsibilities as the Council's external auditors. The report also highlighted key emerging national issues and developments which may be of interest to the committee.

Members were informed that the report on the governance around remuneration paid by City of York Trading Ltd to two of the company's executive directors was nearing completion. The auditor explained that there had been no obstruction in carrying out their work but that a second round of consultation had taken place and hence the report had taken longer to complete than had been anticipated. The status of the report would only be determined when the report was complete.

Members' attention was drawn to the updated Value for Money (VfM) guidance that had been issued by the National Audit Office. The auditors confirmed that their judgements would be mapped against the new criteria.

The auditor was asked how the Council's Annual Governance Statement compared with those of other local authorities. He stated that it was not significantly different and that the auditors had been satisfied that its contents also reflected the judgements of the internal and external auditors. It was important that the committee had an input in its contents.

Resolved: That the report be noted.

Reason: To ensure that the committee is kept updated on progress made by the external auditors.

### **53. Update on the Older Persons' Accommodation Programme**

Members considered a report which presented an update on the Older Persons' Accommodation Programme. Members were asked to review and comment on progress in delivering the programme.

Officers were asked about the key risks in ensuring that the programme was delivered. Members were informed that the link between health and older persons' accommodation could not be underestimated. Members also emphasised the need to ensure that robust procurement processes were in place.

Members commented on the good progress that had been made in delivering the programme. They stated that the improved project management, including the gateway arrangements that were in place and the use of Verto, had had a significant impact.

Members were asked if they would wish to continue to receive six monthly update reports on the programme or if they would wish to receive this information as part of the regular project management reports that were presented to the committee. Members stated that, in view of the importance of the project and the issues that had been previously identified, it would be appropriate for a further report to be presented to the committee in six months time.

- Resolved: (i) That the report be noted.
- (ii) That a further update report be presented in six months time.<sup>1</sup>

Reason: To ensure that the committee is kept updated and engaged on a key programme activity.

Action Required

Include item on Committee's Forward Plan

EA

**54. Fraud Risk Assessment**

Members considered a report which outlined potential fraud risks that the Council was exposed to, and proposed counter fraud activity to address those risks.

Members were invited to comment on the fraud risk assessment and proposed priorities for counter fraud work, as detailed in table 1 of the report and at Annex 1.

At the request of Members, officers gave further details of the nature of the risks detailed in Annex A of the report.

Resolved: That the proposed priorities for counter fraud work be supported.

Reason: To ensure that scarce audit and counter fraud resources are used effectively.

**55. Internal Audit Plan Consultation**

Members considered a report which sought their views on the priorities for internal audit for 2016/17, to inform the preparation of the annual audit plan. Officers stated that a number of the risks remained unchanged from the previous year; this reflected the fact that they remained key risks for the Council.

Members were invited to comment on the proposed approach and to identify any specific areas which should be considered a priority for audit.

In response to questions from Members regarding an audit of Section 106 funding, officers stated that an audit had recently been concluded on this issue and the draft report had been issued to managers. Members requested that the report be presented at the next meeting.<sup>1</sup>

Members suggested that, in recognition of the changes in the membership of the committee, it would be helpful for future reports to make reference to historic as well as planned audits.

Members put forward the following suggestions for future audits:

- School place planning – processes to ensure the timely planning and adequacy of places
- Traveller site management
- Business continuity both internal and citywide
- Issues surrounding the devolving of funds to ward committees to ensure that the risks of decentralising have been mitigated and that value for money is being achieved

Reason: That, subject to consideration being given to the inclusion of the audits suggested above, the proposed approach to internal audit planning for 2016/17 be approved.<sup>2</sup>

Reason: To ensure that scarce audit resources are used effectively.

Action Required

- |   |    |
|---|----|
| 1. Include on Committee's Forward Plan                              | EA |
| 2. Consideration of suggested items for inclusion in the Audit Plan | MT |

## **PART B - MATTERS REFERRED TO EXECUTIVE**

### **56. Treasury Management Strategy Statement and Prudential Indicators**

Members considered a report which set out the Treasury Management Strategy for 2016/17 to 2020/21. In response to Members' requests at the previous meeting, the report also contained information on the Ethical Investment Policy.

Members were asked to note the issues outlined on ethical investments and consider any recommendations they wished to make to the Executive.

Officers were thanked for their work in preparing the report.

The following issues were raised:

- Members were pleased to note that the Council did not have any direct investment with fossil fuel companies.
- Members noted that, as the Council only invested in money market funds or directly with banks and building societies, it had very little information as to where these counterparties placed their funds.
- Some Members supported the inclusion of an ethical investment statement within the Treasury Management Strategy. Examples were cited of those used by other Authorities.
- Some Members stated that, in order to make an informed recommendation to Executive, they would require further information on the practical difficulties in implementing such a policy.
- Some concerns were raised regarding the additional demands on officer time that would arise in obtaining further information or in implementing such a scheme.
- Whilst there was general support that the Council should aspire to make ethical investments, some Members stated that the priority should be the security of the investments and achieving value for money.
- Members noted the practicalities that may arise in setting criteria for ethical investments and the subjective judgements that may arise regarding different investments.
- A suggestion was put forward that, at an appropriate time, the Council should seek to influence the policy of the North Yorkshire Pension Fund regarding ethical investments.
- Members noted that there was the option to submit a scrutiny topic on this issue to the Corporate and Scrutiny Management Policy and Scrutiny Committee should they wish this issue to be given greater consideration.

Councillor Lisle proposed and Councillor Dew seconded the following recommendation

“That, in response to the resolution of Full Council, it be noted that the committee had considered the Treasury Management Strategy and the contents of the report, including the information on ethical investments”

On being put to the vote the recommendation was declared lost.

Councillor Kramm proposed and Councillor Gunnell seconded the following recommendations to the Executive

“As part of recommendation (a) to the Audit and Governance Committee, the committee recommends to the Executive:

1. That the Executive adopt an ethical statement within the Council’s Treasury Management Strategy, in particular the following wording or similar:

“The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council’s mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- a. Human rights abuse (eg child labour, political oppression)
- b. Environmentally harmful activities (eg pollutions, destruction of habitat, fossil fuels)
- c. Socially harmful activities (eg tobacco, gambling)”

2. That the Executive include in the reporting requirements an update on available information on the ethical standards of our direct and indirect investment and on the legal boundaries of the influence of Council on its investment choices,

3. That the Executive asks officers of the Treasury to request further information from fund managers of money market funds or banks and building societies about their ethical standards in their Fund Management Strategies and report back for consideration by the end of this year, with consultation through the Audit & Governance Committee

4. That the Executive carries out work to liaise with the Pension Fund Committee of the North Yorkshire Pension Fund in order to discuss the fund's investment policy and strategy as soon as the new pooled structures for Local Government Pension Scheme Fund assets (in line with the guidance of the government) have been clarified and implemented”.

On being put to the vote the recommendations were declared lost.

Councillor Kramm proposed and Councillor Gunnell seconded the following recommendation to the Executive

“That it be recommended that an ethical investment statement be included within the Treasury Management Strategy”

On being put to the vote the recommendation was declared carried.

Councillor Lisle proposed and Councillor Cuthbertson seconded the following additional recommendation to the Executive

“That Executive be recommended to consider what further work was necessary to progress this issue”.

On being put to the vote the recommendation was declared carried.

Officers were asked if consideration had been given to the risks that may arise if the United Kingdom were to leave the European Union. Officers stated that Capita, who were the Council’s Treasury Management advisers, would monitor the situation and advise the Council accordingly. It was, however, difficult at this stage to ascertain the impact of such a move.

- Resolved:
- (i) That the issues outlined in the report on ethical investments be noted.
  - (ii) That the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21 be noted.
  - (iii) That it be recommended to Executive that that an ethical investment statement be included within the Treasury Management Strategy
  - (iv) That it be recommended to Executive that they determine what further work was necessary to progress the issue of ethical investment.

- Reasons:
- (i) and (ii) So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy

(iii) and (iv) To action the Council motion of 8  
October 2015.

Councillor N Barnes, Chair  
[The meeting started at 5.30 pm and finished at 8.45 pm].





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**Audit and Governance Committee**13<sup>th</sup> April 2016

Report of the Director of CBSS (Portfolio of the Leader of the Council)

**Audit & Governance Committee Forward Plan to February 2017****Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to February 2017.

**Background**

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to February 2017. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. A number of amendments have been made to the Forward plan since the previous version was presented to the Committee in February 2016.
4. At the request of Members, due to the large number of items on the Agenda for the April meeting, the Agenda has been split, and an additional meeting has been convened on 10<sup>th</sup> May to cover the remaining items as detailed in the accompanying Annex.
5. At the previous meeting Members asked for a number of reports to be added to the Forward plan. Consequently three reports have been added to the May Agenda
  - a. Report on the process of implementing/actioning council motions

- b. Report on the terms of reference of the Group Leaders meeting and its role in Local Democracy
- c. Review of Constitution

Two reports have also been added to the June meeting:

- a. Report on the process of Report on the Review of Contract Procedure Rules
- b. Report on the Transparency code 2015

### **Consultation**

- 6. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

### **Options**

- 7. Not relevant for the purpose of the report.

### **Analysis**

- 8. Not relevant for the purpose of the report.

### **Council Plan**

- 9. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

### **Implications**

- 10.
  - (a) **Financial** - There are no implications
  - (b) **Human Resources (HR)** - There are no implications

- (c) **Equalities** - There are no implications
- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

### **Risk Management**

11. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

### **Recommendations**

12.
  - (a) The Committee's Forward Plan for the period up to February 2017 be noted.

*Reason*

*To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.*

- (b) Members identify any further items they wish to add to the Forward Plan.

*Reason*

*To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.*

**Contact Details**

**Author:** **Chief Officer Responsible for the report:**

Emma Audrain  
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Ian Floyd  
Director of CBSS  
Telephone: 01904 551100

**Report  
Approved**



**Date** 13/04/2016

**Specialist Implications Officers**

Head of Civic, Democratic & Legal Services

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers:**

None

**Annex**

Audit & Governance Committee Forward Plan to February 2017

## **Audit & Governance Committee Draft Forward Plan to April 2017**

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 10<sup>th</sup> May 2016 (Additional Meeting)**

Information Governance Annual Report

Quarterly project Management update report

Absence Management Process update Report

Report on the process of implementing/actioning council motions

Report on the terms of reference of the Group Leaders meeting and its role in local democracy

Review of the Constitution

- **Committee 22<sup>nd</sup> June 2016**

Draft Annual Governance Statement

Annual Report of the Audit & Governance Committee

Review of Contract Procedure Rules

Mazars Audit progress report

Annual Report of the Head of Internal Audit

Quarterly Project Management update report

Report on the Transparency code 2015

*Changes to the Constitution (if any)*

- **Committee 27<sup>th</sup> July 2016**

Draft Statement of Accounts

Mazars Audit Progress Report

Scrutiny of the Treasury Management Annual Report 2015/16 and review of Prudential Indicators

Key Corporate Risks Quarter 2 (including directorate risks)

Freedom of Information Update report

*Changes to the Constitution (if any)*

- **Committee 28<sup>th</sup> September 2016**

Final Statement of Accounts 2015/16

Mazars Audit Completion Report

Key Corporate Risks Quarter 3

Follow up of Internal & External Audit recommendations

Internal Audit & Fraud plan progress report

Quarterly Project Management update report

*Changes to the Constitution (if any)*

- **Committee 7<sup>th</sup> December 2016**

Mazars Annual Audit Letter 2015/16

Mazars Audit Progress Report

Treasury Management Mid year review report 2016/17 and review of prudential indicators

Information Governance & Freedom of Information Update Report

Internal Audit & Fraud Progress Report

*Changes to the Constitution (if any)*

- **Committee February 2017**

Key Corporate Risk Monitor

Mazars Audit Progress Report

Scrutiny of the Treasury Management strategy statement and Prudential indicators

Counter Fraud: Risk Assessment and review of policies

Audit & Counter Fraud Plan & Consultation

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**Audit and Governance Committee****13 April 2016**Report of the Head of Internal Audit

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**Internal audit & counter fraud plan 2016/17**

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**Summary**

- 1 This report seeks the committee's approval for the planned programme of internal audit, and counter fraud work to be undertaken in 2016/17.

**Background**

- 2 The council's internal audit service has to comply with the Public Sector Internal Audit Standards, and the council's own Internal Audit Charter. The standards and charter require that the Head of Internal Audit gives an annual opinion on the adequacy and effectiveness of the council's framework of governance, risk management, and control. The basis for the opinion is the programme of work that internal audit carries out. An indicative risk based audit plan is drawn up at the start of each year, setting out what work will be done. The plan is required to be approved by this committee as part of its responsibility for overseeing the work of internal audit.

**2016/17 Plan**

- 3 Annex 1 sets out proposed internal audit and counter fraud work for 2016/17. The planned audit work is based on a risk assessment undertaken by Veritau. The plan is also informed by discussions with chief officers and members, risk management arrangements, and by plans for development and change within the council. A separate analysis of requirements for counter fraud work is also undertaken.
- 4 Total planned days for 2016/17 are 2,522 which is unchanged from 2015/16. There is no reduction this year in planned levels of internal audit or counter fraud work.

- 5 The 2016/17 plan is similar in focus to previous years. It recognises the continuing change taking place within the council. Veritau will continue to provide support, advice and challenge in relation to major projects in addition to overall plans to meet current needs (eg to achieve savings targets). In addition, the plan reflects the continued need to look at key corporate systems, and to undertake regularity work in areas such as the main financial systems.

### **Consultation**

- 6 In preparing the audit and counter fraud plan consultation has taken place with the Audit and Governance Committee and key officers across the council.

### **Options**

- 7 Not relevant for the purpose of the report.

### **Analysis**

- 8 Not relevant for the purpose of the report.

### **Council Plan**

- 9 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

### **Implications**

- 10 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

**Risk Management Assessment**

- 11 The council will be non-compliant with the Public Sector Internal Audit Standards if the plan is not approved by the committee, and it may be subject to increased scrutiny and challenge.

**Recommendation**

- 12 Members are asked to
  - approve the 2016/17 internal audit and counter fraud plan.

Reason

*In accordance with the committee's responsibility for overseeing the work of internal audit.*

**Contact Details**

**Author:**

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**Chief Officer Responsible for the report:**

Ian Floyd  
Director of Customer and Business  
Support Services  
Telephone: 01904 551100

**Report  
Approved**



**Date** 4 April 2016

**Specialist Implications Officers:** Not applicable

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers**

**Annexes**

Annex 1 – 2016/17 Internal Audit and Counter Fraud Plan

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**CITY OF YORK COUNCIL  
INTERNAL AUDIT AND COUNTER FRAUD PLAN 2016/17**





**City of York Council's Internal Audit and Counter Fraud Service**

**Annual Plan 2016/17**

**CONTENTS**

- 1 Introduction
- 2 2016/17 Audit Plan
- 3 Corporate & Cross Cutting Audits
- 4 Main Financial Systems
- 5 Directorate Audits
- 6 Counter Fraud & Corruption
- 7 Information Governance
- 8 Other Chargeable Audit Work

**City of York Council's Internal Audit and Counter Fraud Service****Annual Plan 2016/17****1. INTRODUCTION**

- 1.1 This plan sets out the proposed 2016/17 programme of work for the internal audit and counter fraud services provided by Veritau for the City of York Council.
- 1.2 In accordance with proper practice<sup>1</sup>, internal audit is required to prepare an indicative annual audit plan. The plan is based on a risk assessment model that is maintained by internal audit. The council's own risk management systems are also considered in forming a view on what audits to undertake. The audit plan is a working document, and changes are made throughout the year to reflect changes in risk and any issues that arise.
- 1.3 The content of the audit plan is subject to consultation with directors and other senior council officers, and is formally approved by the Audit and Governance Committee. The committee is responsible for monitoring progress against the plan. Changes to the plan are agreed through the council's client management arrangements and are notified to the committee. Proposed audit work is also discussed with the council's external auditors, to ensure that there is no duplication of effort. Further details about the approach to audit planning can be found in the Audit Charter (latest version approved by the Audit and Governance Committee in December 2014).

**2. 2016/17 AUDIT PLAN**

- 2.1 The ongoing financial pressures faced by the council and the consequent need to review and adapt services are major factors affecting systems and controls. Veritau's priority for the immediate future continues to be to help support the council maintain an effective control environment in these challenging times. The approach to audit planning for 2016/17 follows that adopted over the last few years by providing a balance between regularity audits in areas such as the main financial systems where the volume and value of transactions processed are significant and regular audit is essential; and other

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<sup>1</sup> Proper practice is set out in the Public Sector Internal Audit Standards and specific guidance on these standards for local government, issued by Cipfa. This includes a requirement for engagement with senior managers and members in the audit planning process.



**City of York Council's Internal Audit and Counter Fraud Service**

**Annual Plan 2016/17**

reviews targeted towards areas of increased risk due to change. This includes:

- direct support to change projects - to provide advice and challenge on controls being implemented or changed, and project governance
- emphasis in other audit work on the appropriateness of control systems in the current climate, and key objectives to meet current needs (e.g. progress with savings plans).

2.2 Details of the 2016/17 plan are set out in sections 3 – 8 below.





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**3. CORPORATE & CROSS CUTTING AUDITS**

**Days**

**Annual Governance Statement & Governance Support**

6

Advice and support on corporate governance matters and support in preparing the council's annual governance statement.

**Asset Disposals**

5

An allocation of time to review the council's Asset Disposals policy.

**Asset Management**

25

A review of the arrangements for managing the council's fixed assets and systems for accounting for assets. This will include an assessment of whether the council's assets are being used effectively.

**Business Continuity and Emergency Planning**

25

An audit of the council's business continuity and emergency planning arrangements.

**Data Quality**

40

An audit of systems for capturing key performance data, to ensure information used for management of the organisation is robust. This will focus on indicators produced by individual directorates.

**Document Management**

25

A review of the council's document management processes following the recent Information Commissioner's Office (ICO) report.

**Freedom of Information**

20

A review of the arrangements in place to respond to requests made under the Freedom of Information Act.

**Health & Safety**

20

A review of council arrangements for managing health and safety. The specific areas to be covered will be determined in consultation with officers.



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<b>Health and Wellbeing Board</b>	15
A review of the governance arrangements of the Health and Wellbeing Board. This will include examining how the Board functions and the reports it receives.	
<b>Information Security</b>	40
An allocation of time for a series of unannounced audit visits to council offices to ascertain the extent to which staff are recognising the need to protect sensitive and personal data and information assets. In addition, there is provision for an audit to assess understanding and compliance with Information Governance policies and procedures.	
<b>Office Security</b>	20
A review of the adequacy of security arrangements within West Offices.	
<b>Overtime</b>	25
A review of procedures across the council for the allocation, authorisation and record keeping relating to additional hours and overtime.	
<b>Performance Management</b>	25
A review of the effectiveness of the council's performance management framework.	
<b>Procurement and Contract Management</b>	40
A review of the arrangements within the council for procuring goods and services. This will encompass a number of separate audits including reviews of specific procurement exercises and contract related issues. Priorities for audit will be determined in consultation with council officers during the year.	
<b>Project Management</b>	40
An allocation of time for the review of Project Management arrangements within the council as well as support and advice for specific projects. This will include the ongoing Older Peoples' Home (OPH) project.	



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<b>Training</b>	20
A review of the effectiveness of the arrangements to deliver the training aims and objectives of the council.	
<b>Use of Social Media</b>	20
A review of the council's effectiveness in using social media to communicate with its residents.	
<b>Ward Committee Budget Decision Making</b>	15
A review of the robustness of decision making within ward committees.	
<b>TOTAL – Corporate &amp; Cross Cutting Audits</b>	<b>426</b>



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**4. MAIN FINANCIAL SYSTEMS**

**Days**

**Budget Savings**

20

The audit will consider the controls in place related to the planning, monitoring and achievement of agreed budget savings, and the effectiveness of arrangements to manage risks relating to the budget.

**Cashiers and Income Management**

20

A review of overall income management arrangements and the administrative systems for processing payments (including cash handling controls and security).

**Council Tax & NNDR**

20

A review of the systems for calculating Council Tax and NNDR liabilities, and the collection, recording and processing of payments.

**Council Tax Support and Housing Benefits**

20

A review of the arrangements for paying Housing Benefits and for administering the council tax support scheme.

**Housing Rents**

20

Reviews of the systems to collect, record, reconcile and monitor housing rents. The audit will also examine the arrangements for debt recovery.



**City of York Council's Internal Audit and Counter Fraud Service**

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<b>Main Accounting System</b>	20
A review of the arrangements for managing and maintaining the financial ledger. The audit will include a review of:	
<ul style="list-style-type: none"> <li>• access and back up arrangements</li> <li>• the integrity and timeliness of data</li> <li>• the processing of journals and virements</li> <li>• reconciling control and suspense accounts</li> <li>• the creation and maintenance of the coding structure</li> <li>• feeder systems and year end processes.</li> </ul>	
<b>Ordering and Creditor Payments</b>	20
A review of the systems for ordering goods and services and processing creditor invoices.	
<b>Payroll</b>	20
A review of payroll controls and processing.	
<b>VAT Accounting</b>	20
A review of key controls to ensure compliance with VAT accounting requirements.	
<b>York Financial Assistance Scheme</b>	15
A review of the arrangements in place for making awards under the revised York Financial Assistance Scheme (YFAS).	
<b>TOTAL – Main Financial Systems</b>	<b>195</b>



## City of York Council's Internal Audit and Counter Fraud Service

## Annual Plan 2016/17

## 5. DIRECTORATE AUDITS

DaysAdult Social Services (AS)**Better Care Fund**

20

An allocation of time to build on audit work carried out in 2015/16. This may include a review of governance arrangements, risk management processes and performance management.

**Deprivation of Liberty Assessments**

20

A review of the arrangements in place to carry out Deprivation of Liberty Assessments.

**Safeguarding**

25

A review of controls and governance arrangements in place to manage the key risks relating to adult safeguarding. This will follow-up on the action plan previously agreed.

City and Environmental Services (CES)**Blue Badge Scheme**

15

An audit of the processes to administer Blue Badges to residents.

**Fleet Management**

25

An audit of the zero-based budgeting model in operation, including how services are costed and recharged to other services.

**Highways Regulation**

25

An audit of the arrangements in place to forecast income and resources and how this process is managed.

**Section 106 Agreements**

25

This review will build on the audit carried out in 2015/16 and will focus on ensuring that funding is used for its intended purpose.



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**Children's Services, Education and Skills (CSES)**

**Contributions to Care** 25  
 An audit of the arrangements in place to ensure the council and its partners are making the correct contributions.

**Free Early Education Funding** 25  
 A review of payments to private nursery providers. This includes the audit of registration records at a sample of nursery establishments, to ensure claims for funding are correct.

**School Placement Planning** 25  
 A review of the systems in place to plan for and provide primary and secondary school places.

**Schools** 120  
 A programme of visits to schools as well as a number of themed audits. The audits are undertaken in accordance with a detailed risk assessment.

**Communities and Neighbourhoods (CANS)**

**Homeless Establishments** 15  
 A review of the key risks in relation to homeless establishments operated by the council. This will include the allocation of places.

**Housing Repairs** 25  
 A review of the systems in place for managing housing repairs and maintenance.

**Management of Travellers' Sites** 15  
 A review of the management of travellers' sites within York.



**City of York Council's Internal Audit and Counter Fraud Service**

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<b>Public Health</b>	25
<p>An review of controls in place to manage key Public Health risks including providing assurance on the council's capacity to deliver the five statutory public health functions. This will build on work carried out in previous years and assess how well Public Health services have been embedded within the council.</p>	
<b>Right to Buy</b>	20
<p>An audit of the procedures in place for purchases of council properties under the Right to Buy scheme.</p>	
<b><u>Customer and Business Support Services (CBSS)</u></b>	
<b>IT audit</b>	25
<p>The specific areas to be covered will be determined in consultation with officers. The audit is likely to include key risks in relation to cybercrime.</p>	
<b>PCI DSS Compliance</b>	5
<p>A review of the council's compliance with the Payment Card Industry Data Security Standard (PCI DSS). This will build on initial work carried out in 2015/16.</p>	
 <b>TOTAL – Directorate Audits</b>	<b>480</b>





## City of York Council's Internal Audit and Counter Fraud Service

## Annual Plan 2016/17

## 6. COUNTER FRAUD &amp; CORRUPTION

**Days**  
150

**Data Matching**

Provision to coordinate data submission, check data validity, assess referrals, and investigate potential frauds in relation to:

- the National Fraud Initiative (NFI)
- local data matching exercises.

**Fraud Awareness**

60

Provision to deliver an overall programme of work to raise awareness of fraud issues amongst staff and the public. Activities include targeted fraud awareness training and organising counter fraud publicity (both internal and external).

**Fraud Detection and Investigation**

970

Provision to undertake investigations into suspected fraud, corruption or other wrongdoing. Examples of the types of investigation work that may be undertaken include internal fraud, social services related fraud, council tax/NNDR fraud and housing tenancy fraud. Activities include:

- recording and risk assessing all referrals
- investigation
- application of sanctions, and progressing cases to prosecution where appropriate
- liaison with the police, DWP and other agencies
- proactive, targeted, counter fraud exercises.



## City of York Council's Internal Audit and Counter Fraud Service

## Annual Plan 2016/17

<b>Other Counter Fraud Related Work</b>	70
Provision to provide other counter fraud and corruption work including:	
<ul style="list-style-type: none"><li>• review of council counter fraud arrangements and policies</li><li>• the provision of support and advice to directorates in relation to fraud issues</li><li>• reporting on outcomes from counter fraud work.</li></ul>	
<b>TOTAL – Counter Fraud &amp; Corruption</b>	<b>1,250</b>



City of York Council's Internal Audit and Counter Fraud Service

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**7. INFORMATION GOVERNANCE**

	<u>Days</u>
<p><b>Information Governance</b>            An allocation of time for Information Governance activities including support to maintain the council's RIPA register and the Staff Warning Register.</p>	5
<b>TOTAL – Information Governance</b>	<b>5</b>



City of York Council's Internal Audit and Counter Fraud Service

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8. OTHER AUDIT WORK

	<u>Days</u>
<p><b>Audit and Governance Committee</b> Provision to prepare reports for the Audit and Governance Committee and attend meetings.</p>	20
<p><b>Audit Planning</b> Preparation and monitoring of audit plans.</p>	15
<p><b>Contingency Assignments</b> Provision to undertake additional work in response to:</p> <ul style="list-style-type: none"> <li>• specific requests from the Director of Customer and Business Support Services (the S151 Officer), Audit and Governance Committee, or the Assistant Director - Finance, Asset Management and Procurement</li> <li>• new or previously unidentified risks which impact on Strategic Audit Plan priorities</li> <li>• significant changes in legislation, systems or service delivery arrangements</li> <li>• requests from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management</li> <li>• urgent or otherwise unplanned work arising from fraud investigations which identify potential control risks.</li> </ul>	30
<p><b>External Audit Liaison</b> Provision for regular liaison and information sharing with Mazars.</p>	5
<p><b>Follow Up Audits</b> Provision to follow up previously agreed audit recommendations.</p>	50
<p><b>IDEA Data Matching</b> An allocation of time for IDEA data matching. This will include work in relation to Free School Meals.</p>	16



**City of York Council's Internal Audit and Counter Fraud Service**

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<b>Support, Advice &amp; Liaison</b>	30
Provision to provide ongoing advice and support on the design, implementation and operation of appropriate controls and for the overall management of audit work in each department.	
 <b>TOTAL – Other Audit Work</b>	<b>166</b>

<b>TOTAL DAYS 2016/17</b>	<b>2,522</b>
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**Audit and Governance Committee**

13 April 2016

Report of the Head of Internal Audit

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**Audit & Counter Fraud Monitoring Report**

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**Summary**

- 1 This report provides an update on progress made in delivering the internal audit workplan for 2015/16 and on current counter fraud activity.

**Background**

- 2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the standards, periodic reports detailing the outcomes of internal audit work are presented to this committee.

**Internal Audit**

- 3 To date, internal audit has completed 70% of the 2015/16 audit plan based on reports issued. The figures do not reflect audits in progress or recently completed<sup>1</sup>. It is anticipated that the 93% target for the year will be exceeded by the end of April 2016 (the cut off point for 2015/16 audits).
- 4 Details of the audits completed and reports issued since the last report to this committee in December 2015 are given in annex 1.
- 5 Copies of the audit reports listed in annex 1 are published with the online agenda papers on the council's website [paper copies are available by contacting

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<sup>1</sup> The figure including work in progress and work completed but not yet reported is 97%.

[democratic.services@york.gov.uk](mailto:democratic.services@york.gov.uk) or telephone 01904 552030]

- 6 A number of variations to the audit plan have been approved by the Director of CBSS since the last report to this committee in December 2015. Details are included in annex 2.

### **Counter Fraud**

- 7 Counter fraud work has been undertaken in accordance with the approved plan. Annex 3 provides a summary of the work undertaken.

### **Breaches of Financial Regulations**

- 8 Two breaches of the council's financial regulations have been identified during the course of recent audit work. Details of these breaches are summarised in annex 4.

### **Consultation**

- 9 Not relevant for the purpose of the report.

### **Options**

- 10 Not relevant for the purpose of the report.

### **Analysis**

- 11 Not relevant for the purpose of the report.

### **Council Plan**

- 12 The work of internal audit and counter fraud helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

### **Implications**

- 13 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**



- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

**Risk Management Assessment**

14 The council will be non-compliant with the PSIAS if the results of audit work are not reported to the committee and could therefore be exposed to increased levels of scrutiny and challenge.

**Recommendation**

15 Members are asked to:

- (a) Note the progress made in delivering the 2015/16 internal audit work programme, and current counter fraud activity.

Reason

*To enable members to consider the implications of audit and fraud findings.*

**Contact Details**

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**Chief Officer Responsible for the report:**

Ian Floyd  
Director of CBSS  
Telephone: 01904 551100

**Report  
Approved**



**Date** 4/4/2016

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

### **Background Papers**

- 2015/16 Internal Audit and Counter Fraud Plan
- The final internal audit reports referred to in annex 1 are available as background papers on the council's website with the online agenda papers for this meeting [paper copies are available by contacting [democratic.services@york.gov.uk](mailto:democratic.services@york.gov.uk) or telephone 01904 552030]

### **Annexes**

Annex 1 – 2015/16 Audits Completed and Reports Issued

Annex 2 – Variations to the 2015/16 Audit Plan

Annex 3 – Counter Fraud Activity

Annex 4 – Breaches of Financial Regulations

## Audits Completed and Reports Issued

The following categories of opinion are used for audit reports.

<b>Opinion</b>	<b>Level of Assurance</b>
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

**Priority**

1 (High)

**Long Definition**

Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.

These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.

Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.

**Short Definition – for use in Audit Reports**

A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.

**Priority**

**Long Definition**

**Short Definition – for use in Audit Reports**

2

Action considered necessary to improve or implement system controls so as to ensure an effective control environment exists to minimise exposure to significant risks such as financial or other loss.

A significant system weakness, whose impact or frequency presents risks to the system objectives, and which needs to be addressed by management.

Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.

3

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

### Draft Reports Issued

Twelve internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows.

<b>Opinion</b>	<b>Number</b>	<b>Reports</b>
High Assurance	4	St Mary's CE Primary School, Carr Junior School, Lord Deramore's Primary School, Naburn Primary School
Substantial Assurance	1	Joseph Rowntree School
Reasonable Assurance	3	Collaborative Asset Management Arrangements, Car Parking, Section 106 Agreements
Limited Assurance	3	Project Management, Register of Interests, s117 of the Mental Health Act
No Assurance	0	
Not given (non assurance work)	1	New Children's Social Care IT system

## Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in December 2015. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
St George's RC Primary School	High Assurance	4	0	A schools audit. No significant weaknesses were found.
Applefields School	Substantial Assurance	11	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
Committee Reports	Substantial Assurance	1	0	<p>This was a review of members' access to confidential information and restricted committee papers.</p> <p>There is an up to date procedure in the council's constitution which sets out members' rights of access to information. This highlights the role of the Monitoring Officer in providing support to ensure that decisions on access are made in line with the constitution.</p>

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				No issues were identified with the process for restricting committee papers. However, there is scope to raise awareness of the Access to Information protocol with officers and members.
Dunnington CE Primary School	Substantial Assurance	6	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
Huntington Secondary School	Substantial Assurance	7	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
St Barnabas' School	Substantial Assurance	8	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
Information Security Sweeps	Reasonable Assurance	4	0	This was the latest regular information security check, designed to assess the extent to which confidential, personal or sensitive data is stored securely and to ensure that data security is



Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				<p>being given sufficient priority within council departments.</p> <p>Overall, the council remains well protected against accidental disclosure of information. The majority of information is stored in cupboards and most cupboard doors are closed.</p> <p>However, there is scope to further protect against deliberate unauthorised access by ensuring all personal and sensitive information is locked away across all areas of the council. Action is also required to ensure that confidential information is held securely.</p>
Transformation Programme – Business Support SLAs	Reasonable Assurance	2	0	<p>This was a review of service level agreements (SLAs) in place between the Business Support hub and the services they support.</p> <p>It was found that progress has been made towards implementing and agreeing SLAs within Business Support, however further action</p>

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				<p>should be taken to ensure that this process is completed and fit for purpose moving forward.</p> <p>Not all service areas have reached agreement on the exact remit of Business Support and as a result SLAs are currently incomplete and have not been signed off.</p> <p>In addition, performance measures need to be set that are meaningful, measurable and are of value to the services as well as Business Support.</p>

## Other non-opinion audit work completed

	<b>Work done / significant weaknesses / issues identified</b>
Attendance Management Follow-up	<p>This was a follow-up to a report on attendance management, issued on 9th July 2014. The original opinion was limited assurance and four findings were raised including a priority one finding. The priority one finding related to the council not recording all instances of sickness on iTrent. The follow-up work identified a greater level of error than in the original audit. However, improvements were noted in the proportion of self-certification forms completed.</p> <p>The service has undertaken a number of actions in order to address the issues identified in the original audit and CMT have agreed in principle to use the iTrent absence management module which should improve compliance. The Council will now need to allocate resources and timetable the necessary work.</p>
Free School Meals Data Matching	An exercise was undertaken using data matching to identify pupils eligible for free school meals. This will help to maximise income for the council.
Hotel Scratch Card Car Park Permit Scheme	This was a review into the operation of the scheme requested by the directorate. The review documented the systems in place and offered advice as to how the scheme should operate in future.
Information Governance work	Information Governance work has been carried out during the year relating to the staff warning register and RIPA co-ordination.

	<b>Work done / significant weaknesses / issues identified</b>
Payroll Systems Work	Veritau was asked by the service to document key payroll control processes to support the development of procedure manuals, to address business continuity risks. Further work is planned in 2016/17.

## Variations to the 2015/16 Audit Plan

Additions to the plan are considered where:

- specific requests are received from the S151 Officer which are necessary for him to discharge his statutory responsibilities;
- new or previously unidentified risks result in changes to the priority of audit work;
- significant changes in legislation, systems or service delivery arrangements occur which have an impact on audit priorities;
- requests are received from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management;
- urgent or otherwise unplanned work arises as a result of investigations into fraud and other wrongdoing identifying potential control risks.

Additions to the audit plan are only made if the proposed work is considered to be of a higher priority than work already planned, the change can be accommodated within the existing resource constraints and the change has been agreed by the Head of Internal Audit.

Audits are deleted from the plan or delayed until later years where:

- specific requests are received from the S151 Officer or the audit customer and the grounds for such a request are considered to be reasonable;
- the initial reason for inclusion in the audit plan no longer exists;
- it is necessary to vary the plan to balance overall resources.

To reflect the contractual relationship between the council and Veritau, all proposed variations to the agreed audit plan arising as the result of emerging issues and/or requests from directorates will be subject to a change control process. Where the variation exceeds 5 days then the change must be authorised by the Director of CBSS. Details of variations are communicated to the Audit and Governance Committee for information.

## 2015/16 Audit Plan Variations

The following variations have been approved by the Director of CBSS since the last report to this committee in December 2015. They represent a net allocation of zero days from the audit contingency and do not affect the overall planned audit days.

Audit	Days	Reason For Variation
<b>Additions / Increases to the Audit Plan</b>		
Information Governance	33	Support with various data breaches, the staff warning register and RIPA co-ordination.
Follow-up audits	15	To incorporate additional work such as follow-up of attendance management.
Section 106 Agreements	15	Additional time to complete the work due to problems in obtaining required information.
Car Parking	9	Additional time to complete the work due to problems in obtaining required information.
Free School Meals Data Matching	7	A data matching exercise to identify pupils eligible for free school meals.
Hotel Scratch Card Car Park Permit Scheme	6	Additional work requested by the Director of CES.
Overtime	5	Additional work in relation to overtime, requested by the corporate finance team.
Ordering Processes for External	5	Additional time required to complete the work (including consultation with other departments).

Contractors		
	<b>95</b>	

<b>Audit</b>	<b>Days</b>	<b>Reason For Variation</b>
<b>Deletions / Reductions from the Audit Plan</b>		
Council Tax/NNDR	-25	Deferred until early 2016/17 in order to spend the time on other work priorities.
Ordering and Creditor Payments	-25	Deferred until early 2016/17 in order to spend the time on other work priorities.
Payroll	-25	Deferred until early 2016/17 in order to spend the time on other work priorities.
Records Management	-20	Deferred until 2016/17 in order to allow the council to fully respond to the recommendations included in the recently issued ICO report.
	<b>-95</b>	

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**COUNTER FRAUD ACTIVITY 2015/16**

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed to date. The indicators include the full range of counter fraud work undertaken.

	<b>2015/16 (Actual: 29/02/16)</b>	<b>2015/16 (Target: Full Yr)</b>	<b>2014/15 (Actual: Full Yr)</b>
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken).	41%	30%	43%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£81,376	£100,000	£135,136
Amount of notional savings (estimated savings - e.g. housing tenancy fraud) identified through fraud investigation.	£457,100	£600,000	£612,700

**Caseload figures for the period are:**

	<b>As at 29/02/16</b>	<b>As at 1/4/15</b>
Awaiting allocation	8	40
Under investigation	162	171

**Summary of counter fraud activity:**

<b>Activity</b>	<b>Work completed or in progress</b>
Data matching	Investigation of matches arising from the National Fraud Initiative is almost complete. There were a total of 2,540 recommended data matches to process relating to a number of council teams. A new data matching exercise to identify false Single Person Discounts has just been run. It has identified 2,268 potential matches.
Fraud detection and investigation	<p>The service continues to promote the use of criminal investigation techniques and standards to robustly respond to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"> <li>• <b>Housing fraud</b> – working in conjunction with housing officers, 12 properties have been recovered thus far in 2015/16. In addition, 13 properties were prevented from being let where the prospective tenants had provided false information in their housing applications.</li> </ul> <p>There are currently 24 ongoing investigations in this area.</p> <ul style="list-style-type: none"> <li>• <b>Internal fraud</b> - the team has received 12 referrals for internal frauds in 2015/16. 4 cases are currently under investigation.</li> </ul>

Activity	Work completed or in progress
	<ul style="list-style-type: none"> <li>• <b>External fraud</b> – the team has received 4 referrals relating to fraud against the council that do not fit into other categories. The latest referral relates to theft and abuse of council recycling facilities.</li> <li>• <b>Council Tax/Non Domestic Rates fraud</b> – In January 2015, City of York Council alongside a number of other councils in the area successfully bid for DCLG funding in order to create the North Yorkshire Fraud Hub. Veritau are working with neighbouring authorities to gather information ahead of a data matching exercise.  There are currently 24 investigations into Council Tax and Non Domestic Rates fraud.</li> <li>• <b>Benefit fraud</b> – To date in 2015/16 3 people have been prosecuted for benefit fraud offences and a further 14 have received formal sanctions (cautions and administrative penalties). Benefit claims have been corrected in 23 cases.  On 1 March 2016 the council lost its remit to investigate and prosecute Housing Benefit Fraud as this responsibility transferred to the Department for Work and Pensions.</li> <li>• <b>Social Care fraud</b> – There are currently 21 ongoing investigations. The fraud team is working closely with a number of departments and outside organisations to identify, detect and deter fraud in this area. The potential loss to the council identified this year is over £263k.</li> </ul>

Activity	Work completed or in progress
	<ul style="list-style-type: none"> <li>• <b>Parking fraud</b> – 16 cases of blue badge or other parking exemption fraud have been referred to the team in 2015/16. This has resulted in one prosecution and 11 formal written warnings.</li> <li>• <b>Education verification</b> – The fraud team is working with the schools team to investigate and deter false applications for school placements. So far in 2015/16 two false applications have been blocked and one warning letter has been issued.</li> <li>• <b>Financial Assistance Scheme</b> – The fraud team investigate cases where the public falsely apply for assistance from the council. Five cases have been received in 2015/16.</li> </ul>

**ANNEX 4****Summary of Breaches of Financial Regulations Identified  
During Internal Audit Work Completed in the Period**

<b>Description of Breach</b>	<b>Instances</b>
Failure to obtain a waiver from Financial Regulations	1
Failure to maintain a record of disposed assets	1

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**Audit and Governance Committee**

13 April 2016

Report of the Head of Internal Audit

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**Internal Audit Follow Up Report**

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**Summary**

1. This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work.

**Background**

2. Where weaknesses in systems are found by internal audit, the auditors discuss and agree a set of actions to address the problem with the responsible manager. The agreed actions include target dates for issues to be dealt with. The auditors then carry out follow up work to check that the issue has been resolved once these target dates are reached. The follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee.
3. A summary of the findings from follow up work is presented to this committee twice a year. The current report covers agreed actions with target dates up to 29 February 2016.

**Consultation**

4. Details of the findings of follow up work are discussed with the relevant service managers and chief officers.

## Follow up of internal audit agreed actions

5. A total of 147 actions have been followed up since the last report to this committee in September 2015. A summary of the priority of these actions is included in figure 1, below.

*Figure 1: actions followed up as part of the current review*

Priority of actions*	Number of actions followed up
1	4
2	43
3	100
<b>Total</b>	<b>147</b>

\* The priorities run from 1 (high risk issue) to 3 (lower risk)

6. Figure 2 below provides an analysis of the actions which have been followed up, by directorate.

*Figure 2: actions followed up by directorate*

Priority of actions	Number of actions followed up by directorate					
	OCE	CES	CANS	CSES	AS	CBSS
1 (High)	0	0	2	0	1	1
2 (Medium)	0	7	5	3	5	23
3 (Low)	2	0	7	48	3	40
<b>Total</b>	<b>2</b>	<b>7</b>	<b>14</b>	<b>51</b>	<b>9</b>	<b>64</b>

7. Of the 147 agreed actions 90 (61.2%) had been satisfactorily implemented and 5 (3.4%) were no longer needed<sup>1</sup>.
8. In a further 52 cases (35.4%) the action had not been implemented by the target date, but a revised date was agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable (eg due to unexpected difficulties or where actions are dependent on new systems being implemented). These actions will be followed up after the revised target date and if necessary they will be raised with senior managers in accordance with the

<sup>1</sup> For example because of other changes to procedures or because the service has ended or changed significantly.



escalation procedure. Figure 3 below shows the priority of these actions.

*Figure 3: priorities of actions with revised implementation dates*

<b>Priority of actions</b>	<b>Number of actions with a revised implementation date</b>
1 (High)	0
2 (Medium)	18
3 (Low)	34
<b>Total</b>	<b>52</b>

## **Conclusions**

9. The follow up testing undertaken confirms that in general good progress has been made by council departments to rectify weaknesses in control identified through internal audit work. This is an ongoing process and progress in implementing agreed actions will continue to be monitored and reported as required through the escalation procedure. There are no specific issues that need to be brought to the attention of the Audit and Governance Committee at this time.

## **Options**

10. Not relevant for the purpose of the report.

## **Analysis**

11. Not relevant for the purpose of the report.

## **Corporate Priorities**

12. This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

## **Implications**

13. There are no implications to this report in relation to:

- **Finance**

- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

### **Risk Management**

14. The council will fail to properly comply with Public Sector Internal Audit Standards (PSIAS) if it does not establish procedures to follow up on audit recommendations and report progress to the appropriate officers and members.

### **Recommendations**

15. Members of the Audit and Governance Committee are asked to:
  - consider the progress made in implementing internal audit agreed actions as reported above (paragraphs 5 – 9)

#### Reason

*To enable Members to fulfil their role in providing independent assurance on the council's control environment.*

### **Contact Details**

#### **Author:**

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Veritau Ltd  
Telephone: 01904 552940

#### **Chief Officer Responsible for the report:**

Ian Floyd  
Director of Customer and Business  
Support Services  
Telephone: 01904 551100

**Report  
Approved**



**Date** 4 April 2016

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**



**For further information please contact the author of the report**

**Background Papers:**

None

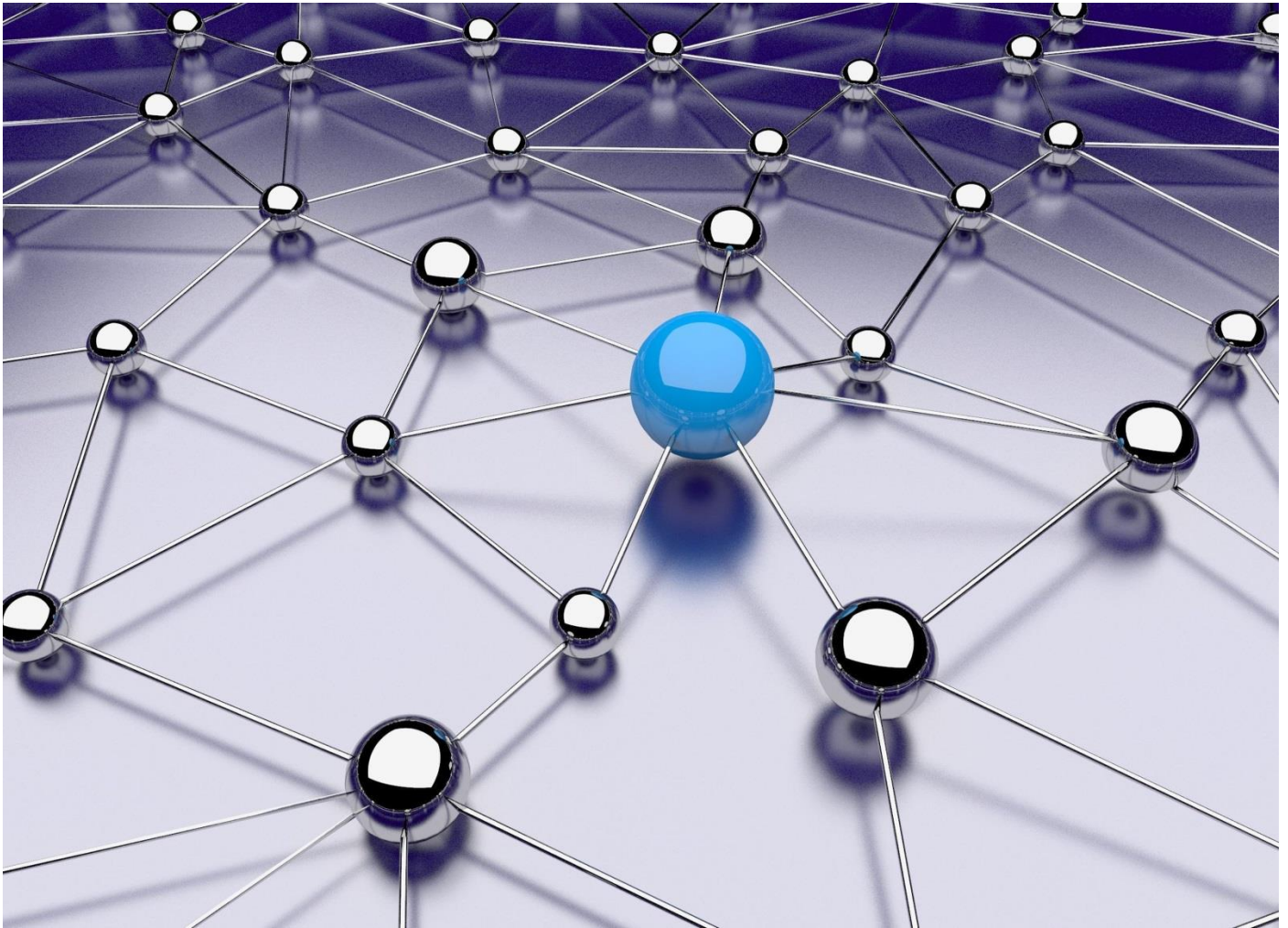
**Annexes**

None

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# City of York Council Audit Progress Report

April 2016



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02 Summary of audit progress .....	3
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04 Contact details.....	7
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*Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to City of York Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.*

# 01 Introduction

The purpose of this report is to update the Audit and Governance Committee of City of York Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

# 02 Summary of audit progress

## Position on the 2014/15 audit

On 26 February 2016, we issued a Public Interest Report on governance issues in relation to remuneration of Council officers for work as Directors of City of York Trading Ltd. The report is due to be considered by the Council at its meeting on 24 March 2016. This Audit Progress Report has been prepared prior to the Council meeting. We will update the Committee on the latest position at its meeting in April.

The additional cost of this work was £27,000 in audit fees and an additional £12,500 reimbursement of our legal costs, a total of £39,500. It is expected that these fees will be part of Code audit work for 2014/15 but we are currently awaiting approval of these fees by our regulator, Public Sector Audit Appointments Ltd.

## 2015/16 planning

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

## Accounts workshops for officers

In January 2016, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2015/16 statement of accounts. The Council was represented at this workshop.

## First meeting of the North Yorkshire Governance Forum

In February 2016, we also held the first meeting of our North Yorkshire Governance Forum. Members will recall that we established the forum for officers and Members, particularly Chairs and Vice Chairs of Audit Committees, with the aims of:

- promoting good practice in governance;
- facilitating dialogue, debate and sharing of ideas among those providing governance oversight; and
- horizon-scanning to ensure that the forum is briefed on the latest developments and key topical issues.

Most local authorities and related bodies in North Yorkshire were represented at the forum, including City of York Council.



The topics discussed at the first meeting included:

- Audit Committee effectiveness;
- devolution; and
- future issues

There was a consensus among those attending that the forum was a welcome development, and a second meeting has been arranged for 8 July 2016. It is proposed that the forum will meet twice each year.

## **Changes impacting on the public inspection of the accounts**

The Accounts and Audit Regulations (2015) have made changes to, amongst other things:

- the roles and responsibilities associated with informing electors of their rights; and
- the publication of draft and audited statements of account and information that accompanies those statements.

It is now the Responsible Financial Officer's responsibility to publish a statement that includes details of the period for the exercise of public rights. It is also now the Responsible Financial Officer's responsibility to inform the auditor of the date on which that period commences; previously the auditor was responsible for 'calling the audit' and appointing a specific date on which electors could ask questions relating to the audit.

The period for the exercise of public rights must be a single period of 30 working days. Electors can only exercise their rights of inspection and objection, as set out in the Local Audit and Accountability Act 2014, during this period. The period must include the first 10 working days of July for this year's audit and, as a result, the earliest date that the audit of a local authority can be completed for 2015/16 is 15th July 2016.

The Regulations also set out the revised timetable for the preparation and audit of the Council's financial statements from 2017/18 that we have mentioned in previous audit progress reports / audit committee meetings. We continue to work closely with the Council's finance team to ensure that we both meet the revised timetable.

Further details on the requirements are set out in the Appendix to this report.

# 03 National publications and other updates

This section contains updates on the following:

1. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**
2. **Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015**
3. **Cipfa: Guide to auditor panels, December 2015**

## 1. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**

Public Sector Audit Appointments Ltd (PSAA) has published its Corporate Plan for the period to 2018. The Plan sets out how the company will discharge the functions delegated to it by the Secretary of State for Communities and Local Government which include managing audit contracts originally let by the Audit Commission and supporting a smooth transition to the new audit regime introduced by the Local Audit and Accountability Act 2014.

PSAA's work programme involves two parallel strands: ensuring that the existing audit contracts continue to deliver good quality and positive value for audited bodies and effective assurance to the public; and, providing as much support as possible to assist local bodies to prepare for, and be ready to meet, their new responsibilities as the legislation is fully implemented.

The plan was informed by the fact that the timetable for the expiry of the existing audit contracts is now clear. For NHS bodies and smaller local authorities (mainly parishes and internal drainage boards) existing arrangements will cover the audits up to and including 2016/17. For these bodies the new regime will therefore apply to the audits of the financial year 2017/18 and onwards. For principal local authorities and criminal justice bodies the existing arrangements are expected to run for a further year covering the audits up to and including 2017/18. For these bodies the new regime will apply to 2018/19 audits and beyond.

As part of its role in supporting local bodies to prepare for their responsibilities under the new regime, PSAA has set up on its website a dedicated Supporting the transition area containing resources to assist local public bodies in making the transition to the new arrangements.

<http://www.psa.co.uk/supporting-the-transition/>

A further important aspect of PSAA's work in relation to the new regime will involve working with the Local Government Association and the Improvement and Development Agency to explore the feasibility of PSAA seeking to become a 'sector-led body' with the ability to enter into contracts and appoint auditors to local bodies in the new regime. Further information will be provided on PSAA's website as this work progresses.

## **2. Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015**

This is the first report for local government bodies published by Public Sector Audit appointments Ltd (PSAA), and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies for 2014/2015. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/2015 remained broadly consistent with the previous year for both principal and small bodies. Against a background of financial challenges, the sector is clearly working hard to achieve appropriate standards in its stewardship of resources.

Auditors at 97 per cent of principal bodies were able to issue the opinion on the 2014/2015 accounts by 30 September 2015, with 23 bodies receiving an unqualified audit opinion by 31 July 2015. For the second year in a row there have been no qualified opinions issued to date to principal bodies (at the time of this report being written). The number of qualified conclusions on value for money arrangements remained consistent with the previous year at 4 per cent.

For small bodies, auditors were able to issue their opinion on the annual return by 30 September 2015 at 99 per cent of parish councils and internal drainage boards. This is consistent with the previous year.

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

## **3. Cipfa: Guide to auditor panels, December 2015**

This publication is aimed at those within local authorities who will have a role to play in deciding how and who to appoint as their organisation's local auditors.

It has been commissioned by DCLG, and a working group including DCLG, NAO, Public Sector Audit Appointments Limited (PSAA) and other stakeholders have ensured that the guidance is relevant and specific to authorities.

<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

# 04 Contact details

Please let us know if you would like further information on any items in this report.

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# Appendix

## **Changes arising from the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015**

Changes to legislation which sets the framework for the work we undertake on local authority statement of accounts will lead to changes in the audit process and timetable.

The relevant legislation can be found here:

The Local Audit and Accountability Act 2014:

<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted>

Accounts and Audit Regulations 2015:

[http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi\\_20150234\\_en.pdf](http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf)

### Arrangements for the publication and audit of the statement of accounts

The changes to legislation do not change the publication and audit process to a great degree, however there are differences that we, and our clients need to be aware of. These, and the timings involved, are set out in the table below:

	Action	Regulation	Timing (15/16 and 16/17)	Timing (17/18 onwards)
1	RFO signs and dates the statements and confirms that they present a true and fair view	9(1)(a)	Prior to publication of draft statements (see below)	Prior to publication of draft statements (see below)
2	RFO must publish (including publication on the authority's website): <ul style="list-style-type: none"> <li>• The statement of accounts and an accompanying declaration that they are unaudited and subject to change</li> <li>• The AGS (whether approved or not)</li> <li>• The Narrative Statement</li> <li>• A statement that sets out               <ul style="list-style-type: none"> <li>○ The period for the exercise of public rights</li> <li>○ Details of the manner in which notice of the intention to documents should be given</li> <li>○ The name and address of the auditor</li> <li>○ The provisions of section 26 and 27 of the LAAA 2014</li> </ul> </li> </ul>	15(2)	By 30th June* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of July as per 15(1)(a) as adjusted by 21(b).	By 31st May* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of June as per 15(1)(a).
3	RFO must commence the period for the exercise of public rights and notify the auditor of the date on which the period commences. The period must be a single period of 30 working days as per regulation 14(1) and must include the first 10 working days of July (for 2015/16 and 2016/17) as explained above.	9(1)(b) And 9(1)(c)	The day following the date on which the RFO has met the responsibilities in (2) above.	The day following the date on which the RFO has met the responsibilities in (2) above.

4	Following conclusion of the period for exercise of public rights the accounts must be: 1. considered by members (committee or meeting as a whole) 2. re-confirmed by the RFO on behalf of the authority that the statement of accounts presents a true and fair view before the accounts are approved 3. approved by the same committee or meeting 4. signed – this must be by the person who presides over the meeting where the accounts were considered and approved.	9(2) and (3)	By 30 <sup>th</sup> September	By 31 <sup>st</sup> July
5	The approved and audited accounts, approved AGS, and Narrative Statement, must be published (including on the authority's website)	10(1)	By 30 <sup>th</sup> September	By 31 <sup>st</sup> July
6	An authority must publish (including on the authority's website) that the audit has been concluded and that the statement of accounts has been published.	16 (1)and (2)	By 30 <sup>th</sup> September	By 31 <sup>st</sup> July

*\* The exact date will depend on when the first working day falls in July (for 2015/16 and 2016/17) and in June (for 2017/18 onwards).*

#### **Further information on public rights under the LA&A Act**

##### Period for exercise of rights

The period for questions to the auditor is now restricted to the 30 days of the inspection period, there is no appointed date for questions to the auditor. As noted above, the period must include the first 10 working days of July in for the audit years 2015/16 and 2016/17 under the transitory arrangements.

Calling the audit is no longer the responsibility of the auditor; it has been superseded by the notification of the period for public rights by the RFO (point 3 in the table above).

There is no longer a set date for questions to the auditor, but a local elector must be given the opportunity to question the auditor about the accounting records if they request it (section 26(2) of the LA&A Act). Rights of objection also remain (section 27 of the LA&A Act). All objections to the auditor must be made in writing and be copied to the authority. Regulation 14(1) makes it clear that the rights conveyed by sections 26 and 27 of the Act may only be exercised within the single 30 day period.

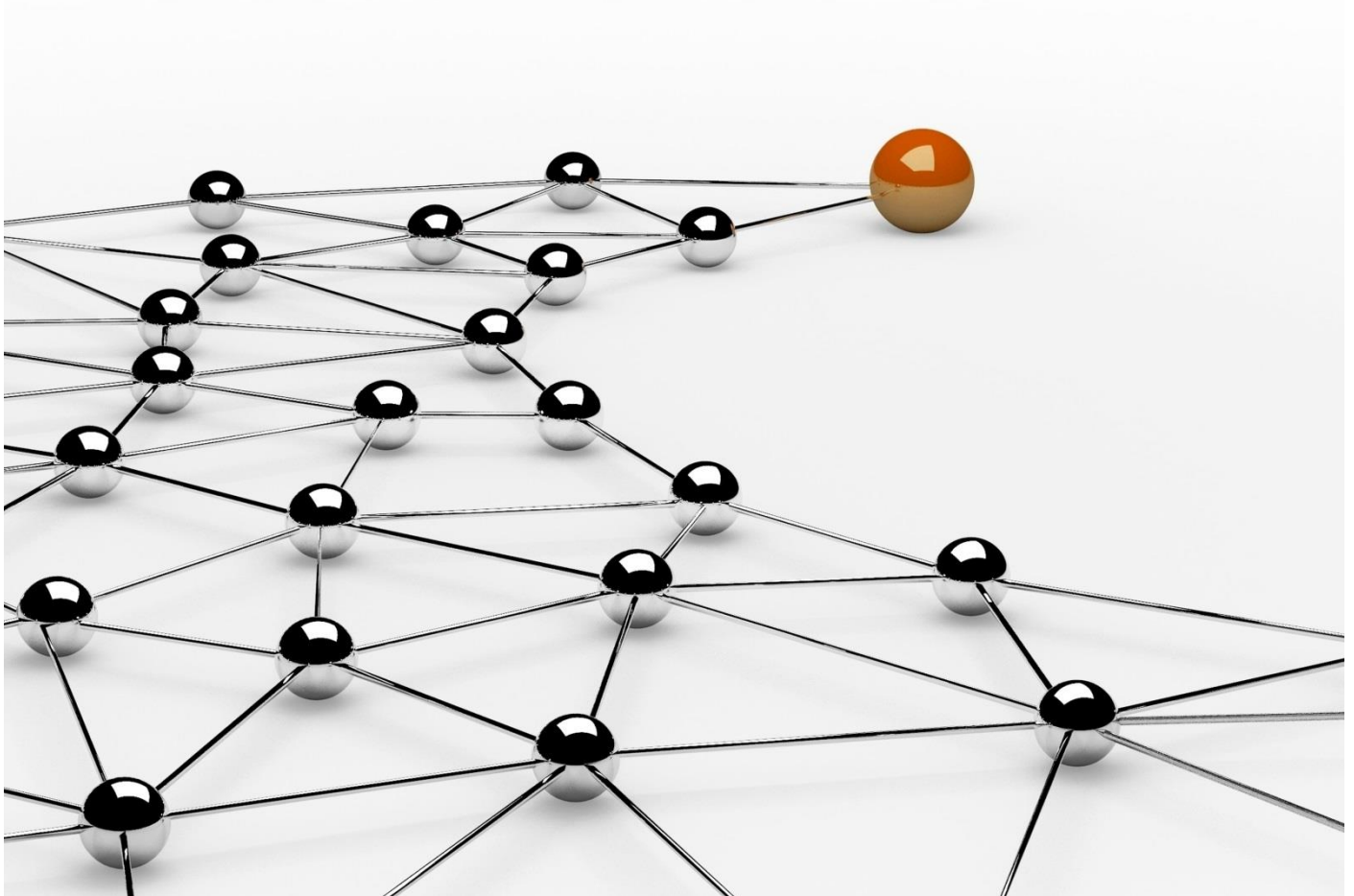
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# Audit Strategy Memorandum

City of York Council - Year ended 31 March 2016

April 2016



Mazars LLP  
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DH1 5TS

Audit and Governance Committee  
City of York Council  
West Offices  
Station Rise  
York  
YO1 6GA

1 April 2016

Dear Members

**Audit Strategy Memorandum for the year ending 31 March 2016**

We are pleased to present our Audit Strategy Memorandum for City of York Council for the year ending 31 March 2016.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and provide you with the details of our audit team. Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit and Governance Committee meeting on 13 April 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 07979 164467.

Yours faithfully

Gareth Davies  
Partner, for and on behalf of Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*

# 01 Purpose and background

## Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of City of York Council for the year ending 31 March 2016, and forms the basis for discussion at the Audit and Governance Committee meeting on 13 April 2016.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between us and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks you face which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

## Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2016. The scope of our engagement is laid out in the National Audit Office's Code of Audit Practice.

## Responsibilities

- **Audit opinion**

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management nor the Audit and Governance Committee, as those charged with governance, of their responsibilities. We are also required to reach a conclusion on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources (our Value for Money conclusion).

- **Whole of Government Accounts**

We report to the National Audit Office in respect of the consistency of the Council's Whole of Government Accounts submission with the financial statements.

- **Fraud**

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

We are also required to give an elector, or any representative of the elector, an opportunity to question us about the accounting records of the Council and consider any objection made to the accounts by an elector.

### Significant matters considered

As part of our risk-based approach to planning we consider a number of key performance and control environment features together with external developments. The following paragraphs set out some of the key aspects for 2015/16. Our current view is that this information does not give rise to any additional significant risks for the opinion audit.

### Performance and control environment

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power coupled with increased demand for services.

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions.

The 2015/16 revenue budget included £11.9m of savings proposals to address reduced funding and cost pressures. We use the Council's latest financial monitoring reports and medium term financial plan to consider the current financial position. The following table summarises the 2015/16 predicted budget outturn, based on the third quarter reviews considered by the Executive in February 2016.

Area	Budget	Projected year end position	Projected overspend / (underspend)
Net revenue expenditure	£119.8m	£120.9m	£1.1m
Capital expenditure	£80.4m	£51.5m	n/a

As at the end of December 2015, the latest budget forecasts for 2015/16 showed financial pressures of £1.1m. In addition, a potential pressure of £3m exists due to issues with the Vale of York CCG, although it was hoped that this position would be resolved by the year end.

The Council has a significant capital programme, and the projected outturn for 2015/16 is £51.5m, compared to an original budget of £80.4m, the reduction mainly arising from slippage in the programme and re-profiling of budgets to future years.

The Council has set its revenue budget for 2016/17, including a 3% council tax increase. The medium term financial plan estimates the savings required in the four years 2016/17 to 2019/20 as £23m, of which £6.5m has been reflected in the 2016/17 budget.

### External developments

The Council has to prepare its financial statements in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom. There have been a small number of changes to the Code for 2015/16, which include:

- applying the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16, meaning that some assets and liabilities held by the Council may need to be revalued on the basis of their fair value for the first time in 2015/16; and
- accounting for the Better Care Fund, a £12m pooled budget with NHS Vale of York CCG, requiring a number of additional disclosures in the 2015/16 financial statements.

Officers are aware of the new requirements and are making preparations to address them as part of the accounts closedown process.

# 02 Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the NAO's Code of Audit Practice. Our work is focused on those aspects of your business which we consider have a higher risk of material misstatement such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas which have been found to contain material errors in the past.

## Audit approach

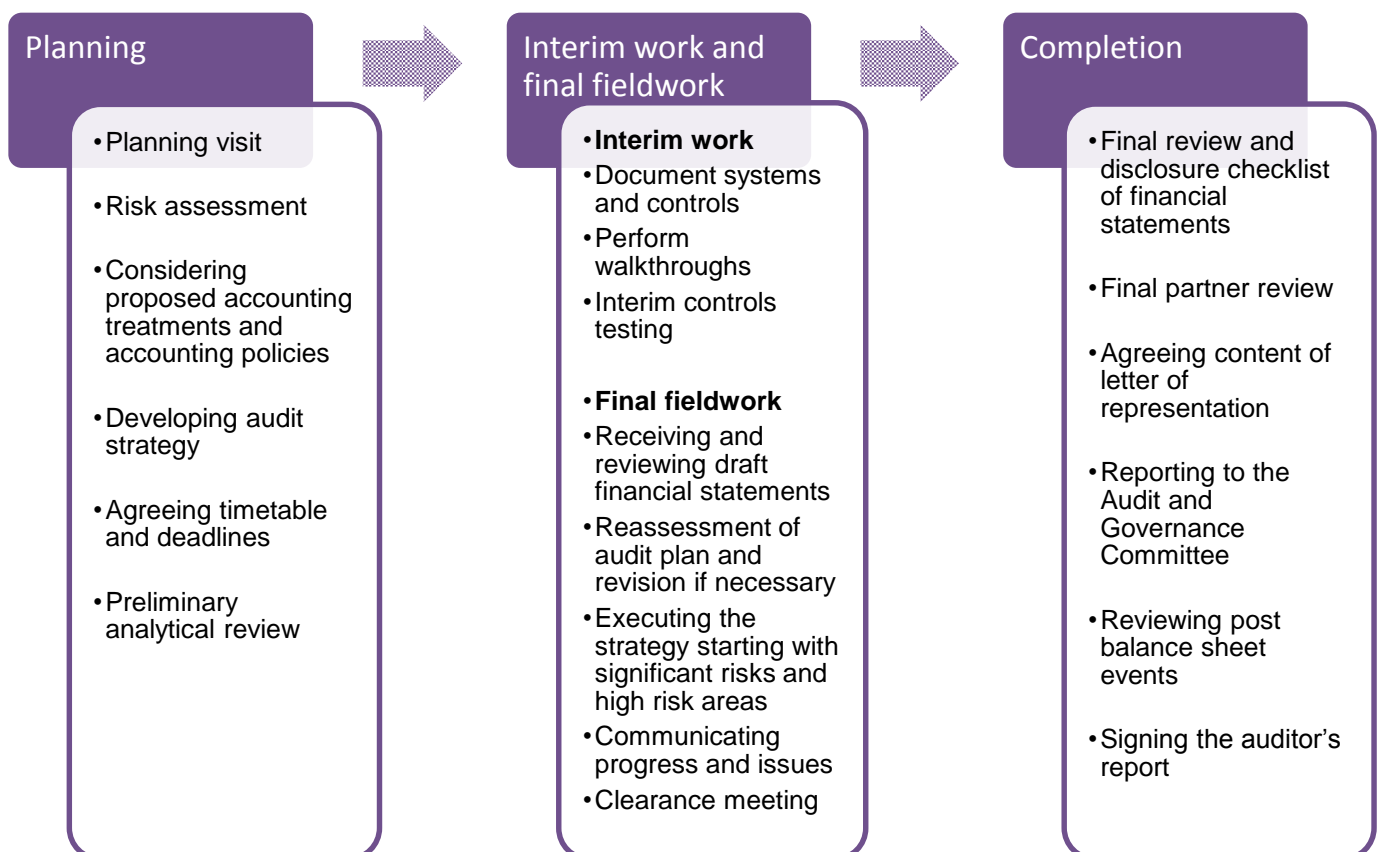
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken could include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram below outlines the procedures we perform at the different stages of the audit.



**Reliance on internal audit**

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

**Reliance on other auditors**

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

Items of account	Other auditor	Nature of assurance to obtain from the auditor
Defined benefit liability and associated IAS 19 entries and disclosures	KPMG – auditor of the North Yorkshire Pension Fund	We will agree a programme of work with KPMG and a timetable for the receipt of relevant information.

**The work of experts**

The following experts are relevant to our work for the year ended 31 March 2016.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Mercer) – Tyne and Wear Pension Fund	National Audit Office's consulting actuary (PWC)
Property, plant and equipment valuations	Internal valuer from City of York Council	National Audit Office's consulting valuer (Gerald Eve)

### Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.





# 03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Council faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

## Significant risks

### Management override of controls

#### Description of the risk

International Standards on Auditing (ISA) 240 – The auditor's responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we will address this risk

We will address this risk through performing audit work on:

- consideration and review of accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

### Pension Estimates (IAS 19)

#### Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, 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.

#### How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls in place to assess the reasonableness of the figures provided by the Actuary; and
- consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

## Other considerations

### Group audit approach

In line with International Accounting Standards, local government bodies are required to consider interests in other entities and whether those interests might necessitate the production of group financial statements. The Council has determined that group financial statements are not required in 2015/16 on the grounds that group transactions are not material.

The Council has determined that it has an interest in Yorwaste as an associate. The Council has a 22.3% shareholding in Yorwaste and shows this as an investment on its balance sheet at a nominal value (£1m). The Council has a contract with Yorwaste for waste disposal services, and the contract costs, approximately £6.5m in 2015/16, are shown as expenditure in the Council's accounts.

The Council also holds a 50% share in Veritau and a related subsidiary, which provides assurance services including Internal Audit for the Council and other public sector bodies. The Council has identified this as a joint venture, but is not considered material. The contract costs the Council incurs with Veritau, approximately £0.6m in 2015/16, are shown as expenditure in the Council's accounts.

In our view, the current treatment of Yorwaste and Veritau in the Council's accounts is reasonable.

In addition, the Council has two wholly owned subsidiaries:

- City of York Trading Ltd (estimated turnover for 2015/16 is £5.8m); and,
- Make It York (estimated turnover for 2015/16 is £3.8m).

Although total turnover is material at £9.6m, the Council's argument for not producing group accounts in relation to these subsidiaries is founded on the fact that most of the turnover is reflected in the Council's accounts already. Most of the business of City of York Trading Ltd is with the Council and so therefore reflected as expenditure in the Council's accounts, and although only 25% of Make It York's turnover is reflected in Council expenditure, the remaining amount is not material.

Although group accounts are not being produced, we understand that officers plan to provide enhanced disclosures in the related party notes to the accounts, so that the reader of the accounts can readily understand the nature of these and other entities in which the Council has an interest and their relationship with the Council.

Based on the information we have at present, we are not minded to challenge the Council's view that group accounts are not required for 2015/16. We suggest that this position is closely monitored in future.

However, we do expect fully audited accounts of all of the Council's trading subsidiaries to be made available to us as part of the audit of the Council's accounts.

### Bank reconciliation

In the 2014/15 audit, we recommended that further work was undertaken to resolve the remaining differences in the bank reconciliation, so that a fully balanced position can be reflected in the 2015/16 financial statements.

Initial discussions indicate that officers are on course to address the outstanding issues. We will follow this up further during the 2015/16 audit and report our conclusions in the Audit Completion Report in September 2016.

# 04 Value for Money Conclusion

## Scope of work

For 2015/16, we are required to conclude whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We will perform our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This requires us to consider one overall criterion which is made up of three sub-criteria.

## Overall criterion

The overall criterion set out by the NAO is as follows:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

Sub-criteria	Guidance
<b>Informed decision-making</b>	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</li> <li>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities.</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul>
<b>Sustainable resource deployment</b>	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities.</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
<b>Working with partners and other third parties</b>	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities.</li> <li>Commissioning services effectively to support the delivery of strategic priorities.</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

As part of our work, we will also:

- review your annual governance statement;
- consider the work of other relevant regulatory bodies or inspectorates, such as Ofsted and the Care Quality Commission, to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine appropriate.

## City of York Trading Ltd

On 26 February 2016, we issued a Public Interest Report on governance issues in relation to remuneration of Council officers for work as Directors of City of York Trading Ltd. As part of the 2015/16 audit, we will follow up the implementation of our recommendations.

We have considered the risks that are relevant to our value for money conclusion and have identified the following significant audit risk that we will address through our work.

### VFM risk – Responding to financial pressures and competing demands, and delivering significant projects and new ways of working

#### Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

There have been some high profile examples of problems with project delivery, such as the housing for older people procurement and more recently with the community stadium project. This has been the first year of operation of the Better Care Fund, which requires the Council to work with the local CCG and the wider health economy to reduce demand for acute healthcare. Any failures in these areas could compound the Council's financial and operational difficulties and impact adversely on services provided.

#### How we will address this risk

We will review budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and seek to minimise any adverse impact on service delivery. We will review the plans that are developed to deliver savings and improvements.

We will focus on:

- the budget process and the Medium-Term Financial Strategy;
- the progress made in identifying savings required;
- budget monitoring reports and other finance updates; and,
- delivery of improved outcomes.

In addition, we propose a number of more detailed specific probes in four areas of particular risk:

- a review of the Community Stadium project;
- a review of the operation of the first year of the Better Care Fund;
- follow up on progress made on the housing for older people procurement; and,
- a review of the operation of the improved programme and project management arrangements.

We will work with officers to scope the work appropriately.

We propose to engage our specialist advisory team to undertake the four specific probes work and we will report separately on the findings of this work.

The budget review work is part of the core work on the VFM conclusion and is included in the scale fee. The four specific probes represent additional VFM work outside of the scale fee, and will be at an additional fee as set out in section 6 of this report. We will need to seek the approval of our regulator, Public Sector Audit Appointments Ltd for this level of additional work.

# 05 Your audit team

Below are your audit team and their contact details.

Engagement lead /  
Partner

- Gareth Davies
- [gareth.davies@mazars.co.uk](mailto:gareth.davies@mazars.co.uk)
- 07979 164 467

Engagement senior  
manager

- Gavin Barker
- [gavin.barker@mazars.co.uk](mailto:gavin.barker@mazars.co.uk)
- 0191 561 1917 or 07896 684 771

Team leader

- David Hurworth
- [david.hurworth@mazars.co.uk](mailto:david.hurworth@mazars.co.uk)
- 0191 383 6300

# 06 Fees for audit and other services

At this stage of the audit we are planning an increase of £25,000 from the scale fee set by Public Sector Audit Appointments Ltd. The increase is to carry out additional work considered necessary in relation to the VFM conclusion. The work will include:

- a review of the Community Stadium project;
- a review of the operation of the first year of the Better Care Fund;
- follow up on progress made on the housing for older people procurement; and,
- a review of the operation of the improved programme and project management arrangements.

Area of work	2015/16 Scale fee	2015/16 Proposed fee	2014/15 Final fee
Code audit work	101,607 <sup>1</sup>	126,607 <sup>2</sup>	183,476 <sup>3</sup>
Housing Benefit Subsidy certification	11,679	11,679	15,220
Non-audit work	n/a	0 <sup>4</sup>	21,900
<b>Total fees</b>	<b>113,286</b>	<b>138,286</b>	<b>220,596</b>

*Fees exclude recoverable VAT*

<sup>1</sup> The main reason for the reduction in the scale fee for Code audit work between 2014/15 and 2015/16, is that Public Sector Audit Appointments Ltd has passed on the 25% fee reduction arising from the final major procurement exercise undertaken by the Audit Commission before its closure in March 2015. The value of this reduction was £33,869. The rest of the difference was explained by additional work that was undertaken in the 2014/15 audit as set out in <sup>3</sup> below.

<sup>2</sup> The proposed fee for the 2015/16 audit is £25,000 higher than the scale fee. This is the estimated cost of the additional VFM conclusion work we have proposed. This relates to the four detailed specific probes set out on page 9 of this report. This work will require the approval of our regulator, Public Sector Audit Appointments Ltd.

<sup>3</sup> The final fee for 2014/15 includes an initial scale fee of £135,476, plus an additional £8,500 to reflect additional VFM conclusion work in relation to programme and project management. In addition, the final fee includes the additional cost of work in relation to our review of the governance arrangements surrounding the payments by City of York Trading Limited to two of its executive directors who were also officers of the Council. The cost of this work is £27,000 in audit fees and an additional £12,500 reimbursement of our legal costs, a total of £39,500. It is expected that these fees will be part of Code audit work for 2014/15 but we are currently awaiting approval of these fees by our regulator, Public Sector Audit Appointments Ltd.

<sup>4</sup> In 2014/15 we provided a number of non-audit services. For 2015/16, no additional non-audit work is planned at present.

# Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gareth Davies, Engagement Lead.

Prior to the provision of any non-audit services, the Engagement Lead will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

# Appendix B - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provide a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We have set materiality at the planning stage at £8.1m with a clearly trivial threshold of £243k below which identified errors will not usually be reported. We have set lower materiality levels for the disclosure of officer remuneration and emoluments and members' allowances as we consider these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.



# Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## **Form, timing and content of our communications**

We will present to the Audit and Governance Committee the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit and Governance Committee and their comments will be incorporated as appropriate.

## **Key communication points at the planning stage as included in this Audit Strategy Memorandum**

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our independence;
- Responsibilities for preventing and detecting errors;
- Materiality; and
- Fees for audit and other services.

## **Key communication points at the completion stage to be included in our Audit Completion Report**

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

# Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes to financial reporting requirements relevant to the Council, of which you should be aware.

As well as the accounting issues outlined below, we would like to draw the Audit and Governance Committee's attention to changes in the Accounts and Audit (England) Regulations 2015 that require the Council to notify us of the date on which the period for the exercise of public rights commences. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

## Forthcoming accounting issues

Highways Network Assets	How this may affect the Council
The measurement basis for the Council's Highways Network Assets will change from depreciated historic cost to depreciated replacement cost in 2016/17, but with no prior period restatement required.	It is likely that the impact of this change will be significant and that the value of relevant assets on the Council's balance sheet will increase.
Early deadlines	How this may affect the Council
The Accounts and Audit Regulations 2015 outline earlier deadlines for local authorities to produce their statements of account from the 2017/18 financial year.	The impacts of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with Council officers.
Fair Value accounting	How this may affect the Council
The Code adopts the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16.	Some assets and liabilities held by the Council may need to be revalued on the basis of their fair value for the first time in 2015/16.