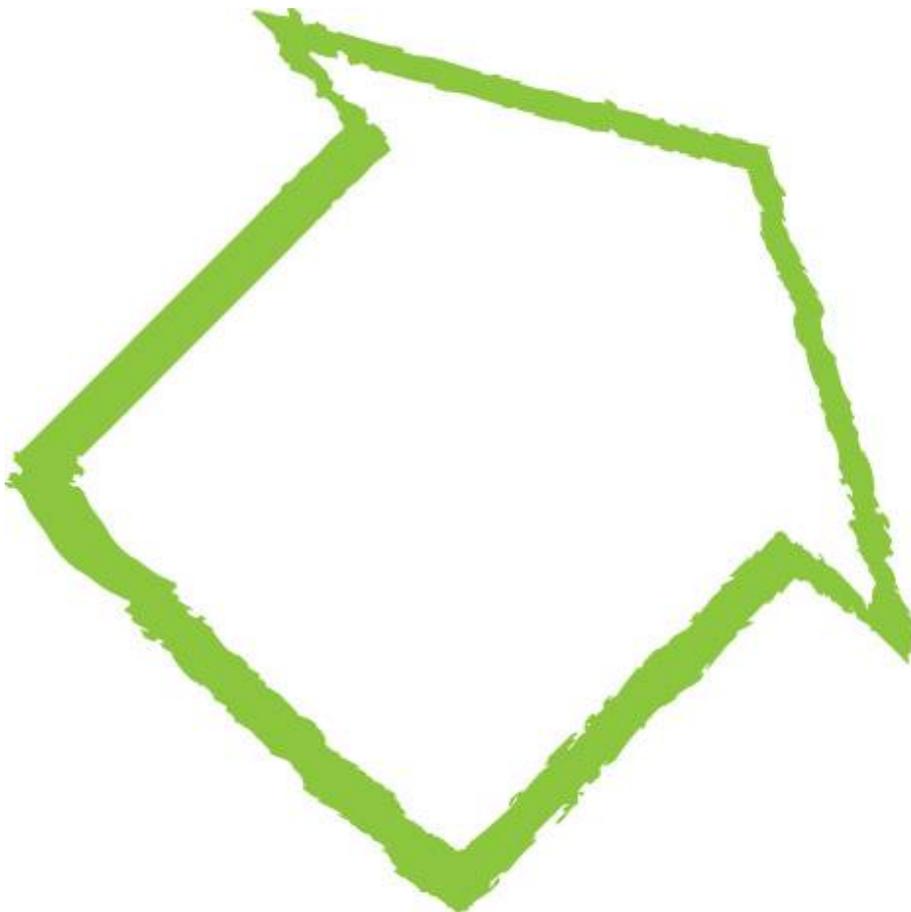


# Opinion audit plan

City of York Council

Audit 2009-2010

February 2010



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## Status of our reports

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

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

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- 1 This plan sets out the audit work that I propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2009/10;
  - current national risks relevant to your local circumstances; and
  - your local risks.
- 2 The plan provides an update to the 2009/10 audit fee letter, issued to the Council in April 2009. It includes our assessment of the specific risks for our audit of the financial statements, which we had not identified when we issued the audit fee letter.

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# Responsibilities

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- 3 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 4 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and I undertake my audit work in the context of these responsibilities.
- 5 I comply with the statutory requirements governing my audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.

# Fee for the audit of financial statements

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- 6 The fee for the audit of your financial statements is £150,848, within the overall fee for the 2009/10 audit of £248,400, as reported in John Prentice's letter of 29 April 2009.
- 7 In setting the fee, I have assumed that:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - you supply good quality working papers to support the financial statements; and
  - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010.
- 8 Where these assumptions are not met, I will need to assess whether I need to undertake extra work, which would result in an increased audit fee. Where this is the case, I will discuss this with the Director of Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Appendix 1 sets out further information on the basis for the audit fee.

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## Specific actions the Council could take to reduce its audit fees

- 10 I produced a comprehensive action plan in our 2008/09 Annual Governance Report detailing the improvements the Council needs to make. I will continue to work with staff to identify any further specific actions the Council could take and to provide continuing audit support.

# Auditors report on the financial statements

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- 11 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 12 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 13 As part of my audit risk identification work, I need to understand the Council to identify any risk of material misstatement (whether from fraud or error) in the financial statements. I do this by:
  - identifying the Council's business risks, including assessing your own risk management arrangements;
  - considering the Council's financial performance;
  - assessing your internal controls - including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the Council's processes and controls in information systems.

# Specific risks

14 I have considered the specific risks that apply to the 2009/10 opinion audit and have set these out below.

**Table 1**      **Specific risks**  
Specific opinion risks identified

Risk area	Audit response
The Council is required to comply with IFRIC12 in its financial statements for 2009/10. This will require you to reassess the accounting treatment of the existing PFI schemes, and may require you to include the assets and associated liabilities in your financial statements this year.	Review the accounting treatment of PFI schemes in light of IFRIC12 and other guidance in the SORP 2009.
The Council has interests in companies that may require them to produce group accounts for the first time in 2009/10.	Review the rationale behind whether to produce group accounts. If the Council produces group accounts, then audit them in line with current auditing guidance.
The audit of the 2008/09 financial statements identified large errors in fixed asset accounting and related entries. Similar errors may recur in 2009/10.	Review the Council's asset register and associated working papers supporting the financial statements, in light of the requirements in the SORP and related FRSs.
The SORP 2009 sets out changes to the reporting and disclosure requirements in 2009/10. The Council may not fully and accurately implement these changes.	Review the financial statements to ensure the SORP changes have been fully and accurately complied with.

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# Testing strategy

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- 15 Based on the risks identified in Table 1 I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at the year end.
- 16 My testing can be carried out both before and after the draft financial statements have been produced.
- 17 Wherever possible, I will complete some substantive testing earlier in the year, before the financial statements are available for audit. I have identified the following areas where I intend to carry out early substantive testing:
  - review of accounting policies;
  - auditing the bank reconciliation;
  - obtaining direct confirmation of loans and investments; and
  - confirming ownership of Council assets.
- 18 Wherever possible, I seek to rely on the work of Internal Audit to help meet my responsibilities. For 2009/10, I expect to be able to use the results of their audit work on the Council's financial systems, in particular the new general ledger system and associated debtors and creditors systems.

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# Key milestones and deadlines

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- 19 The Council is required to prepare the financial statements by 30 June 2010. I am required to complete my audit and issue my opinion by 30 September 2010. Table 2 shows the key stages in producing and auditing the financial statements.
- 20 Appendix 4 includes my schedule of working papers that I require to carry out the audit. These working papers should be available with the draft financial statements on 30 June 2010.
- 21 Every week, my staff will meet with the key finance staff and review the status of all queries. If needed, they will meet at a different frequency depending on the need and the number of issues arising.

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**Table 2 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	30 April 2010
Receipt of accounts	30 June 2010
Sending audit working papers to the auditor	30 June 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit & Governance Committee	29 September 2010
Issue opinion	By 30 September 2010

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# The audit team

22 Table 3 shows the key members of the audit team for the 2009/10 audit.

**Table 3**      **Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0844 798 1621	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Lynn Hunt Audit Manager	l-hunt@audit-commission.gov.uk 0844 798 1675	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Keith Illingworth Principal Auditor	k-illingworth@audit-commission.gov.uk 0844 798 7141	Responsible for leading the audit staff carrying out the audit work, and liaises closely with the Corporate Finance Manager.

## Independence and objectivity

- 23 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which the auditing and ethical standards require me to communicate to you.
- 24 I comply with the ethical standards issued by the APB and with the Commission's requirements for independence and objectivity as summarised in Appendix 2.

## Meetings

- 25 My audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out my proposals.

## The audit team

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### Quality of service

- 26** I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how I can improve our service, please contact me. Alternatively, you may wish to contact the North East, Yorkshire and Humberside Head of Operations, Dave Allsop.
- 27** If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
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### Planned outputs

- 28** We will discuss and agree reports with officers before issuing them to the Audit & Governance Committee.
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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	January 2010
Annual governance report	29 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	30 November 2010

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Steve Nicklin  
District Auditor  
January 2010

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# Appendix 1 – Basis for fee

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- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with identifying the Council's significant financial and operational risks by considering:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and current audit work;
  - interviews with Council officers; and
  - liaison with Internal Audit.

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## Assumptions

- 3 In setting the fee, I have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
  - you will tell us of significant developments impacting on the audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements so we can place reliance on this for our audit;
  - good quality working papers and records will be provided to support the financial statements by 30 June 2010;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - extra work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I may be required to undertake extra work which is likely to result in an increased audit fee.

# Appendix 2 – Independence and objectivity

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- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total fee the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit & Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
  - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
  - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

# Appendix 3 – Working together

## Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 5 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Assistant Director of Resources (Finance)	Audit Manager (AM) and Team Leader (TL)	At least monthly before 30 June 2010. Weekly between July and September 2010	General update. Specific audit issues and queries from July to September.
Corporate Finance Manager	AM & TL	At least monthly before 30 June 2010. Weekly between July and September 2010	Specific audit issues and queries from July to September.
Audit & Governance Committee	District Auditor and AM	As determined by the Committee meetings	Formal reporting of: Opinion Audit Plan Annual governance report Other issues as appropriate

## Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
  - reducing paper flow by encouraging you to submit documentation and working papers electronically;
  - use of video and telephone conferencing for meetings as appropriate; and
  - reducing travel.

# Appendix 4 – Working paper requirements

- 1 While working papers should support every entry in the financial statements, there are some key working papers that we will require as part of the 2009/10 audit. These are detailed below, and are grouped into relevant headings for ease of reference.

**Table 6 Key Working Papers**

<b>General</b>	
Analytical Review	The financial statements should be subject to an analytical review before submission for audit, highlighting all significant variances from the previous year. Explanations for the variances should be given, supported by evidence.
Budget comparison	Compare actual income and expenditure to budgets for the year, highlighting reasons for any significant variations, and providing evidence that Members have approved material changes.
Audit trail to ledger	Provide a working paper linking the figures in the financial statements to the general ledger, proving that all entries have come from the ledger, and that all ledger balances/ transactions have been included in the financial statements.
Opening Balances	A spreadsheet highlighting any changes to prior year figures, with explanations for the changes.
Year-end journals	A list of all year-end journals of more than £5m.
Related Party Transactions	Evidence to show the Council has undertaken steps to identify all relevant related party transactions with Members and senior Officers, in line with FRS8.
Cut-off Testing	A report showing all payments made in the last two weeks of March, and the first 4 weeks of April, and another showing all receipts during the same period.
Accounting Policies	Details of any changes to accounting policies, with reasons for the changes, and details of impact on prior year figures, where appropriate.

## Appendix 4 – Working paper requirements

<b>Income and Expenditure Account</b>	
Trading Operations	Details of all significant trading operations undertaken by the Council in the financial year (whether disclosed separately in the financial statements or consolidated within service net expenditure). Items NOT reappropriated to service revenue financial statements and provide explanation for accounting treatment.
Government Grants	Government confirmation of grant allocations for all significant grants for example NNDR payments from pool, DSG, and RSG.
Feeder systems	A control schedule showing that all feeder systems and control accounts have been reconciled and reviewed as at 31 March 2010.
Pension costs	A copy of the actuary's report showing the figures used in calculating the Net Pension Costs.
Housing Benefit claim reconciliation	A reconciliation to show the figures in the financial statements for housing benefits link to the Housing Benefits system, and that income reconciles to the Housing Benefit claim BEN01.
<b>Statement of Movement on the General Fund Balance</b>	
SMGFB audit trail	A working paper showing where the balances in the SMGFB have originated from, with clear links to the other statements.
<b>Statement of Total Recognised Gains and Losses</b>	
STRGL audit trail	A working paper showing where the figures in the STRGL have originated from, with clear links to the other statements.
<b>Balance Sheet</b>	
Tangible Fixed Assets	An audit trail between the figures in the financial statements and the Fixed Asset Register, which should include all assets, and details of any movements in year against individual assets.
	A list of all additions to the Fixed Assets, with evidence to support the additions.
	A list of all disposals with evidence to support the disposals.
	Valuers' reports for all revaluations of fixed assets.
	A list of all assets under construction, including details of the schemes involved, and expected completion dates.
	The Council should be prepared to produce deeds/ ownership papers for any asset to prove that it belongs to the Council.

## Appendix 4 – Working paper requirements

Investments	A list of all year-end investments with details of the dates, amounts, and location of the investments, supported by documentary evidence from the bank/ broker.
Debtors	Debtors control account reconciliations.
	Supporting schedules listing all debtors within the account balances.
	Bad debt provision calculations, including percentages used for different ages of debt, and evidence to support why those percentages are appropriate, for example collection rates against previous years' bad debt provisions, and levels of write off.
Cash and Bank	Bank reconciliations reconciling the bank statement balances to the ledger, supported by listings of un-presented cheques, lodgements outstanding, cashiers' balances at the year-end, and any other reconciling items.
Loans outstanding	Confirmation from lenders about any changes to balances outstanding for example repayments made during the year, any new loans taken out.
Creditors	Creditors control account reconciliations.
	Supporting schedules listing all creditors within the ledger codes.
Provisions	Details of any material provisions.
Revaluation Reserve	Working paper showing transactions on the Revaluation reserve.
<b>Cash Flow Statement</b>	
General	Where there are significant debtors or creditors against individual lines, the entries should be reconciled to the ledger via the debtor/ creditor adjustments.
Housing Benefits Paid Out	A summary report from the Housing Benefit system showing totals paid out during the year.
NNDR payment to Pool	Evidence of amount paid to NNDR pool.
Precepts Paid	Precept notifications from all precepting authorities.
Rent (after rebates)	A reconciliation to the Rents system.
Council Tax Income	A reconciliation to the Council Tax system.

## Appendix 4 – Working paper requirements

NDR income	A reconciliation to the NDR system.
Dividends/ interest paid and received	Reconciliation of figures in the I&E account and those in the Cash Flow Statement, clearly identifying the debtors/ creditors involved, and where they are in the debtors/ creditors listings.
Fixed asset sales/ purchases	Reconciliation of figures in the notes to the Balance Sheet and those in the Cash Flow Statement, clearly identifying the debtors/ creditors involved, and where they are in the debtors/ creditors listings.
<b>Collection Fund</b>	
Council Tax income	Reconciliation to Council Tax system.
NDR income	Reconciliation to NDR system.
Precepts	Precept notifications from all precepting authorities.
NDR payment to pool	Reconciliation to NDR3 claim.
<b>Housing Revenue Account</b>	
Gross dwelling rents	Reconciliation to rents system.
HRA subsidy	Reconciliation to HOU01 claim.
<b>Whole of Government Accounts</b>	
Audit trail	A full audit trail of all changes/ different figures used from those in the financial statements, with explanations for different approach.

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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