

# Audit Progress

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**York City Council**

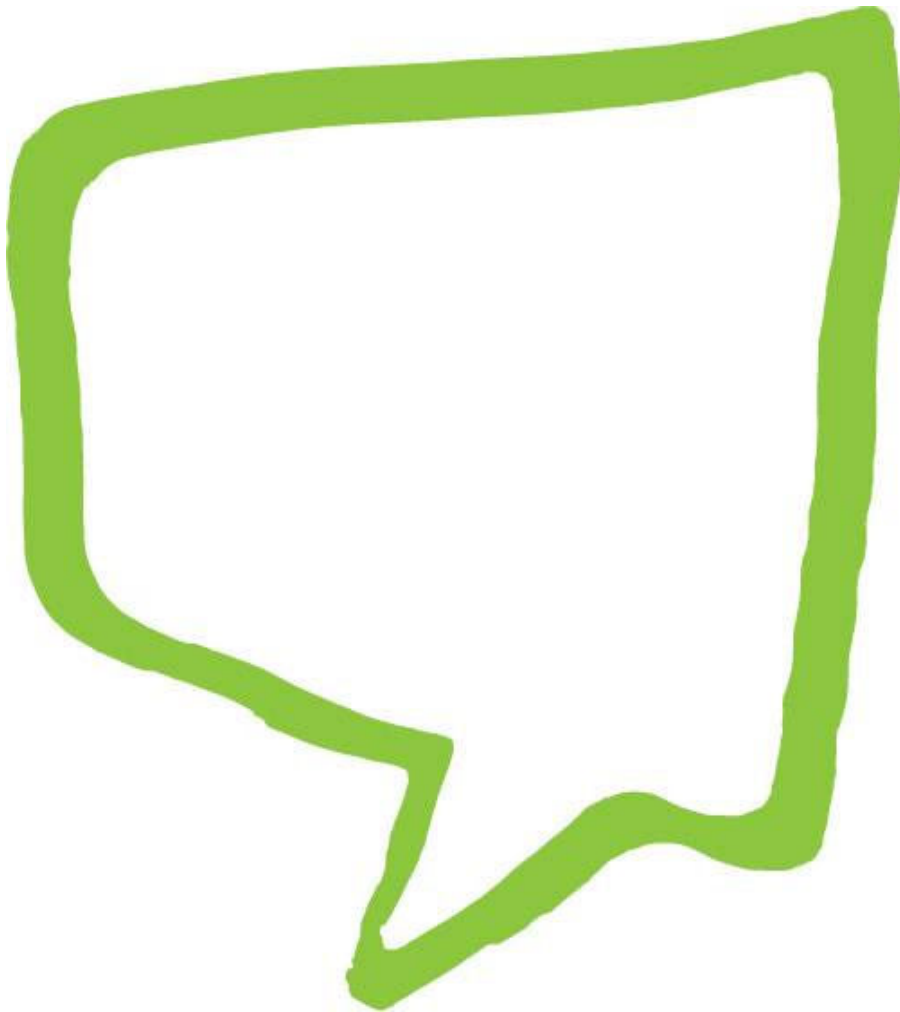
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**Audit 2009/10**

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**June 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

- 1 The purpose of this report is to summarise:
  - progress to date on the external audit of York City Council
  - other matters of interest, including national work undertaken by the Audit Commission and forthcoming changes to the external audit regime.

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# 2009/10 Audit Progress

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## Audit plan

- 2 Our 2009/10 audit plan was set out in the fee letter we presented to the Audit and Governance Committee in May 2009. The fee for the audit was set at £248,400 and we consider that there is no need to change the fee level at this stage.

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## Opinion on the financial statements

- 3 We have identified and tested all of the Council's key financial systems, as shown in Appendix 1. The key issue arising from this work was that bank reconciliations had not been undertaken regularly throughout the year, although we are pleased to note this matter appears to have now been resolved.
- 4 Our work identified a small number of minor weaknesses in internal control, which Internal Audit has agreed to follow up as part of its ongoing work programme.
- 5 We have assessed the Council's overall control environment, including ICT and risk management arrangements. We have confirmed that Internal Audit continue to meet CIPFA standards, and have drafted a protocol to govern our liaison arrangements. This should help build upon what is already a very good working relationship, to deliver a more efficient, streamlined audit process.
- 6 So as to maintain an up to date assessment of business and audit risk, we continue to track progress on major initiatives such as More For York, office relocation and the waste PFI. We have also:
  - held regular meetings with Council officers and Internal Audit
  - reviewed minutes, agenda papers and website information
  - observed a number of Council meetings
- 7 We issued our Opinion Audit Plan, which sets out a testing strategy for the annual statement of accounts, in February 2010 and will begin detailed work on the statements following their approval on 29 June 2010. In the meantime, we continue to:
  - progress early work on investments and capital accounting
  - liaise with the Council's Chief Accountant on current technical issues.
- 8 We have agreed with officers that the detailed working papers that support the financial statements will be made available by 26 July 2010, and that we will endeavour to complete our work by 17 September 2010, well ahead of the deadline date of 30 September.
- 9 Our formal notice of audit has been issued, and arrangements made for members of the public to inspect the accounts and, if they wish, make representations to the District Auditor.

### Grant claim certification

- 10 Unlike audit, which is charged for on a fixed fee basis, grant claim fees depend upon time taken to complete the work. Fees for grant claims work were £54,806 in 2008/09.
- 11 We are currently planning our grant claims certification work for 2009/10, with the objective of minimising audit fees incurred, and ensuring that all claims are completed, audited and submitted to grant paying agencies on time.
- 12 To this end we are hoping to agree a protocol with officers which will clearly establish:
  - a list of the claims to be audited
  - lead officer contacts
  - working paper requirements
  - audit submission dates

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### Use of resources and VFM conclusion

- 13 The Audit Commission wrote to all chief executives at the end of May 2010 to let them know how the Commission proposes to bring work on CAA to a conclusion in the light of the new government's recent announcements. Use of resources assessment forms a part of both our audit and CAA.
- 14 We will continue to deliver the audit in line with the statutory Code of Audit Practice under which we are required to give a value for money conclusion. We need to complete such work as necessary to give this conclusion, and in practice we will be able to discharge this responsibility by:
  - using work completed to date for the use of resources assessment
  - testing a small sample of performance indicators.
- 15 We will report back to the Council on any significant findings but will **not** now be reporting a published score for the use of resources.
- 16 The Commission has already announced that it is reviewing the approach that auditors will take in future to the value for money conclusion from 2010/11.

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### Compliance with international auditing standards

- 17 In order to comply with the international auditing standards, we must gain an understanding of:
  - How management exercise key governance processes in relation to:
    - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
    - identifying and responding to risks of fraud in the organisation;
    - communication to employees of views on business practice and ethical behaviour; and

- communication to those charged with governance the processes for identifying and responding to fraud.
  - How those charged with governance oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control.
  - Whether management or those charged with governance have knowledge of any actual, suspected or alleged frauds.
  - How management, and those charged with governance, obtain assurance that all relevant laws and regulations have been complied with.
  - How management has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.
- 18** We will therefore be seeking written assurances from you on these matters. This is in addition to the formal letter of representation from management in relation to the assertions in the financial statements, which we have received in previous years.
- 19** To assist with this we have provided:
- examples of assurance letters from similar organisations in Appendices 2 and 3
  - a template letter of representation in Appendix 4.

# 2010/11 Audit Planning

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## 2010/11 audit fee

- 20** The Audit Commission sets a scale fee for each audit. This is the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the Audit Commission Act in accordance with the Code. It represents the Commission's best estimate of the fee required to complete an audit where the audited body
- has no specific local audit risks and a sound control environment
  - provides the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes.
- 21** We discussed our proposed fee of £248,900 with the Audit and Governance Committee in April 2010. This is just below the scale fee for a unitary authority of York's size, but will need to be revisited following recent developments on use of resources and value for money.
- 22** In recognition of the additional costs involved in auditing the transition to IFRS, the Commission has also recently issued a rebate to local authorities. The rebate to York City Council was £1,300.

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# Other developments and national publications

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## Introduction

- 23** This section of the report promotes some of the national work undertaken by the Audit Commission over the last three months. It highlights various areas of interest, some of which may prompt further consideration by officers and/or members. Where relevant, specific references to the position at the Council are included. The full reports can be found on the Commission's website at:  
<http://www.audit-commission.gov.uk/localgov/Pages/default.aspx>

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## Surviving the crunch

- 24** This report is the third in a series of publications looking at the impact of the credit crunch and subsequent recession on local authorities.
- 25** It says that councils must think bigger and act quicker to reduce costs, or funding cuts will cause more damage to services and jobs than is necessary. Most councils have been cushioned from the worst of the recession because the government stuck to its three-year funding settlement, but this ends in 2011. On average, councils receive two-thirds of their income from grants.
- 26** Even though the timing and extent of cuts in government support are unclear, the report says that councils must prepare now for leaner times. The sooner they get clarity the better. The best-prepared councils are taking action now to preserve services in the years ahead, but others have yet to make any financial plans beyond 2011.

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## International Financial reporting Standards - accounting for non current assets

- 27** This is the second in the Audit Commission's series of technical briefing papers and looks at the potential issues arising from introducing International Financial Reporting Standards (IFRS) for accounting for non-current assets, formerly referred to as fixed assets.
- 28** The paper considers significant aspects of the accounting requirements as set out in the standards, and it also provides practical examples to help explain potential issues local government bodies may experience when implementing the standards. The paper considers the following issues:
- potential reclassification implications (IFRS 5 and IAS 40);
  - valuation of property, plant and equipment (IAS16);
  - componentisation (IAS16);



## Other developments and national publications

- impairment of assets (IAS36);
- intangible assets (IAS38); and
- government and non-government grants (IAS20).

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### The National Fraud Initiative

- 29** This report summarises the results of the Audit Commission's latest UK-wide antifraud programme. It helped trace £215m in fraud, overpayments and errors in 2008/09.
- 30** More than £183 million pounds was traced by bodies in England. The programme has helped detect £664m, since the initiative started in 1996.
- 31** The figure for 2008/09 represents a 54 per cent increase on the figure of £140 million identified in the 2006/07 National Fraud Initiative (NFI) exercise, reflecting well on the bodies that followed up effectively the matches given to them.
- 32** The report includes examples and case studies of identified fraud. For example, Salford City Council identified someone who had been receiving the single person discount since 2001. Their partner, who should not have been disregarded for council tax purposes, had lived with them throughout the period. The discount amounted to £2,200 which the council is now seeking to recover. Through this and similar cases, the Council expects to raise an extra £1 million in council tax.
- 33** The report is supported by a number of case studies of successful outcomes, a quick-read summary document and a checklist for council members.

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### A review of collaborative procurement across the public sector

- 34** The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009.
- 35** The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements.
- 36** It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.

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### Improving Children's Trusts

- 37** This resource pack is a voluntary, online self-evaluation tool to help children's trust boards to improve governance and value for money. Studies by the Audit Commission and others have found more work is still needed to ensure there are effective

arrangements for leadership, commissioning, performance management and managing resources.

- 38** The self-assessment provides opportunities for the partnership to discuss current arrangements. It sets standards for performance with explanations of why these are important and it signposts further information and guidance. Completion of the self-assessment generates an action plan to help the children's trust board set its own agenda for improvement.
- 39** The resource pack builds on the self-assessment from Are We There Yet? Improving Governance and Resource Management in Children's Trusts. It takes into account the changes introduced by the 2010 statutory guidance in Children's Trusts: Cooperation Arrangements Including the Children's Trust Board and the Children and Young People's Plan.
- 40** This resource pack is designed to be used at board, executive or sub-group level. It is for all children's trust partnerships including:
  - members of children's trust board;
  - elected lead members for children's services;
  - directors of children's services;
  - senior officers who are members of any children's trust executive and board subgroups; and
  - commissioners and joint commissioners of children's services

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### VFM in SEND/AEN for Children's Trusts

- 41** This is a voluntary, online self-evaluation tool to help children's trusts to improve value for money in the provision they make for children and young people with special educational needs and disabilities (SEND) and additional educational needs (AEN).
- 42** The self-assessment provides opportunities for discussion amongst decision makers about current practice. It sets standards for performance with explanations of why these are important and it sign-posts further information and guidance. Completion of the self-assessment generates an action plan to help your children's trust set its own agenda for improvement.
- 43** The Audit Commission has identified five areas where children's trusts can improve value for money:
  - Needs – local SEND and AEN needs are accurately identified.
  - Strategy – coherent plans are driving improvement.
  - Finance – available resources are used to best effect.
  - Provision – interventions and services effectively support needs.
  - Outcomes – evaluation confirms that provision makes a positive difference
- 44** This resource pack is for all those with responsibility for managing resources in children's trusts, including:

## Other developments and national publications

- members of the children's trust board;
- elected members, especially lead members for children and young people and chairs of relevant scrutiny panels;
- directors of children's services;
- officers with senior responsibility for SEND and AEN;
- officers with senior responsibility for services for disabled children;
- staff with senior responsibility for children's services in primary care trusts;
- children's services finance officers;
- commissioners and joint commissioners of children's services; and
- head teachers with wider area responsibility for SEND and AEN decision-making – for example through their membership of a schools forum.

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## Good practices and case studies to learn from

**45** Examples of notable practice in local government and other sectors, identified from use of resources work by auditors as well as from national studies, are also on the website.

# Appendix 1 - Testing on financial systems

**Table 1 Testing plan for key financial systems**

<b>System identified</b>	<b>Tested in 2009/10?</b>
Main accounting system	Yes
Accounts payable	Yes
Accounts receivable	Yes
Payroll	Yes
Cash collection	Yes
Council Tax	No - system remains unchanged and no significant weaknesses identified, so guidance states we can rely on work undertaken in 2008/09
NNDR	No - system remains unchanged and no significant weaknesses identified, so guidance states we can rely on work undertaken in 2008/09
Housing Rents	No - system remains unchanged and no significant weaknesses identified, so guidance states we can rely on work undertaken in 2007/08
Housing Repairs	Yes
Housing and Council Tax benefits	Yes
Delegated schools budgets	No - system remains unchanged and no significant weaknesses identified, so guidance states we can rely on work undertaken in 2008/09
Care payments	Yes
Loans and borrowing	No - system remains unchanged and no significant weaknesses identified, so guidance states we can rely on work undertaken in 2008/09

# Appendix 2 - assurances from management

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## STATEMENT OF MANAGEMENT PROCESSES FOR DISCHARGING RESPONSIBILITIES

Responsibility for preventing and detecting fraud is identified by the International Standard for Auditing (UK and Ireland) 240 as resting with the management of xxxxxxx and 'those charged with governance', i.e. xxxxxx Committee. This statement covers management's processes for discharging its responsibilities.

The International Standards for Auditing views fraud as either:

- the intentional misappropriation of assets (cash, property, etc), or,
- the intentional manipulation or misstatement of the financial statements.

Management discharges its responsibilities via systems of internal control, including Standing Orders and Standing Financial Instructions, Standards of Business conduct and via disciplinary procedures, where fraud is highlighted as a dismissible event. The organisation also has in place a Fraud Response Plan which clearly outlines to staff the commitment to elimination of fraud and the steps that they should take in the event of fraud being suspected.

The organisation commissions local counter fraud specialists from xxxxxxxxx(Internal Audit Services) to undertake an annual counter fraud plan of work on its behalf. The Director of Finance meets on a regular basis with the counter fraud specialists to discuss progress.

The counter fraud plan covers the following main areas:-

- creating an anti-fraud culture,
- deterrence,
- prevention,
- detection,
- investigation
- sanction,
- redress.

All reported cases of suspected fraud are investigated by the local counter fraud specialists. During 2009/10 management received x allegations of alleged fraud which resulted in x formal investigations and the following outcomes:

xx.

The organisation ensures compliance with laws / regulations via usage of its Standing Orders and Standing Financial Instructions. Compliance is monitored by the Head of Governance and by engaging external legal consultants when appropriate.

In terms of financial misstatement, management commissions internal auditors from xxxxx Internal Audit Services to report on financial accounting and financial management systems as part of its annual internal audit plan. The assurance gained contributes to the preparation of the Statement on Internal Control.

The Audit Committee receives assurance from management through:-

- receipt and approval of the annual counter fraud plan,
- receipt of update reports from the local counter fraud specialists at xxxxx Committee meetings,
- receipt of the annual counter fraud report,
- receipt of internal audit reports on the financial accounting and financial management systems of the organisation

Signed by the Director of Finance on behalf of all Executive Directors

# Appendix 3 - assurances from those charged with governance

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## Statement from Those Charged with Governance

Responsibility for preventing and detecting fraud is identified by the International Standard for Auditing (UK and Ireland) 240 as resting with the management and 'those charged with governance', i.e. the xxxxx Committee. A similar standard (ISA 250) requires the organisation to ensure its operations are conducted in accordance with existing laws and regulations and also assigns responsibility for the prevention and detection of non compliance. This statement covers the role of the xxxxx Committee in discharging its responsibilities.

### ISA 240 Fraud

The International Standards for Auditing views fraud as either:

- the intentional misappropriation of assets (cash, property, etc), or,
- the intentional manipulation or misstatement of the financial statements.

Management discharges its responsibilities via systems of internal control, including Standing Orders and Standing Financial Instructions, Standards of Business conduct and via disciplinary procedures where fraud is highlighted as a dismissible event. The organisation also has in place a Fraud Response Plan which clearly outlines to staff the commitment to the elimination of fraud and the steps that they should take in the event of fraud being suspected.

The organisation commissions local counter fraud specialists from xxxxxxxxxx Internal Audit Services to undertake an annual counter fraud plan of work on its behalf. The Director of Finance meets on a regular basis with the counter fraud specialists to discuss progress.

The counter fraud plan covers the following main areas:-

- creating an anti-fraud culture
- deterrence
- prevention
- detection
- investigation
- sanction

## Appendix 3 - assurances from those charged with governance

- redress

All reported cases of suspected fraud are investigated by the local counter fraud specialists. During 2009/10 management received x allegations of alleged fraud which resulted in x formal investigations and the following courses of action:

xx

In terms of financial misstatement, management commissions internal auditors from xxxxxxxxxx Internal Audit Services to report on the financial accounting and financial management systems as part of its annual internal audit plan. The assurance gained contributes to the preparation of the Statement on Internal Control.

The xxxxx Committee receives assurance from management through:-

- receipt and approval of the annual counter fraud plan
- receipt of update reports from the local counter fraud specialists at Committee meetings
- receipt of the annual counter fraud report
- receipt of internal audit reports on the financial accounting and financial management systems of the organisation

### ISA 250 (Laws and Regulations)

The organisation has developed and implemented a system of assurances based on:

- Objective setting - whereby the principal organisational objectives of the organisation are identified and assigned to each Executive Director.
- Risk Assessment - whereby each Executive Director identifies and prioritises the risks related to achieving those objectives.
- Assurance framework - this is the overarching document covering a comprehensive range of interconnecting responsibilities, processes, systems and controls which are integral to ensuring management can deliver the governance and assurance arrangements. The framework documents processes 1 and 2 above.

Responsibility for ensuring that the assurance framework processes are in place and operating is assigned to xxxxxxxxxxxxxxxxxxxxxx. This is supported by the Central Team of Directors, the Committee Structure, Audit and External Inspections, Risk Management Strategy, Risk Registers, Standing Orders and Standing Financial Instructions and Standards of Business Conduct.

Two committees are key in ensuring that operations are conducted in accordance with existing laws and regulations. The Risk and Governance Committee has terms of reference which charge the Committee with ensuring that "all systems are in place and



## Appendix 3 - assurances from those charged with governance

operating effectively for the identification, assessment and prioritisation of potential risks” and “...reporting to the Board on the systems and processes by which the organisation leads, directs and controls its functions in order to achieve organisational objectives...”.

The Audit Committee's terms of reference charge the Committee with utilising an effective assurance framework and the evidence provided by audit and other assurance functions to:

- review “the establishment and maintenance of an effective system of integrated governance, risk management and internal control across the whole of the organisation’s activities...” and
- review the adequacy of all risk and control related disclosure statements (in particular the Statement on Internal Control together with any accompanying head of internal audit opinion, external audit opinion or other independent assurances, prior to endorsement by the Board
- review the policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements
- review the work of other committees within the organisation, whose work can provide relevant assurance to the Audit Committee’s own scope of work
- receive reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control

### Conclusion

Having reviewed the work of Internal and External Audit, the management processes and the Governance arrangements throughout the year, we are not aware of, and nothing has come to our attention of any other instances of fraud or irregularity affecting the financial statements for xxxxxxxxxxxx. We are also aware of the assurance statement provided by management which supports the conclusion we have made.

Signed on behalf of the Audit Committee  
5th June 2009

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# Appendix 4 - template letter of representation

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## Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officials of xxxxxxxxxxxx, the following representations given to you in connection with your audit .

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing financial statements which comply with relevant accounting guidance, give a true and fair view of xxx's financial position and financial performance, and for making accurate representations to you.

### Uncorrected misstatements

I confirm that there are no uncorrected misstatements in the financial statements that I am aware of.

### Supporting records

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

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. There have been no:

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and

## Appendix 4 - template letter of representation

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of xxxxxxx. In all material respects, the expenditure and income recognised in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

xxxxxx has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For fixed asset balances, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

### Group entities

I am satisfied that all group entities have been identified and the appropriate accounting requirements applied.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no credit arrangements other than those already disclosed in the accounts.

**Contingent liabilities**

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

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues; and
- no financial guarantees have been given to third parties.

**Related party transactions**

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

**Events after the reporting period**

Since the date of approval of the financial statements by xxxxxx, no additional events have occurred after the reporting period which would require additional adjustment or disclosure in the financial statements.  
xxxxxxx has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

**Specific representations**

XX

I confirm that this letter has been discussed and agreed by those charged with governance on xxxxxxxxx

Signed

Name

Position

Date

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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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## Copies of this report

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