

Audit opinion plan

City of York Council

Audit 2010/11

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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Introduction

1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2010/11. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission - in 2010/11 this includes mandated work on the National Fraud Initiative;
- current national risks relevant to your local circumstances; and
- specific local risks.

Responsibilities

2 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.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

4 We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit of financial statements

5 The fee for the audit is £248,900 as indicated in my letter of 29 March 2010. Further information on the basis for the fee is set out in Appendix 1. At this stage I am satisfied that this fee remains appropriate.

6 In setting the fee, we have assumed that: the Council will prepare financial statements which comply with the requirements of International Financial Reporting Standards (IFRS), and that good quality working papers will be supplied. Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Customer and Business Support Services. We will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

7 The Audit Commission has recently announced rebates to all audited bodies as part of a three-year programme to deliver cost reductions of about £70 million nationally. Rebates are from the Audit Commission centrally and not a reduction in the audit fee, although the amount of the rebate is based on audit scale fees. For City of York Council the rebate will be 3.5 per cent of scale fee ie in the region of £8,700.

Specific actions the Council could take to reduce its audit fees

8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

9 We will also provide officers with a schedule of our detailed working paper requirements in advance of the post-statements audit.

Auditors report on the financial statements

10 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 2011. As part of this opinion I am also required to consider:

- the Group accounting statements;
- whether the governance statement is consistent with my knowledge of the Council and reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007;
- the consistency of the information contained within the explanatory foreword; and
- whether proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources ("the value for money conclusion").

Identifying opinion audit risks

11 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:

- identifying the business risks facing the Council (this includes assessing your own risk management arrangements);
- considering recent financial performance and future prospects;
- assessing internal control - this includes reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within key information systems.

Identification of specific risks

12 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific opinion risks identified**

Risk area	Audit response
Implementation of new IFRS requirements	We will consider AC and CIPFA guidance and hold early discussions with officers to confirm accounting treatment. Complex or contentious issues will be referred to our central technical team if required.

Risk area	Audit response
The new Waste PFI scheme contract and the move to new HQ accommodation both represent material and potentially complex transactions in the Council's accounts.	We will review progress on these two projects at regular intervals and discuss accounting treatment with relevant officers.
2009/10 audit work identified material errors in PPE (fixed asset) valuation and accounting	We will undertake an early review to confirm that officers have taken appropriate action to improve the quality of asset records.
Income recognition, cut off and housing benefit assertions represent an inherent risk of mis-statement in the accounts due to fraud and error.	We will undertake additional substantive testing in these areas, and review work undertaken by Internal Audit in relation to housing benefit fraud.

Testing strategy

13 On the basis of risks identified above we will produce a testing strategy which consists of testing key controls together with substantive tests of transaction streams and material account balances at year end. This testing will be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). The timing of our work and proposed site visits will be discussed in advance with officers.

14 Wherever possible, we will seek to rely on the work of Internal Audit to help meet our responsibilities, and to avoid the risk of duplicating audit effort.

The Clarity Project

15 My audit of the financial statements is governed by International Standards on Auditing (ISAs). As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

16 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

17 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you may see some changes in the way my audit team delivers your audit and the information they seek from you.

18 The two main changes are set out overleaf.

- Group Accounting - we now need to obtain an understanding of all the group components in terms of their overall control environment, legal, management and operating structures, and any group wide controls in operation. We are also required to perform analytical procedures and make enquiries of group component auditors.
- ISA (UK&I) 330 also requires me to undertake substantive testing on all material classes of transactions. This means that I will need to sample test income and expenditure balances in the 2010/11 financial statements, To enable me to do this you will need to provide a full audit trail between the cost of services analysis on the face of the comprehensive income and expenditure statement and source documentation, via subjective codes, journal postings and feeder systems. My staff will discuss a suitable approach to this work with you.

19 In Appendix 3 I have set out the other main changes and how they may impact on the Council.

The Value for Money Conclusion

20 . From 2010/11 auditors will not be required to provide annual scored judgements relating to their local VFM audit work. We will give our statutory value for money conclusion based on only two reporting criteria specified by the Commission and set out below:

Table 2: **Value for Money reporting criteria**

Specified reporting criteria	What the auditor will consider
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust financial systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The auditor will focus on the organisation's arrangements relating to financial governance, strategic financial planning and financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and improving efficiency and productivity.

21 These criteria are in line with the expectations of the recent comprehensive spending review.

22 There will be no key lines of enquiry for the specified criteria, and auditors are expected to determine the scope of their local programme of VFM audit work on the basis of their assessment of risk. The key risks that we have identified at City of York Council, and our proposed audit work, are set out below.

Table 3: **VFMC risk areas**

Risk area	Audit response
The Council may not be able to operate within a more restricted budget	We will review budgetary control processes, including: <ul style="list-style-type: none"> ■ how these link to risk management processes; and ■ use made of financial modelling, demographic analysis and comparative data to inform budget setting and demand management

Risk area	Audit response
The Council may focus on short term management at the expense of longer term financial planning	<p>We will review up to date strategic and medium term financial plans, and the quality of data underpinning these.</p> <p>We will consider whether financial strategies adequately consider the implications of the recent Comprehensive Spending Review.</p>
The More for York programme may not deliver expected savings levels.	We will review progress made to date in delivering target savings and the quality of data underpinning individual service decisions.
Procurement processes may not maximise potential efficiency savings	We will review operational, tactical and strategic procurement practice and recent outcomes achieved.
The Council may be reluctant to challenge established ways of doing things	We will assess the quality of leadership shown by members and senior officers in prioritising resources.

The audit team

23 The key members of the 2010/11 audit team are shown in the table below.

Table 4: **Audit team**

Name	Contact details	Responsibilities
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 Customer and Business Support Services.
Keith Illingworth Team Leader	k-illingworth@audit-commission.gov.uk 0844 798 7141	On-site supervision of audit fieldwork and key point of contract for the Corporate Finance Manager.

Independence and objectivity

24 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.

25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

26 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 4.

Quality of service

27 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Mike Haworth-Maden, Local Government Lead Director, on 0844 798 2305.

28 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.

Planned outputs

29 We will report issues arising and findings to date to officers and those charged with governance as the audit progresses

30 The following reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Opinion audit plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011

Appendix 1 – Basis for fee

1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon 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 the identification of the significant financial and operational risks applying to the Council with reference to:

- our cumulative knowledge of the Council;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with officers; and
- liaison with Internal Audit.

Assumptions

3 In setting the fee, I have assumed that:

- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards and completes their planned work in sufficient time for us to place reliance on it for the purposes of our opinion audit;
- good quality working papers and records will be provided to support the financial statements by the agreed date;
- 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 will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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 amount of fee that 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.

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 and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

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.

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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 The Clarity project

Introduction

Changes you will notice in our 2010/11 audit approach include audit work on:

- Year End Journals;
- Related Party Transactions;
- Accounting Estimates; and
- Reporting deficiencies in internal control.

Year End Journals

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software.

Related Party Transactions

ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant.

If I decide the deficiency is significant, I will report it in writing to your Audit and Governance Committee as those charged with governance.

Appendix 4 – Working together

Meetings

The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Our proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Customer and Business Support Services	Audit Manager (AM) and Team Leader (TL).	Quarterly	General update plus: <ul style="list-style-type: none"> ■ January - audit plan ■ September - annual governance report ■ November - annual audit letter
Assistant Director of Resources and Corporate Finance Manager	AM and TL	Weekly during post-statement site visit Quarterly the rest of the year	Update on audit issues
Audit and Governance Committee	District Auditor and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> ■ Audit Plan ■ Annual governance report ■ Annual Audit Letter ■ Other issues as appropriate

Sustainability

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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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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