

Audit plan

City of York Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

My responsibilities

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 you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or those charged with governance of their responsibilities.

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 1: **Proposed timetable and planned outputs**

| Activity | Date |
|--|----------------------------|
| Opinion: controls and early substantive testing | Completed by 30 April 2012 |
| Opinion: receipt of accounts and annual governance statement | 30 June 2012 |

| Activity | Date |
|---|---|
| Value for Money work | Completed by 30 June 2012 |
| Opinion: receipt of supporting working papers and commencement of substantive testing | 1 August 2012 |
| Present Annual Governance Report at the Audit Committee | September 2012 – exact date to be confirmed |
| Issue opinion and value for money conclusion | By 30 September 2012 |
| Summarise overall messages from the audit via Annual Audit Letter | October 2012 |

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 2: **Audit team**

| Name | Contact details | Responsibilities |
|---|------------------------------------|--|
| Steve Nicklin District Auditor and Engagement Lead | s-nicklin@audit-commission.gov.uk | Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive. |
| Lynn Hunt Audit Manager | l-hunt@audit-commission.gov.uk | Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance. |
| David Hurworth Team Leader | d-hurworth@audit-commission.gov.uk | Leads on-site delivery of opinion testing. Key point of contact with the Chief Accountant. |

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1. I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including 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 the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below. This risk assessment will be kept updated as audit work progresses during the year.

Table 3: **Significant risks**

| Risk | Audit response |
|--|---|
| <p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For City of York Council the value of such assets is likely to be material.</p> | <p>I will:</p> <ul style="list-style-type: none"> • evaluate the processes in place to recognise and value heritage assets • undertake sample testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code. |
| <p>Valuation of property, plant and equipment (PPE)</p> <p>The Council is required to value PPE at fair value (with some exceptions), and to implement component accounting as appropriate. There is an inherent risk that PPE valuations will be materially misstated due to errors in the valuation method, the fixed asset register itself, or failure to implement component accounting as required by the Code. Specific local risks at City of York Council relate to assets under construction, especially West Offices, and the value of council dwellings.</p> | <p>I will evaluate the processes you have in place for:</p> <ul style="list-style-type: none"> • establishing and maintaining a fit for purpose fixed asset register • instructing an appropriately qualified valuer and using the results of his work • estimating and accounting for asset components and useful asset lives. <p>I will confirm that work in progress in relation to West Offices has been correctly valued and accounted for and that outstanding capital commitments are correctly disclosed. I will also :</p> <ul style="list-style-type: none"> • confirm that the valuation of Council dwellings complies with Government guidance • undertake sample testing on other asset values, and capital financing assertions in the accounts. |
| <p>Accounts preparation</p> <p>The Council relies heavily on spreadsheets to prepare its year end accounts, and there is an inherent risk that superseded or inaccurate spreadsheets may be used in error, leading to material mis-statements. Service accountants rather than the central finance team are also heavily</p> | <p>I will evaluate the controls you have in place to:</p> <ul style="list-style-type: none"> • manage the use of spreadsheets • promote a consistent approach to working papers. • review draft accounts and working papers at pre-audit stage. |

| Risk | Audit response |
|---|--|
| involved in the closedown process and this increases the risk of errors if there are inconsistencies in approach. | I will also undertake detailed testing to check that the financial statements are not materially mis-stated. |
| <p>Estimation techniques</p> <p>The prescribed deadlines for production of year end financial statements mean that estimation techniques are necessary to assess the value of future receipts and commitments. This increases the risk that income and expenditure transactions around the year end will not be correctly stated.</p> | <p>I will evaluate the management controls you have in place to recognise and measure key accounting estimates. I will also undertake:</p> <ul style="list-style-type: none"> • a detailed review of year end journal adjustments • sample testing of income and expenditure transactions occurring around the year end. |
| <p>Joint waste PFI</p> <p>The Council is contractually committed to a joint waste PFI with North Yorkshire County Council. The value of this contract is material to the 2011/12 accounts.</p> <p>Details of payments due should therefore be disclosed even though the scheme is not expected to be operational by 31 3 2012.</p> | I will review any external financial advice provided to the Council on the joint waste PFI scheme, and undertake tests of detail to confirm that the disclosures in the financial statements are consistent with the financial model and the signed contract terms. |
| <p>Implementation of new payroll system</p> <p>The Council's new iTRent payroll and HR system went live in December 2011. This is a key financial information system, generating material expenditure assertions in the 2010/11 accounts.</p> | I will undertake tests of detail on the transactions recorded in both systems, and on the migration of financial information from the old system to the new one. So far as possible I will rely on relevant work undertaken by Internal Audit. |
| <p>Financial standing</p> <p>A mandatory ISA+ requirement is to consider the impact of in-year financial performance on the organisation's overall financial standing. Half-year financial reports to members indicate a possible overspend of £3.5m against budget for 2011/12. If realised this would have a significant impact on useable general fund balances brought forward .</p> | I will review year end financial outturn against budget and in-year reporting and assess the reason for any significant variations. I will also consider the level of useable balances at the year end, assess the Council's overall financial standing and confirm that the going concern assumption remains valid. |
| <p>Restructuring and Redundancies</p> <p>A number of severance and exit packages have been agreed during the</p> | We will undertake tests of detail to confirm that all severance, redundancy and exit packages have been properly approved by members and any |

| Risk | Audit response |
|---|---|
| year. | unpaid liabilities included in the 2011/12 financial statements if approved prior to 31 3 2012. We will also confirm that payments have been made in accordance with relevant legislation and Council policies. |
| <p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. Payments from government will in most cases be used to redeem an equal percentage of loan debt and thereby reduce financing costs. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p> | I will undertake tests of detail on material assertions in the HRA and on the settlement payment or receipt. |

Testing strategy

My audit involves:

- testing the operation of key internal controls;
- liaising with the external auditors of North Yorkshire Local Government Pension Fund
- seeking confirmation of loans and investment balances from third parties;
- reviewing the work of experts, for example actuaries and valuers, appointed by you; and
- substantive tests of detail on transactions, disclosures and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors;
- maximise reliance on audit work undertaken in prior years; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 4: **Proposed work**

| | Review of internal audit | Controls testing | Reliance on the work of other auditors | Reliance on work of experts | Substantive testing |
|---------------|--|--|--|--|---|
| Interim visit | General ledger and Journals Payroll | Creditors Accounts receivable Housing Repairs Cash income | - | - | Loans and Investments Fixed asset register Rents Council Tax Care payments NNDR Schools budgets |
| Final visit | IA annual report Annual Governance Review | - | Pensions assets and liabilities – auditor to North Yorks Local Government Pension Fund | Pensions liabilities and assets – Mercers (actuary) Valuation of property, plant and equipment – Council’s in-house valuers | All material balances, transactions and disclosures Year-end feeder system reconciliations Housing benefits |

I have provided officers with a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Council's arrangements is based on two criteria, specified by the Audit Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following potential risks that I will address through my work. Where possible I will seek to rely on audit work undertaken in prior years (insofar as this remains relevant) and work undertaken by Internal Audit.

Table 5: **Significant risks**

| Risk | Audit response |
|--|---|
| Financial governance and leadership The leadership team may not fully understand the current financial position and likely future challenges, or may focus on thinking and operating in the short term. There may be poor communication to staff and stakeholders about the Council's financial risks and challenges | We will review key strategic and financial documents such as the medium term financial plan, revenue and capital budgets. We will use our ongoing review of Council minutes and meetings to assess how financial strategies have been developed and communicated to others. |

Risk

and the strategies it has in place to tackle them.

Financial planning

Budgets may not reflect the level of savings required to manage expected reductions in funding. Budget setting processes may not be robust. Financial risks may not be properly identified or effectively managed.

Financial control

The Council may fail to manage its spending within budget or not meet key financial targets. Poor treasury management could lead to additional budget pressures, cash flow problems and non-compliance with Code and statutory requirements.

Prioritising resources

There is a risk that insufficient action will be taken to review priorities and challenge established ways of working in the light of reduced funding. Savings decisions may not be based on adequate, appropriate or up to date information, and may not adequately consider the impact of savings delivery on the public and services.

Audit response

We will review 2011/12 budgets to confirm that:

- assumptions are realistic
- planned use of balances is appropriate
- the budget does not rely on short term fixes which are unsustainable
- financial modelling has been used to inform key decisions
- the Council is taking adequate steps to generate additional income

We will update our existing assessment of budgetary control and assess budget delivery by a combination of ongoing minute reviews and our opinion work on the accounts. We will also review treasury management processes and the year end treasury management report

We will assess the level of planned savings delivered to date, and how the Council plans to deliver further savings in the future. We will ascertain the extent to which savings plans have been informed by:

- consultation with the public, staff and stakeholders,
- cost benefit analysis, option appraisal and similar financial techniques

We will seek to understand how funding reductions are shifting priorities, resource allocations, and overall levels of spend, and how this compares to other Councils facing similar reductions. To help inform our judgement we will also review year end performance reports and value for money profiles.

Risk

Improving Efficiency

The Council may be unable to justify high costs, or be reluctant to explore new ways of delivering activities and services.

Efficiency plans may not be sufficiently challenging or detailed, and may focus on achieving short-term goals or ignore the potential impact of savings delivery on performance. Arrangements to monitor achievement of efficiencies and the impact on services may be deficient.

Audit response

We will review Internal Audit work on procurement, partnerships and savings delivery. We will confirm that the Council has continued to:

- participate in benchmarking clubs and analyse unit costs and transactions
- seek out additional sources of income and new models of service delivery
- challenge the way that services and activities are delivered

We will also review the detailed efficiency plans underpinning the budget, to consider how potential projects have been identified and to confirm that:

- the specific projects identified can deliver the savings required
- targets and timescales have been set with key milestones and pathways to set out how they will be delivered
- adequate arrangements are in place to monitor achievement of efficiencies and take early action to tackle any identified slippage

. Key audit findings and outcomes will be reported in September, as part of my Annual Governance Report.

Fees

The fee for the audit is £224,010, as set out in my letter of 11 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £224,010 which represents a ten per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements, and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local value for money audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the above fee, I have assumed the following.

- Internal Audit meets professional standards
- Internal controls are operating effectively;
- the Council provides good quality working papers and records to support the accounting statements and all other information to be published with the statements, by 1 August 2012
- officers respond promptly to audit queries and requests for further information; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Customer and Business Support Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I will work with the Council to help identify any such areas where fee reductions might be possible, and I will give officers advance notice of meeting requests, current technical issues and working paper requirements.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

| | 2011/12 proposed | 2010/11 actual | Variance |
|-------------------------------------|------------------|-----------------|-----------------|
| Audit | £224,010 | £248,900 | -£24,890 |
| Certification of claims and returns | £49,280 | £49,632 | -£352 |
| Non-audit work | *£5,000 | 0 | £5,000 |
| Total | £278,290 | £298,532 | -£20,332 |

* asset management diagnostic – report issued December 2011.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

| Area | Requirement | How we comply |
|---|--|--|
| Business, employment and personal relationships | <p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p> | <p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p> |

| Area | Requirement | How we comply |
|-------------------------------------|---|---|
| Long association with audit clients | The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years. | The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met. |
| Gifts and hospitality | The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment. | All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval. |
| Non-audit work | <p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p> | All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised. |

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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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.

