

Audit and Inspection Plan

City of York Council

Audit 2007/2008

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Responsibilities	4
CPA and Inspection	5
Work under the Code of Audit Practice	6
Financial statements	6
Use of resources	6
Data quality	7
Best Value Performance Plan (BVPP)	8
Assessing risks	9
Work specified by the Audit Commission	10
Whole of government accounts (WGA)	10
National Fraud Initiative	10
Voluntary improvement work	11
Certification of grant claims and returns	12
The audit and inspection fee	13
Other information	14
The audit and inspection team	14
Independence and objectivity	14
Quality of service	15
Planned outputs	15
Appendix 1 – Initial risk assessment – use of resources	16
Appendix 2 – Audit and inspection fee	19
Specific audit risk factors	20
Assumptions	20
Specific actions the Council could take to reduce its audit and inspection fees	21
Process for agreeing any changes in audit fees	21
Appendix 3 – Independence and objectivity	22

Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.
- 3 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements, including the statement on internal control (SIC); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 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.

CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 Your CPA category is a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as three stars.
- 10 Our inspection activity will be focused on the following areas for 2007/08.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.
Corporate assessment	We will carry out a corporate assessment in line with the processes set out in CPA - the Harder Test. Our approach will be a combined corporate assessment and Joint Area Review which will include an inspection of services for children and young people.

Work under the Code of Audit Practice

Financial statements

- 11 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 12 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 13 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 14 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 15 In meeting this responsibility, we will review evidence that is relevant to your corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 16 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 17 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support your priorities and improve services.
- 18 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the value for money conclusion.

- 19 We will arrive at a score of 1 to 4 for each of the following themes.

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements • External reporting
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy • Budget monitoring • Asset management
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources
Internal control	<ul style="list-style-type: none"> • Risk management • System of internal control • Probity and propriety
Value for money	<ul style="list-style-type: none"> • Achieving value for money • Managing and improving value for money

- 20 We will report our scores and judgements to the Council and, where appropriate, make recommendations for improvement. The Commission will use the scores as the basis for its overall use of resources judgement as part of the CPA.

Data quality

- 21 The Audit Commission requires auditors to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 - management arrangements;
 - Stage 2 - completeness check; and
 - Stage 3 - risk-based spot checks of a sample of performance indicators.
- 22 The work at stage 1 will link to our review of your arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the spot check work at stage 3. The results of the work at stage 3 will inform the CPA assessment.
- 23 Our fee estimate reflects an assessment of risk in relation to your performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan (BVPP)

- 24** We are required to audit your BVPP and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 25** 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 our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 26** Our risk assessment process starts with the identification of the significant financial and operational risks applying at 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 Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 27** We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements during 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- changes to the SORP for 2007;
 - the new contract with ABRO for vehicle provision and maintenance; and
 - a replacement financial system being introduced for payments for care.
- 28** For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 29** Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 30 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 31 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Voluntary improvement work

- 32** Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. We are not proposing to do any voluntary improvement work at the Council during 2007/08.

Certification of grant claims and returns

33 We will continue to certify your claims and returns on the following basis.

- Claims below £100,000 will not be subject to certification.
- Claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification.
- Claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 34 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 35 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £322,530 which compares with the planned fee of £245,000 for 2006/07. The fee this year includes the corporate assessment fee of £103,750. The plan is prepared on the basis that the corporate assessment will enable us to minimise value for money audit work for 2007/08 by taking assurance from the inspection findings. As a consequence the like for like audit fee for 2007/08 is 10 per cent lower than the 2006/07 fee.
- 36 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions the Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 37 In addition we estimate that we will charge approximately £50,000 for the certification of claims and returns.
- 38 As indicated in paragraphs 2 and 29, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 35 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 39 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Mark Kirkham District Auditor & Relationship Manager	m-kirkham@audit- commission.gov.uk 0113 251 7130	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and the Audit & Governance committee. The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Alastair Newall Audit Manager	a-newall@audit- commission.gov.uk 01904 552007	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Paul Goodlad Area Performance Lead	p-goodlad@audit- commission.gov.uk 0113 251 7130	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.

Independence and objectivity

- 40 We are 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.
- 41 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 42 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 the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the Yorkshire and Humber Head of Operations, Terry Carter.
- 43 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

- 44 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit & Governance committee.

Table 3

Planned output	Indicative date
Opinion audit plan	October/November 2007
Data quality report	October/November 2007
Interim audit memorandum	May/June 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts memorandum (to the Director of Finance)	November 2008
Use of resources report	December 2008
Corporate Assessment outputs	February 2008
Annual audit and inspection letter	TBC
BVPP report	December 2007

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Job evaluation	Work is ongoing to deliver the job evaluation scheme.	Yes	Impact on Code of Practice responsibilities will be assessed as settlements are reached.	KLOE 4.1 - The Council manages its significant business risks.
Social services financial position and eligibility criteria	The Council continues to actively manage the position during 2006/07.	Yes	Assessment of arrangements for ensuring financial position is maintained during 2007/08.	KLOE 2.2 - The Council manages performance against budgets. KLOE 3.1 - The Council manages its spending within available resources.
The revised LSP is key to delivering the LAA objectives	The Council has improved its capacity by creating new posts to manage partnerships.	Yes	We will follow up our 2006/07 reviews of the LSP and the LAA to ensure the council delivers the planned improvements.	KLOE 4.2 - The Council has arrangements in place to maintain a sound system of internal control. KLOE 5.2 - The Council manages and improves value for money.
Council priorities	The Council has responded positively to our 2006/07 report on prioritisation.	Yes	Follow up the Councils progress in delivering the agreed actions from our 2006/07 review of prioritisation.	KLOE 4.1 - The Council manages its significant business risks. KLOE 5.2 - The Council manages and improves value for money.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Service improvement planning	The Council has responded positively to our 2006/07 report on service improvement planning.	Yes	Follow up the Council's progress in delivering the agreed actions from our 2006/07 review of service improvement planning.	KLOE 5.2 - The Council manages and improves value for money.
Debt recovery arrangements	The Council has responded positively to our 2005/06 report on debt recovery arrangements.	Yes	Follow up the Council's progress in delivering the agreed actions from our 2005/06 review of the debt recovery arrangements.	KLOE 2.3 - The Council manages its asset base. KLOE 3.1 - The Council manages its spending within the available resources.
The current projections show the council will incur significantly more cost for waste disposal from 2009/10 to the start of the PFI contract.	The council is actively responding to the challenge.	Yes	Assessment of arrangements for ensuring the financial position is maintained during 2007/08.	KLOE 2.2 - The Council manages performance against budgets. KLOE 3.1 - The Council manages its spending within available resources.
Sickness absence is high and arrangements to manage sickness need improvement	Council is taking action on a range of issues, as highlighted in a recent IA report.	No		
Implementing the Local Government White Paper	Council is already thinking about the implications.	No		

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Schools rebuilding programme	All are being actively project managed but three schemes running concurrently places pressure on the departmental capacity.	No		
Admin accommodation project	Among other measures the Council is responding positively to our previous reports on project management.	No		

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	72,000	69,000
Use of resources (including BVPP)	99,505	138,400
Data quality	21,600	17,600
Whole of government accounts	2,500	0
National Fraud Initiative	1,050	0
Total audit fee	196,655	225,000
Inspection		
Relationship management	11,063	10,000
Direction of Travel	11,062	10,000
Corporate assessment	103,750	0
Total inspection fee	125,875	20,000
Total Audit & Inspection fee	322,530	245,000
Certification of claims and returns	50,000	50,000

- 2 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 3 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

- 4 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 5 In setting the audit fee we have taken into account the risk factors set out in Appendix 1.

Assumptions

- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by the time the draft statements are available;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 7 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 8 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions the Council could take to reduce its audit and inspection fees

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have not identified any specific actions the Council could take at this stage. Our audit & inspection fee is based on our current understanding of risks and the assurance we need to issue the audit opinion and value for money conclusion.

Process for agreeing any changes in audit fees

- 10 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive and Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit & Governance committee.

Appendix 3 – Independence and objectivity

- 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 my 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 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.
- 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 committee. The auditor reserves the right, however, to communicate directly with the authority 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 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.