

Progress Report

City of York Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

The purpose of this report is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It also includes an update on the externalisation of the Audit Practice, the proposed abolition of the Audit Commission, and other national issues and developments.

If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details below.

Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Steve Nicklin

District Auditor and Engagement Lead

s-nicklin@audit-commission.gov.uk

Lynn Hunt

Audit Manager

l-hunt@audit-commission.gov.uk

Progress report

Financial statements

- 1 We presented our 2011/12 Opinion Plan to the February meeting of the Audit and Governance Committee. This plan set out our initial assessment of audit risk, and the work that we will undertake to meet our Code of Audit Practice responsibilities.
- 2 We confirmed an audit fee of £224,010 as previously agreed, and this remains appropriate.

Financial statements audit

- 3 Our detailed testing on the Council's financial systems is now substantially complete. As previously discussed, we recommend that reconciliations between the general ledger, accounts payable/receivable systems and bank statements are carried out on a more systematic and regular basis throughout the year. However these reconciliations have been performed in full as at 31 March 2012, and there were adequate compensating controls in place throughout the year.
- 4 No other significant weaknesses have been identified, and our audit work confirms that a satisfactory IT control environment has been maintained.
- 5 Over the past three years the Council has implemented a number of significant changes to its financial systems and key personnel. There is also an ongoing requirement for financial savings. Taken together, these factors suggest that a more strategic review of internal control arrangements might be opportune. As external auditors it is not our role to prescribe in detail how the Council's overall system of financial control should operate. However to assist the Council with its own review we have provided officers with a list of all of the financial controls we have identified, and whether we regard these as key controls for audit purposes.
- 6 We have discussed the 2011/12 closedown process, current technical issues and our working paper requirements with the Council's finance staff. We expect to receive unaudited financial statements following certification on 30 June 2012, and all supporting working papers by 1 August 2012. This should give us sufficient time to complete our audit work and meet the statutory opinion deadline of 30 September.

VFM conclusion

- 7 Our assessment is based on two criteria, specified by the Audit Commission, related to your arrangements for:

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

8 Our assessment has progressed according to plan. The only outstanding work is to review the Council's year end financial statements, annual governance review, and performance report. No new value for money risks have been identified.

9 We will include the main findings from our Value for Money work in the Annual Governance Report presented at September's Committee meeting.

Other areas of work

10 At the Council's request we reviewed their minimum revenue provision and credit ceiling calculations for the current year, and we have confirmed a new methodology with officers.

11 We have also successfully resolved a number of queries from the Department of Work and Pensions following our certification of the 2010/11 Housing and Council tax benefits grant claim. We are currently progressing 2011/12 grant claims certification work, which will help to confirm key balances and transactions in the accounts.

The future of local public audit

Abolition of the Audit Commission

12 In August 2010, the government announced its intention to abolish the Audit Commission and put in place a new framework for local public audit.

13 The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

14 Thereafter a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible;
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies;
- The power to issue a public interest report will be retained;
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and approval by the independent auditor appointment panel;
- The National Audit Office will be responsible for maintaining audit codes of practice and providing support to auditors; and.
- The National Fraud Initiative will continue.

15 The government is holding further discussions with audited bodies and audit firms to develop its proposals, and intends to publish draft legislation for pre-legislative scrutiny in 2012.

Externalisation of the Audit Practice

16 Following the recent procurement exercise, five-year contracts have been let from 2012/13 to the following firms.

Firm	Contract areas
Mazars	North East & North Yorkshire
Ernst and Young	Eastern , South East

Firm	Contract areas
Grant Thornton	North West, West Midlands, London (South), Surrey & Kent, South West
KPMG	Humberside & Yorkshire, East Midlands, London (North)

17 The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

18 To support the transition process, the Commission has arranged a series of introductory meetings in each contract area. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

19 Further details are available on the Commission's website and we will continue to keep you updated on developments. Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities and delivering your 2011/12 audit- to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Other matters of interest

Annual fraud and corruption survey 2011/12

20 On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year. The electronic survey was open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

21 City of York Council submitted its return by the due date and we have confirmed that the data is consistent with our own knowledge and understanding of the organisation. The Council's return confirms that there is a proactive approach to preventing and detecting both external and internal fraud, supported by prosecution in appropriate cases.

National Fraud Initiative

22 The Audit Commission has recently consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI). This data marching exercise takes place biannually. It has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

23 The work programme will remain unchanged from 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will not be increased. For City of York Council this is £3,650.

Openness and accountability in local pay

24 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

25 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees. This statement must be approved by full Council, and published via the website.

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

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



Audit Commission

1st Floor

Millbank Tower

Millbank

London

SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

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