MAZARS

City of York Council

Draft Audit Strategy Memorandum
Year ended 31 March 2013

February 2013

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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Purpose of this document

This document sets out our audit plan in respect of the external audit of City of York Council for the year ending 31 March 2013. This document forms the basis for discussion with those charged with governance (the Audit and Governance Committee).

The Plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of elected members and those charged with governance include overseeing the strategic direction of the entity and discharging obligations related to the accountability of the entity, including overseeing the financial reporting process. Our communication with you is important in:

- Reaching a mutual understanding of the scope of the audit and the responsibilities of the auditor and those charged with governance;
- Sharing information to assist both the auditor and those charged with governance to fulfil their respective responsibilities;
- Providing to those charged with governance constructive observations arising from the audit process; and
- Ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of the attitude and views of those charged with governance of the internal and external operational, financial, compliance and other risks facing the Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

2. Scope of engagement

We have been appointed by the Audit Commission to perform the external audit of City of York Council for the year to 31 March 2013. The scope of our engagement is set out in the Audit Commission's Code of Audit Practice for Local Government bodies.

3. Respective responsibilities

The Audit Commission's Statement of Responsibilities sets out our respective responsibilities as the auditor and the audited body, and the Audit Commission has issued a copy of the Statement to you. It summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

We comply with the statutory requirements governing audit work, in particular the Audit Commission Act 1998, and the Code of Audit Practice for Local Government bodies. As external auditors to City of York Council, we are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole Government Accounts L-Pack with the audited financial statements and to certify prescribed grant claims.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

4. Independence

We have policies and procedures in place to ensure that we carry out our work with integrity, objectivity and independence. If at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Steve Nicklin, your engagement lead.

We are required by the Audit and Assurance Council (previously the Auditing Practices Board - APB), which has issued ethical standards for auditors, to confirm we have complied with relevant ethical standards requirements regarding independence. This is to ensure our objectivity and independence is maintained. Further information on ethical standards for auditors is set out in Appendix 1.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

5. Our audit approach

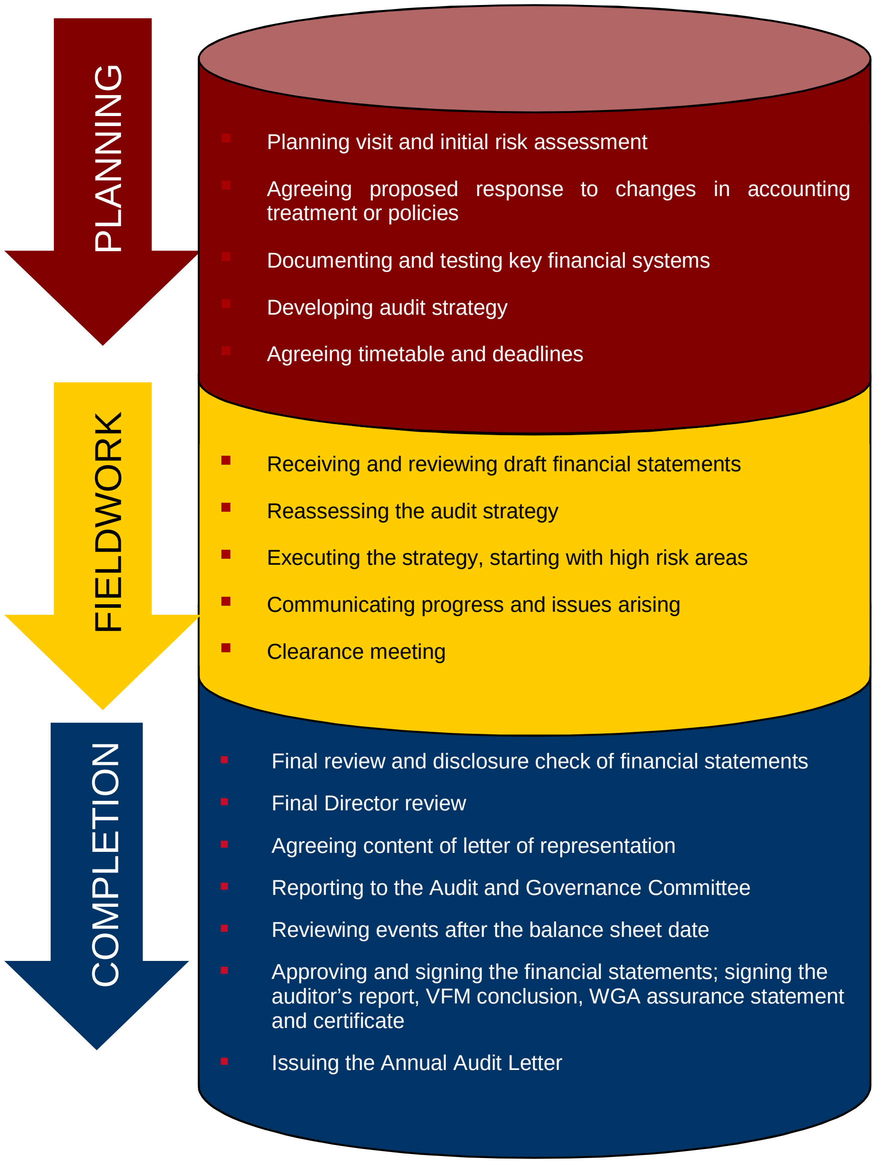
Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Audit and Assurance Council (previously the APB). Our work is focussed on those aspects of your business which we consider to have a higher risk of material misstatement such as judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past. How we define materiality is set out in Appendix 2.

We raise and discuss these with you on a regular basis, not just at the time of the audit fieldwork. We shall expect to obtain appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom and will use a combination of controls and substantive testing procedures as appropriate.

We plan our audit to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements. We will consider the control procedures in place to prevent and detect fraud, whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our procedures accordingly. We also plan our audit to negate the risk of management over-riding controls by testing year end journal entries and the major judgements and estimates made.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Key stages of the audit are set out on the following page:



6. Reliance on experts

We plan to place reliance on the following work of experts.

Area	Expert engaged by:	
	You	Ourselves
PPE entries and disclosures	In-house valuer	Gerald Eve has been appointed by the Audit Commission to review national valuation trends. We will use this report to consider the reasonableness of valuation outputs. We will also seek direct confirmation from the Council's valuer in relation to his qualifications and experience, and the scope of his work. We will review and if necessary challenge the basis of the valuations made.
Retirement benefits fund entries and disclosures	North Yorkshire Pension Fund actuary (Mercers)	The Audit Commission will engage actuarial specialists to review the work of all actuaries involved in pension fund work.

7. Reliance on internal audit

We meet regularly with internal audit to discuss the progress and findings of our respective audit work, and we co-operate where possible to avoid duplication and unnecessary cost.

Where Internal Audit work has been completed which is relevant to our responsibilities , we will evaluate the nature, timing and scope of the testing carried out, then perform our own audit review to determine its adequacy for our purposes.

8. Reliance on other auditors

We plan to place reliance on the work of another auditor, namely the auditor of the Pension Fund, Deloitte LLP. We have already agreed a work programme and timetable for the receipt of information with Deloitte LLP.

9. Service organisations

We have not identified any material entries in your financial statements where the Council is dependent on an external organisation.

10. Significant events during the year impacting the audit

A key challenge for all local authorities is to reprioritise spending plans and maximise efficiency savings in the light of government funding reductions. In 2012/13 City of York Council aims to deliver a balanced budget within the context of:

- a £20m reduction in funding following the 2010 spending review : and
- maintaining balances at the current level - £13m – approved by members.

Other key priorities for 2012/13 are to:

- relocate all staff to either West Offices or Hazel Court; and
- reconfigure delivery of adult social care services.

11. Significant risks and key judgement areas

We have met with senior management, and the Council's central finance team, as part of the audit planning process. During these meetings we discussed the risks that, in the Council's opinion, you are likely to face. We have then considered the impact on our audit risk.

Set out below are the audit risks and the areas of management judgement to which we will pay particular attention in order to reduce the risk of material misstatement in the financial statements.

Significant audit risks	How we will address this risk
Management override of controls The International Standards on auditing (ISAs) presume that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records by overriding internal controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, there is an inherant risk of financial misreporting due to fraud which represents a significant risk on all audits.	We have updated our understanding and evaluation of internal control procedures as part of our audit planning, including completion of a fraud risk assessment. As part of our audit, we will review the Council's closedown processes and seek written assurances from the Audit and Governance Committee and from management on the controls and arrangements in place for assessing the risk of fraud and financial misreporting, and for identifying, responding to and reporting fraud. Our testing strategy will include general ledger journal testing coupled with consideration and review of: • key accounting policies: • material accounting estimates; • use of management judgement; and • any unusual or individually significant business transactions.

Significant audit risks	How we will address this risk
Revenue and expenditure recognition There is a presumption under the ISAs of significant risk in relation to the timing of revenue recognition and in relation to judgements made by management as to whether income not yet received has been earned, and whether any clawback provisions apply. For public sector organisation the same risk applies to the recognition of expenditure and contractual obligations. Therefore, income may be artificially inflated, or expenditure suppressed, to improve the reported financial position at the year end.	We will evaluate the closedown processes you have in place to ensure revenue and expenditure is recognised in the correct period. We will then: • undertake cut off testing on transactions around the year end; • sample test income and expenditure transactions; • sample test year end debtors, creditors, accruals and provisions; • reperform year end bank and feeder system reconciliations; and • agree government funding levels and review any ring-fencing or clawback arrangements in place.
Retirement benefits entries and disclosures (IAS19) The financial statements contain material entries and disclosures in respect of retirement benefits. The calculation of these figures can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement., which we treat as a significant risk for audit purposes.	We will discuss any significant changes to pension scheme membership, contribution rates and actuarial assumptions prior to the preparation of the financial statements. We will then assess whether IAS19 accounting entries are consistent with information provided by the Council's actuary (Mercers), and meet Code requirements. We will also: • consider any issues highlighted by the external auditor of North Yorkshire LGPF which are relevant to our own audit work; and • consider the reasonableness of the actuary's (Mercers') output, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.

Significant audit risks	How we will address this risk
Property, Plant and Equipment The financial statements contain entries and disclosures in respect of property, plant and equipment, investment and heritage assets which are material both individually and in aggregate. These entries are inherently complex in terms of accounting requirements, and based upon a combination of estimates, judgements, and specialist valuations relating for example to categorisation, impairments and asset life. The Council has implemented a new fixed asset register system during the year which will underpin these balances and transactions within the accounts.	We will evaluate the management controls you have in place to ensure new systems have been implemented appropriately. We will then: • document, review and sample test fixed asset records; • test the integrity of opening balances and other data transfers; • ensure that major acquisitions and disposals have been properly approved by members; • ensure that accounting records are supported by valuations on the correct basis as set out in relevant guidance; and • ensure that accounting treatments and disclosures meet Code requirements.

Areas of management judgement	How we will address this judgement
Group Accounts The Council has a number of interests in joint ventures, partnerships and limited companies, but is not proposing to prepare group accounts as it believes that the value of these interests is not significant, either individually or in aggregate, in the overall context of the 2012/13 financial statements.	We will review and if necessary challenge the basis of your judgement that group accounts are not required, having regard to Code group accounting requirements.

Areas of management judgement	How we will address this judgement
Equal pay claims This is a significant legal issue for a number of local councils nationally, and the recent "Birmingham" judgement indicates that both the scope of potential exposure, and the time limit for claims, may be greater than previously anticipated	 We will request that officers carry out a detailed assessment of their exposure to equal pay claims in the light of the recent "Birmingham" judgement, and the financial implications for 2012/13 financial statements in terms of provisions and contingent liabilities. Where necessary we will challenge this assertion, and may request specific written representations from management in this respect.
Property Plant and Equipment This is an area of the accounts where management exercise judgement in a number of important respects, including: • Assessment of assets' useful lives and depreciation policies • Impairment reviews and cyclical revaluations • Componentisation, repair and maintenance and replacement policies These judgements and estimations are likely to have a material impact not just on balances and transactions in the current year but also on opening balances and prior periods' accounts.	 We will challenge the reasonableness of judgements made by management, and the consistency with which they have been applied. Where necessary we will request specific written representations from management, and review the supporting information which underoins them. We will also consider whether the accounting treatment adopted in respect of 2012/13 accounts and any prior period adjustments are consistent with the judgement made, and whether Code requirements have been met.

12. Value for money

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources. Our work is based on two criteria specified by the Audit Commission, namely:

- 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 the need to improve productivity and efficiency.

The Audit Commission has identified a number of sector specific risk factors likely to apply to all local authorities in the current economic climate and these are published on their website at www.audit-commission.com/audit regime/value for money conclusion. We are required to undertake an initial risk assessment and then carry out any further work we deem appropriate, relying where possible on any relevant regulatory or inspection activity carried out by other agencies. Our work will therefore be directed towards meeting these responsibilities and requirements, as set out below:

Key criteria	Proposed audit work
Securing financial resilience	• Review the quality of assumptions underpinning the Council's 2012/13 budget and its medium term financial plan • Review overall financial standing and delivery against budget following receipt of accounts • Review treasury management strategy and cash flow management processes • Update previous assessments of budgetary control and risk management (referring to Internal Audit's report on budgetary control)
Improving economy, efficiency and effectiveness	• Review Internal Audit reports on asset management, efficiency and procurement • Discuss with directorate budget holders how efficiency savings have been identified and delivered • Assess how the Council's scrutiny function has challenged key spending decisions and challenged value for money • Assess the action taken to review charging policies and maximise other sources of income • Review year end performance report and Audit Commission value for money profile • Assess the business case for West Office/Hazel Court relocation, and projected savings • Review action taken to manage pressure on social services budgets.

13. Grant certification work

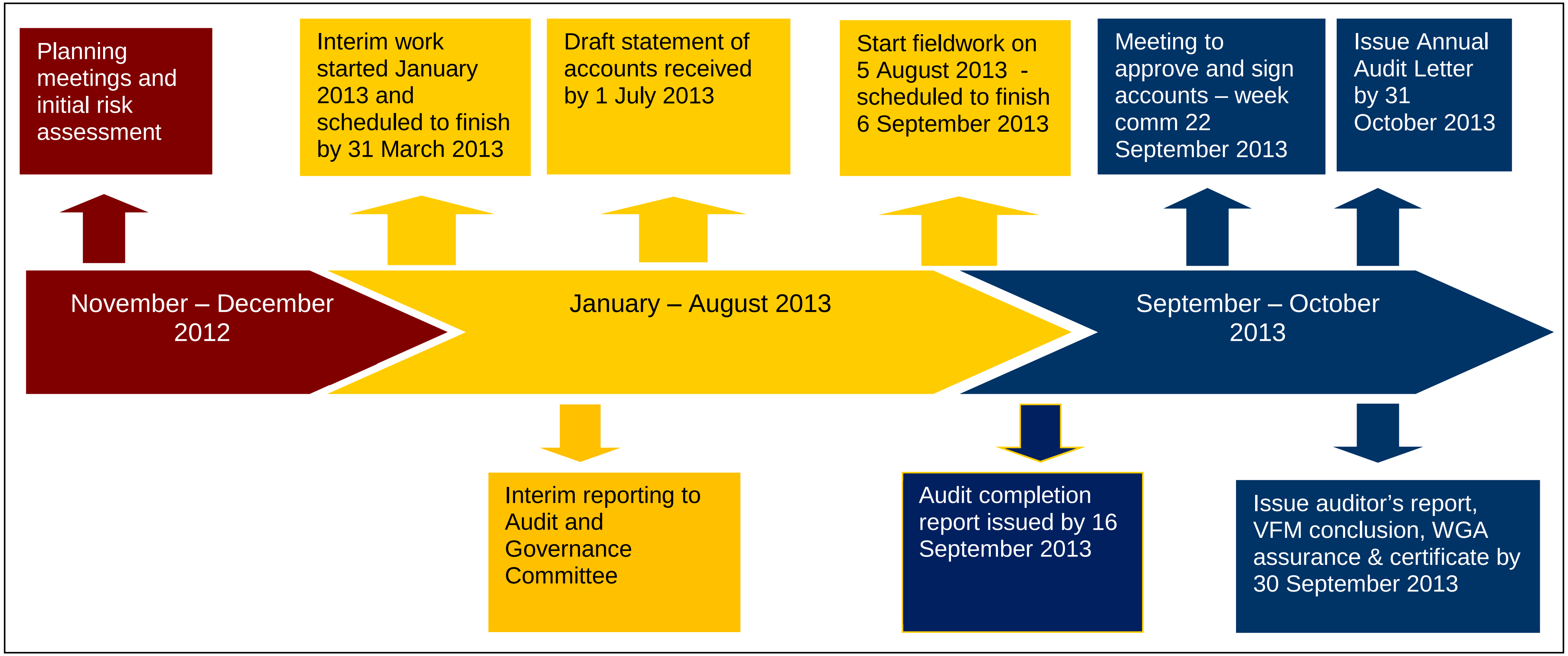
Grant claim work is carried out in accordance with certification instructions (CIs) issued by the relevant grant paying department . In 2012/13 we expect to be required to audit the following claims:

Grant claim	CI reference	Certification deadline
Housing and Council Tax Benefit subsidy	BEN01	31 November 2013
National Non Domestic Rates pool return	LA01	20 September 2013
Teachers Pensions Agency return	PEN05	30 November 2013
Housing Capital Receipts pool return	CFB06	30 September 2013.

Where possible grant claims work will be co-ordinated with other elements of the audit to avoid unnecessary duplication of effort (and costs).

14. Audit timeline and reporting

The table below sets out the timing of key phases of our audit work. Within this overall framework, specific appointments with individual members of staff will be agreed with them in advance. We will communicate with management throughout the audit process to ensure that all parties understand developments and issues as they arise and to help in providing timely and appropriate solutions. ISA 260 and 265 require the auditor to communicate specific matters with those charged with governance at key stages of the audit and Appendix 3 sets out how we propose to discharge these responsibilities.



15. Fees for audit and other services

Audit fees

As communicated to you in our letter dated 26 November 2012 the Audit Commission has set a scale fee of £134,406 for audit work and £20,950 for the certification of grant claims.

Our proposed fees for 2012/13 have been maintained at this level, excluding VAT and disbursements. However this assumes that:

- Adequately qualified and experienced staff will be available to prepare the financial statements and supporting working papers, and we are notified of any changes to key personnel;
- You will provide us with complete and materially accurate financial statements, and supporting working papers, within the required time scales;
- Your staff are able to respond within 5 working days to audit queries and requests for further information
- Senior management will be available to discuss issues arising during the course of the audit and to approve if necessary any adjustments to the accounts
- Adequate arrangements will be put in place for management and those charged with governance to sign and approve the accounts and to provide us with letters of representation and assurance as required.

Additional fees could become payable if this proves not to be the case.

Non-audit services

We have no plans at this stage to carry out any non audit services.

Services provided by Mazars LLP associated entities

No audit or non audit services have been provided to The City of York Council by other entities associated with Mazars LLP.

16. Proposed team

Gareth Davies is the Managing Partner for all external audit appointments awarded to Mazars by the Audit Commission in 2012/13. Gareth was previously Head of Local Government at the Audit Commission and is Mazars' lead Public Sector Partner in the UK.

We know that you value a local audit team who understands the environment you operate in and understands your systems, controls and has a good working relationship with your staff and internal auditors. Your team meets all these criteria.

Name and contact	Role	Experience and responsibilities
Steve Nicklin (Director) Tel: 0191 383 7300 Email: Steve.Nicklin@mazars.co.uk	Engagement Lead	Steve has worked with you since 2008/09. He is responsible for the overall delivery of the audit, including the quality of audit reports. Steve will sign the auditor's report and liaise with the Chief Executive.
Lynn Worth (Senior Manager) Tel: 07816 310322 Email: Lynn.Worth@mazars.co.uk	Engagement Manager	Lynn will manage and coordinate the different parts of the audit and be the key point of contact for the Director of Customer and Business Support Services..
David Hurworth (Assistant Manager) Tel: 07881 511077 Email: David.Hurworth@mazars.co.uk	Team Leader	David will lead the onsite delivery of the audit of the financial statements. He will be the main point of contact for Internal Audit and the Council's central finance team.

An independent partner, Jac Berry, has also been appointed to oversee audit quality in this important first year. Jac is a standards and technical partner, based in our London office.

Appendix 1 – Independence

Independence is an ongoing consideration. As such we monitor it throughout the audit process and report any changes identified to you. The principal types of threats to the auditor's objectivity and independence are:

- Self-interest threat – exists where the auditor has financial or other interests which might cause the auditor to be reluctant to take action that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit
- Self-review threat – exists where the results of a non-audit service performed by the engagement team or by others within the audit form are reflected in the amounts included or disclosed in the financial statements
- Management threat – exists when the audit firm undertakes work that involves making judgements and taking decisions that are properly the responsibility of management
- Advocacy threat – exists when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context
- Familiarity (or trust) threat – exists when the auditors are predisposed to accept or are insufficiently questioning of the client's point of view(for example when they encounter an aggressive and demanding individual).

Prior to the provision of any non-audit services the engagement partner will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Appendix 2 – Materiality

'Materiality' is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. It is reasonable for us to assume that users:

- have a reasonable knowledge of business, economic activities and accounts, and a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We will consider materiality whilst planning and performing our audit. Lower materiality levels may be set for transactions and disclosures which are politically sensitive or where we have specific ISA responsibilities.

Whilst planning, we will make judgements about the size of misstatements which we will consider to be material and which will provide a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial. We will revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We will include in our Audit Completion Report all unadjusted errors we have identified above those which are clearly trivial.

Appendix 3 – Required communication

ISA 260 'Communication With Those Charged With Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach.

Required communication	When and how we will communicate
Respective responsibilities of auditor and those charged with governance. Our responsibility for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements. Reminder that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.	Section 3 of this report and the Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies.
Communication of the planned scope and timing of the audit. Matters communicated include: • Significant audit risks and how we will address them; • Our approach to internal control relevant to the audit; • The application of the concept of materiality in the context of an audit; • Our use of the work of internal audit; • Your approach to internal control and how you oversee the effectiveness of internal control procedures; • The attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and • Your response to new accounting standards, corporate governance practices and related matters.	Included in this document. These matters were discussed at the planning meetings and responses have been incorporated into this document as appropriate.

Required communication	When and how we will communicate
Our views on significant qualitative aspect of accounting practices including accounting policies, accounting estimates and financial statement disclosures. When applicable, why we consider a significant accounting practice not to be appropriate to the entity.	We will communicate these in our Audit Completion Report, orally to management as they arise and at the September 2013 Audit and Governance Committee meeting. Depending on the extent of the issue, either orally at the September 2013 Audit and Governance Committee meeting, in our Audit Completion Report or immediately we become aware of the issue.
Significant difficulties, if any, encountered during the audit. These may include such matters as: • Significant delays in management providing required information; • An unnecessarily brief time within which to complete the audit; • Extensive unexpected effort required to obtain sufficient appropriate audit evidence; • The unavailability of expected information; • Restrictions imposed on the auditor by management; and • Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern.	We will communicate these in our Audit Completion Report, orally to management as they arise and at the September 2013 Audit and Governance Committee meeting.
Details of significant matters discussed with, or subject to correspondence with management.	We will communicate these in our Audit Completion Report, orally to management as they arise and at the September 2013 Audit and Governance Committee meeting.
Details of written representations we require for our audit.	We will communicate this in our Audit Completion Report.
Any other matters which we consider to be significant to the oversight of the financial reporting process. Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information	Any matters arising which we consider significant will be communicated to you within the Audit Completion Report.

Required communication	When and how we will communicate
accompanying the audited financial statements that have been corrected.	
Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence. Written disclosure of relationships which have a bearing on our independence and safeguards we have put in place, details of non audit services provided and written confirmation of our independence.	Section 4 and Appendix 1 of this document and as any new matters arise.
Form, timing and general content of communications.	We will issue our Audit Completion Report which will conclude upon our audit and the issues presented in this document. Should you require us to communicate in a different way please inform us of your preferred method.
Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include observations on appropriateness and timing of action taken by you in response to matters we have raised, the openness of your communication with us, your willingness and capacity to meet with us without management being present, your opportunity to fully comprehend matters we have raised, the extent to which you probe issues raised and our recommendations, any communications we have had in establishing with you the form, timing and general content of communications, your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.	Should we consider it necessary to raise any of these issues, we will consider the most appropriate method and the most appropriate person. The nature of our observation will determine the method and timing of our communication. We may consider that any inadequacy in the communication process is indicative of an unsatisfactory control environment and increase our assessment of audit risk. We will also consider whether we need to reassess our audit strategy. We will discuss with you any additional procedures we consider necessary as a result of these observations. If we consider the communication between you and us to be inadequate and we are unable to agree additional procedures which we consider necessary, we may modify our audit opinion, obtain legal advice, discuss with other third parties as we consider appropriate or may, if permitted under applicable law or regulation, withdraw from the

Required communication	When and how we will communicate
	engagement.
Any significant deficiencies in internal control that we have identified during the audit.	We will communicate these to you in our Audit Completion Report. Should it be appropriate, we will discuss significant deficiencies with management as they arise. Our written communication will include a description of the deficiencies with sufficient explanation for you to understand the context of the deficiency and an explanation of the potential effects. We are required to communicate all significant deficiencies to you, irrespective of whether you are already aware of them or have chosen not to take remedial action for cost or other reasons. We will continue to communicate deficiencies previously communicated to you until remedial action has been taken. We will consider whether failure to act, or lack of rational explanation itself represents a significant deficiency.
Other deficiencies in internal control that we have identified during the audit.	We will consider whether other deficiencies should be reported to you, taking into account the likelihood and potential magnitude of misstatements that may arise. We will also determine whether we report these to you orally or in writing.