

AGENDA SUPPLEMENT

Audit and Governance Committee

To:	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Mason, D Taylor, Wann, Webb and Lomas
Date:	Friday, 20 November 2020
Time:	5.30 pm
Venue:	Remote Meeting

An agenda for the above meeting was published on **12 November 2020**. The attached additional documents, marked 'to follow' on that agenda, are now available for Agenda Item 6 below:

6. Mazars Audit Completion Report (Pages 1 - 30)

This report presents the Audit Completion Report from Mazars, communicating their findings to date from the audit for the year ended 31 March 2020.

This agenda supplement was published on **16 November 2020**.

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Audit and Governance Committee

20 November 2020

Report of the Chief Finance Officer

Mazars Audit Completion Report**Summary**

1. The paper attached at Annex A is the Audit Completion Report from Mazars and communicates their findings of the audit to date for the year ended 31 March 2020.

Background and Analysis

2. The report covers:
 - a. Executive summary
 - b. Details of any significant findings from the audit
 - c. Details of any internal control recommendations
 - d. A summary of minor misstatements
 - e. Details of the value for money assessment and conclusion.

Options

3. Not applicable.

Corporate Priorities

4. The report contributes to the overall effectiveness of the Council's governance and assurance arrangements.

Implications

5. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

6. The Council will fail to comply with legislative and best practice requirements to provide for a proper audit of the Council if it does not consider this report.

Recommendations

7. Members are asked to

- (a) Note the matters set out in the Audit Completion Report presented by the external auditor

Reason

To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

Contact Details

Author:	Chief Officer responsible for the report:		
Emma Audrain Technical Accountant 01904 551170	Debbie Mitchell Chief Finance Officer		
	Report Approved	√	Date 16/11/20
Wards Affected: All			
For further information please contact the author of the report			

Background Papers:

None

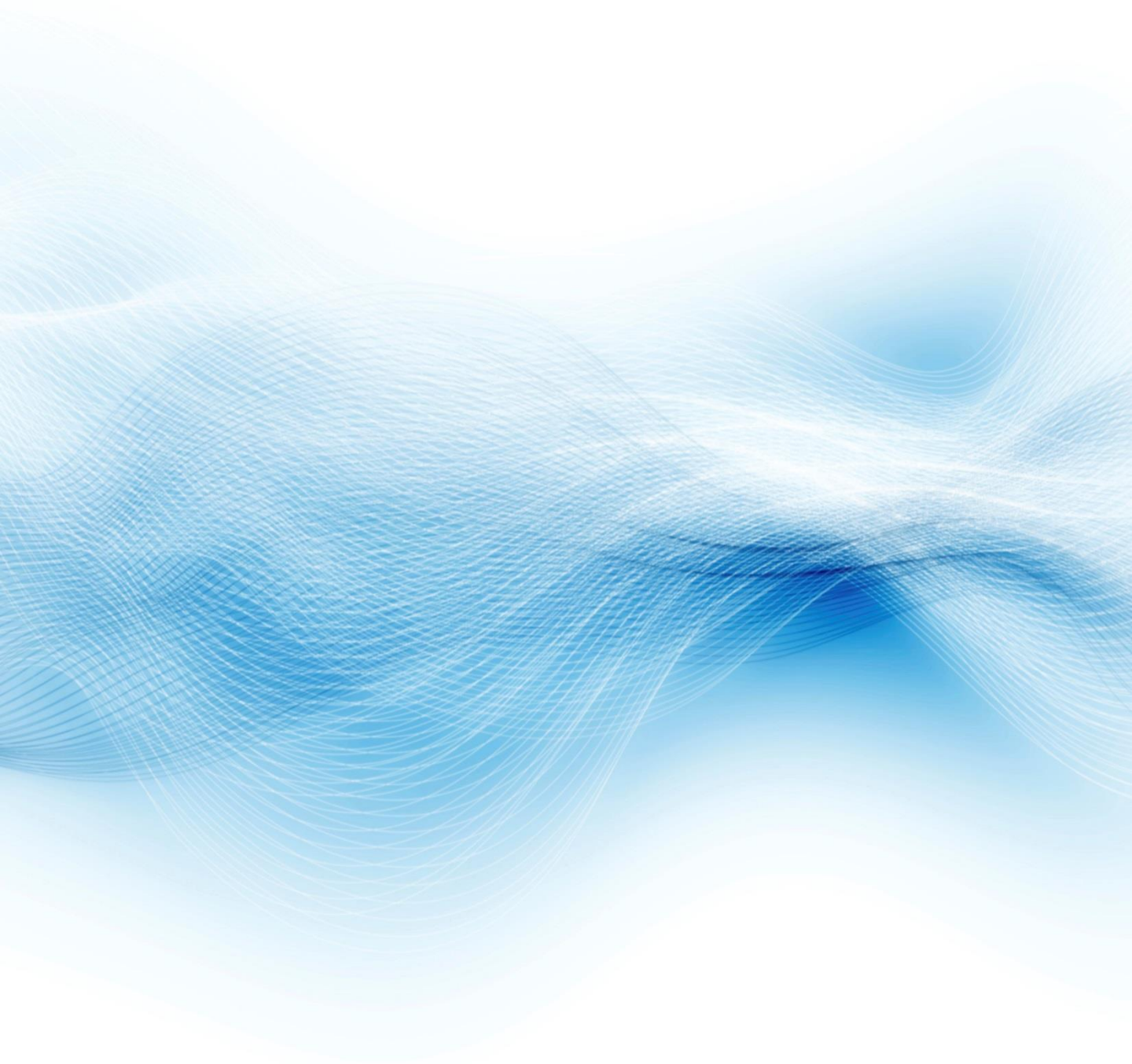
Annex:

Annex A – Mazars Audit Completion Report

Audit Completion Report

City of York Council

Year ending 31 March 2020



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2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council 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.

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November 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented February 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks remain appropriate.

One implication of COVID-19 for the Council was that the dates for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. We acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0113 387 8850.

Yours faithfully



Mark Kirkham
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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of City of York Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Governance Committee meeting on 20 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness. Section 2 also includes our conclusions on the audit risks in our Audit Strategy Memorandum, which include:

- management override of control;
- revenue recognition;
- property, plant and equipment valuation; and
- defined benefit liability.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements
Our work has not yet concluded. In our auditor's report we intend to refer to the disclosure you have made in the financial statements regarding material valuation uncertainty in property valuations. We also expect the North Yorkshire Pension Fund's to include a material uncertainty disclosure in relation to its property valuations. When this is confirmed the Council, as an admitted body, should consider how best to reflect this in your accounts. Our opinion will need to take into account the findings of our investigation in respect of severance payments made to the former Chief Executive.

Value for money conclusion
Our assessment of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources is substantially complete. Our conclusion will need to take into account the findings of our investigation in respect of severance payments made to the former Chief Executive.

Whole of Government Accounts (WGA)
We anticipate reporting that the WGA submission is consistent with the audited financial statements but have not yet completed our work.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received a statutory objection in respect of your accounts for 2019/20.



1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions	●	Part of our assurance for the net pensions liability is derived from specified procedures commissioned from the external auditors of the North Yorkshire Pension Fund. We are yet to receive their final report for our consideration. We provide more information on this matter at page 10.
Exit packages and senior officer remuneration	●	Our enquires relating to this item of expenditure have not yet concluded.
Heritage assets	●	We have selected a sample and have requested additional evidence to support the increased valuation of £52 million recorded in 2019/20.
Existence testing of property, plant and equipment.	●	We have selected a sample and have received evidence to support existence.
Whole of government accounts procedures	●	Completion of whole of government accounts procedures.
Post balance sheet events	●	Review of post balance sheet events up to the point at which we sign our audit report.
Review and closure procedures	●	Completion of audit closure procedures, including final review.

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £8.125m using a benchmark of 2% of the prior year's Gross Operating Expenditure. Our final assessment of materiality, based on the 2019/20 final financial statements and qualitative factors is £8.701m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee), at £0.261m based on 3% of overall materiality.

Executive summary

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for money
conclusion

Appendices

2. EXECUTIVE SUMMARY (CONTINUED)

Materiality (continued)

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. Following our initial audit risk assessment we set specific materiality for the following items of account or disclosures:

- officer remuneration;
- termination benefits; and
- Members' allowances.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow up letter.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 11 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

Significant risk

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by carrying out audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Subject to resolution of outstanding matters on page 4, there are no matters arising from our work on management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Revenue recognition

Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2019/20. We have identified income from 'customer and client receipts' and 'other operating income' as the key areas for audit testing.

This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

How we addressed this risk

We addressed this risk by completing the following procedures:

- testing revenue items recorded around year end to ensure they have been recognised in the appropriate year;
- reviewing and testing revenue recognition policies, relating to 'customer and client receipts' and 'other operating income';
- testing year end receivables; and
- obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

Subject to resolution of outstanding matters on page 4, there are no matters arising from our work on revenue recognition to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Property, plant and equipment valuation

Description of the risk

The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model for all land and buildings over a five year cycle.

The Council employs an internal valuation expert to provide information on valuations and there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved in providing valuations.

In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.

How we addressed this risk

We reviewed the scope and terms of the engagement with the Council's in-house valuer and how management used the valuer's report for value land and buildings in the financial statements. We also assessed the competence, skills and experience of the Council's valuer.

We considered the valuation methodology in relation to industry practice, the requirements of the CIPFA Code of Practice, and the Council's accounting policies.

We reviewed the approach that the Council adopted to ensure all assets are revalued over a 5 year cycle and address the risk that assets not subject to valuation in 2019/20 are materially misstated. We considered the robustness of that approach in light of the valuation information reported by the Council's in-house valuer.

In addition, we considered the arrangements that management had put in place to ensure the accuracy of the valuers work, including the extent of the liaison between the valuer and the finance team.

In relation to the assets which have been revalued during 2019/20, we reviewed the valuation methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve (consulting valuers engaged by the National Audit Office), to obtain assurance that the valuations are in line with market expectations. We considered movement in market indices between revaluation dates and the year end in order to determine whether these indicated that fair values have moved materially over that time.

We considered the potential impact of the Covid-19 pandemic on asset valuations and the adequacy of the disclosures in your financial statements, specifically those relating to the material uncertainty.

We also engaged our own valuer to provide assurance that the value of Allerton Waste Recycling Park was materially accurate. This was necessary as the recycling park is individually a material value and has not been formally valued by the Council since it was brought onto the balance sheet in 2017/18.

Audit conclusion

The procedures we have undertaken to date, have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention (continued next page).

2. SIGNIFICANT FINDINGS (CONTINUED)

Property, plant and equipment valuation

Audit conclusion (continued)

The Council has considered RICS guidance and disclosed that due the impact of COVID-19 on the property market, there is a potential “material uncertainty” over the valuation of land and buildings and investment properties at the balance sheet date.

We expect, in line with normal practice, to include reference to this disclosure as an ‘emphasis of matter’ in our audit report. Our draft auditor’s report at Appendix B *will be updated for any ‘emphasis of matter’ paragraph once our internal consultation processes are complete.* The inclusion of an ‘emphasis of matter’ paragraph is not a modification or qualification of our audit opinion.

2. SIGNIFICANT FINDINGS (CONTINUED)

Defined benefit liability valuation

Description of the risk

The net pension liability represents a material element of the Council's balance sheet. The valuation of the fund relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial and demographic assumptions used in estimating the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should reflect the employee profile and be based on appropriate data.

There is a risk that the assumptions and methodology used are not reasonable or appropriate for the Council's circumstances. This could have a material impact on the net pension liability in 2019/20.

How we addressed this risk

We have reviewed the controls that the Council has in place over the information sent to the Scheme actuary, including the Council's process and controls with respect to the assumptions used in the valuation.

We have evaluated the competency, objectivity and independence of the scheme actuary, AON Hewitt.

We have reviewed the appropriateness of the methodology applied, and the key assumptions included within the valuation, by comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office.

We have reviewed the methodology applied in the valuation of the liability by AON Hewitt.

We have considered the potential impact of the McCloud judgment and Goodwin case on the pension liability valuation, and what the Council has done in respect of these. Management confirmed that an actuary report using data to 31 March 2020 was obtained to mitigate any potential impact on the valuation from the Covid-19 pandemic.

Audit conclusion

Subject to receipt of the assurance letter we have requested from the North Yorkshire Pension Fund auditor (see page 4), we expect our work to provide the assurance we sought in each of these areas. Our work to date has not highlighted any indication of material estimation error in respect of the defined benefit liability valuation.

In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020. A further legal case (the 'Goodwin' case) emerged in 2019/20.

Our work to date has not highlighted any indication of material estimation error in respect of the defined benefit liability valuation. We do, however, expect the Pension Fund to highlight a "material valuation uncertainty" in respect of the valuation of property assets. This may need to be disclosed in the notes to the Council's accounts and, in line with normal practice, we may need to include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft auditor's report at Appendix B will be updated for any 'emphasis of matter' paragraph once our internal consultation processes are complete. The inclusion of an 'emphasis of matter' paragraph is not a qualification of our audit opinion.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 June 2020 and were of a good quality.

Significant matters discussed with management

Significant matters discussed with management during our audit and which had implications for our audit testing and reporting included:

- We discussed the valuation of Allerton Waste Recycling Park with management. In conjunction with North Yorkshire County Council the Council commissioned a valuation to support the 31 March 2020 value, however, due to COVID-19 restrictions this valuation was not completed. We therefore worked with management to obtain our own assurance, that the value of Allerton Waste Recycling Park was materially accurate in 2019/20. We have also discussed future arrangements for the Council to liaise with North Yorkshire County Council to put in arrangements to obtain a full valuation for 2020/21.
- The regularity and accuracy of the Chief Executive's remuneration and exit package disclosures. At the time of writing this report this work is still on going.
- The £52m upward revaluation of the Art Gallery's heritage assets and arrangements to ensure this value is materially accurate. As at the time of writing this report this work is still on going.
- The impact of COVID-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures required regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. The Council has considered RICS guidance and as expected their accounts concludes that, because of the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. This has been disclosed in the notes to the Financial Statements.
- The Council's response to sector wide legal cases which impact on the valuation of certain pension liabilities. These included the proposed remedy for the 'McCloud' case (which emerged initially in 2018/19 and was reported on in our previous Audit Completion Report) which could have led to an overstatement of the original estimate of the Council's pension fund liability as at 31 March 2020. is likely
- Work required by our regulators and other risks emerging during the year. As highlighted in our Audit Strategy Memorandum and in our progress reports throughout the year, as a result of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers we have needed to increase the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the fee required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

Significant difficulties during the audit

We did not encounter any significant difficulties and we have had the full co-operation of management. The outbreak of the Covid-19 pandemic affected the operation of Council services and the audit process with officers and the audit team working remotely. We held regular discussions with management to understand the implications and consider the impact on our risk assessment. We identified no changes in key financial processes that affected our audit approach but our usual methods of communication and engagement were revised and the circumstances involved some time lags in resolving audit queries. Overall, the finance team responded well.



2. SIGNIFICANT FINDINGS (CONTINUED)

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

As at the time of writing this report, we have received an objection from an elector but have not exercised any of these powers as part of our 2019/20 audit.

Delay in audit certificate

The issue of the audit certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our auditor's report on the Statement of Accounts alongside the opinion and value for money conclusion.

We have not yet concluded our work on the opinion or value for money conclusion, or finalised our response to the statutory objection. Once we have completed these procedures we will then issue the audit certificate as soon as we are able to do so.

We will update the Audit and Governance Committee when more information is known but at this stage the draft auditor's report at Appendix B is subject to amendment on the basis of our audit findings and conclusion.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	Zero
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	Zero
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	Two

4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Deficiencies in internal control – Level 1

Description of deficiency

While our work to date, has not found any material errors in this area, we recommend that the Council improves its arrangement to review, challenge and document the output of management's valuation experts relied upon in the production of its financial statements.

Potential effects

Without sufficient challenge, information relied upon in preparing the accounts could result in a material misstatement.

Recommendation

We recommend that management's review and challenge of the valuer's work should be formalised. We suggest that management formally documents how it gains its own assurance over the data, calculations and assumptions in valuer's reports.

Management response

Arrangements are in place to review and challenge the output of our valuation experts who themselves use their professional judgement to work in accordance with Royal Institution of Chartered Surveyors (RICS) guidelines. Regular meetings are held throughout the year to share information and key assumptions on the valuation basis being used and revaluation cycle. Once valuations are received these are reviewed and any significant movements or category changes are challenged, and where necessary amendments to valuations are made. Evidence of this process has been provided during 2019/20.

Deficiencies in internal control – Level 1

Description of deficiency

Our work on Members' allowances the scheme and approved rates on the Council's website relates to previous policy. The review of the scheme and approved rates (December 2019) should be published on the Members' allowances section of the Council website.

Potential effects

The public are not informed of the latest decisions of the Independent Remuneration Panel, relating to Members' allowances.

Recommendation

The Council should ensure the published Members' scheme of allowances and approved rates is the most up to date version.

Management response

Arrangements are now in place to urgently correct this oversight and the Report of the Independent Remuneration Panel from December 2019, will be placed on the Council's website. However the recommendations contained within that report have been enacted and these are reflected in the individual councillor details on the website.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

The Council's password policy does not comply with current best practice in the following instances:

Password complexity: characters and numbers, 8 positions;

User account blocked after failed attempts;

Initial password is randomly generated (not always the same trivial password);

Password history (a previous password cannot be used again); and

Further, password parameters set within the Council's systems (Active Directory, Civica and iTrent) do not align with the Council's password policy.

Potential effects

Passwords are not sufficiently complex reducing the level of access security of critical business systems.

Recommendation

The Council should review its password policy to ensure it is in line with best practice and addresses the deficiencies highlighted above.

The Council should ensure that the password parameters for the critical business systems highlighted above reflect the Council's password policy.

2019/20 update

Our IT General Controls work in this area has not noted any issues in 2019/20.

4. SUMMARY OF MISSTATEMENTS

Misstatements

As at the time of writing our report, we have no unadjusted or adjusted misstatement to report.

We will provide the Audit and Governance Committee with an update in relation to any misstatements should any arise upon completion of the our work outlined on page 4, in a follow-up letter, prior to signing the auditor's report.

Disclosure amendments

As a result of our work, a number of disclosure amendments have been made to the other statements, notes and disclosures within the financial statements, and the most significant of these are as follows:

- Note 7 (adjustments between accounting basis and funding basis under regulations). Revenue expenditure funded from capital under statute (total £6.736m) was incorrectly included on the 'prior year reversal' line, and has been correctly moved to current year.
- Note 7 (adjustments between accounting basis and funding basis under regulations). Adjustment relating to the pension reserves were not consistent with note 26 (pension reserve - unusual reserves), however the net pension adjustment in Note 7 remained the same as a result of this adjustment:
 - reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES disclosed as £42.169m, should be £29.856m; and
 - employer's pensions contributions & direct payments to pensioners payable in the year' disclosed as £56.041m, should be £15.984m.
- Note 10 (financing and investment income and expenditure) does not include the net gain or loss on fair value (total £70k) included in note 14 (investment properties).
- Note 24 (provisions). Disclosure narrative includes reference to the Lendal Bridge and Coppergate provision, this is a nil provision in 2019/20.

In addition to the above, a number of more minor amendments have been made to the financial statements to correct rounding errors, ensure internal consistency and to correct typographical and formatting errors.

We will provide the Audit and Governance Committee with an update in relation to any other disclosure amendments should any arise upon completion of the our work outlined on page 4, in a follow up letter, prior to signing the auditor's report.

5. VALUE FOR MONEY (VFM) CONCLUSION

Our approach

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below..

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council has a Constitution in place which provides the framework within which the Executive takes decisions in exercise of Council functions. Decisions are supported by reports that outline options and relevant considerations.</p> <p>The senior management structure (including the Corporate Management Team and Corporate Leadership Group) is periodically refreshed to ensure it remains appropriate to respond to the Council's future plans and challenges.</p> <p>The Council has adopted a formal system of risk management and maintains both corporate and directorate risk registers which identify actions required to mitigate the identified risks.</p> <p>The Council uses corporate and directorate service level performance measures to report and manage service delivery. The quarterly financial and performance monitoring reports and associated outturn reports, present to the Executive the current and forecast position on performance and finance in relation to the Council's activities - supporting effective decision making.</p> <p>The Council approved its Council Plan (2019 -2023) which sets out the Council's long term priorities and objectives. Delivery of the plan and Council performance is monitored through Directorate Management Teams, Corporate Leadership Group and Corporate Management Team with reporting to the Executive and full Council.</p> <p>The Audit and Governance Committee provides oversight of the Council's governance framework.</p> <p>The Council's internal audit carries out an independent review of the effectiveness of the system of internal control including governance, risk management and the wider control environment operating within the Council. In 2019/20 the annual head of internal audit opinion again provided 'substantial assurance'.</p> <p>In response to the Covid-19 pandemic the Council amended its Standing Orders to facilitate remote Council meetings.</p>	<p>Our work in this area is not yet finalised. When we have concluded we will provide an update for this area in a follow up letter, prior to signing the auditor's report.</p>

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Council has proven track record of good budget management and delivering its Medium Term Financial Plan (MTFP).</p> <p>In 2019/20, the Council recorded a £0.128 million underspend, against its net general fund budget of £123.0 million. In common with other local government organisations, additional costs were recognised due to demographic trends in children and adult social care services. As in previous years, reductions in expenditure in other directorates and the use of earmarked reserves (£1.4 million) mitigated these pressures.</p> <p>In February 2020, the Council issued its financial strategy (2020/21 to 2024/25), including a balanced budget for 2020/21. In 2020/21 the Council planned a balanced net budget of £127.2 million, which was predicated by a 3.99% Council Tax increase (including social care precept), a £4 million savings plan and maintaining its general fund reserve balance of £6.4 million (consistent with 2019/20).</p> <p>As part of the financial strategy the Council included its medium term forecast, Consistent with 2019/20, the forecast identified funding gaps of around £4m in each financial year, up to 2025/26. The Council planned to address these gaps on an annual basis, as greater clarity around funding uncertainties became certain.</p> <p>As at quarter 1, the Council projected £7.6 million budget gap for 2020/21, which is reduced to £2.7 million after mitigations. As in previous years, children' services and adult social care continue to be the highest overspending areas.</p> <p>Reduced activity in the wider economy has resulted in a significant shortfall in the Council's fees and charges income. In August 2020, the Ministry of Housing, Communities and Local Government confirmed non-recurring government funding to cover a significant proportion of lost sales, fees and charges, for 75p in of every £1 of eligible losses. It does however expect the Council to absorb 5% of their planned 2020/21 sales, fees and charges income. The Council is currently considering the financial implications of this and is updating its financial forecast for 2020/21. At quarter 1 the Council estimated this additional funding to be circa £4 million. This is an evolving situation and the latest position does not take into account any additional Government support or funding. Despite these pressures. the Council does not foresee any significant reduction of services in 2020/21.</p> <p>Longer term, the Council is currently assessing the impact of the pandemic on its MTFP and is in the process of scenario modelling, which will be used to quantify the impact of the pandemic on the Council's MTFP and identify any future saving proposals.</p>	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council continues to work with partners and other third parties to explore scope for alternative delivery models with some already in place and others being considered.</p> <p>The Council is a member of a number of strategic delivery partnerships. Through the Health and Wellbeing Board, for example, the Council is working with local partners to create a strategic health and care economy that supports people to be healthy, well and independent. This includes a Joint Health and Wellbeing Strategy and a Mental Health Strategy.</p> <p>The Council has a Better Care Fund arrangement in place with the Vale of York Clinical Commissioning Group. This promotes the integration of health and social care and the development of transformational projects through the use of pooled budgets and integrated spending plans.</p> <p>The Council is a member of the York and North Yorkshire Local Enterprise Partnership (LEP) and a non-constituent member of the West Yorkshire Combined Authority. The Council is currently consulting with key partners including North Yorkshire County Council and the North Yorkshire district councils to agree the formation of the York and North Yorkshire devolution proposal, which is intended to create a new Combined Authority for York and North Yorkshire.</p> <p>In terms of arrangements to support effective procurement, the Council has an up to date strategy and procurement procedures in place. The Council maintains a contracts register and seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. The Council has a corporate procurement team to oversee procurement and along with other authorities in the area, the Council makes use of the Yortender system for the management of key procurements.</p>	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Financial sustainability</p> <p>The Council's medium term financial plan (MTFP) sets out the financial challenges the Council faces in the medium term. The mid-year financial position for 2019/20 indicates that the Council is forecasting delivery of a balanced budget for the year. There are, however, financial pressures within adult social Care and children's services such that delivering a balanced budget is likely to require the use of contingencies and non-recurrent income. While this is consistent with the MTFP, this use of one-off resources to support service delivery is indicative of the financial pressures faced by the Council.</p> <p>The continuing challenges are not new and are not unique to the City of York Council. The challenges do, however, present a significant audit risk for our consideration of the arrangements in place to manage demand in your key service areas and deliver financial sustainability over the medium term.</p>	<p>Building on our work in previous years, we reviewed the arrangements the Council has in place for ensuring financial resilience. Specifically, our work included reviewing:</p> <ul style="list-style-type: none"> the Council's MTFP to ensure it takes into consideration factors such as the latest income projections, funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors; and the arrangements in place to monitor progress in delivering a balanced budget for 2019/20 and the related savings plans. 	<p>Our work has provided sufficient assurance. We have no matters to report in regard to financial sustainability.</p> <p>The impact of the COVID-19 pandemic means the Council will need to revisit the MTFP, including assumptions and future budget gaps.</p> <p>Our conclusion considers arrangements in the 2019/20 financial year and recognises that the impact of COVID-19 started in March 2020. When setting the MTFP to 2023/25, arrangements were in place to set a financial plan which reflected the circumstances at that time.</p>

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mr M Kirkham
5th Floor
3 Wellington Place
Leeds
LS1 4AP

November 2020

Dear Mark

City of York Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of City of York Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

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Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Other matters

I can confirm in relation to the following matters that:

- Brexit -we have assessed the potential impact of the United Kingdom leaving the European Union and that the disclosure in the Narrative Report and note 3 to the Statement of Accounts fairly reflects that assessment.
- COVID-19 -we have assessed the potential impact of the COVID-19 Virus pandemic on the Council and the Statement of Accounts, including the impact of mitigation measures and uncertainties, and are satisfied that the Statement of Accounts and supporting notes fairly reflect that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please add an appendix is attached to the letter and not cross-referenced to the appendix in the ACR.*

Yours faithfully

Head of Corporate Finance & Commercial Procurement (s151 Officer)

Date:



APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the Members of City of York Council

DRAFT REPORT – NOT TO BE INCLUDED IN ACCOUNTS

Report on the financial statements

Opinion

We have audited the financial statements of City of York Council for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Housing Revenue Account, Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land and buildings

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings. As disclosed in note 4 of the financial statements, the Council has referenced a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We draw attention to note X of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's share of the North Yorkshire Pension Fund's property assets as at 31 March 2020. As disclosed in note X of the financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets. As such, the Pension Fund has included a material valuation uncertainty clause due to the possible impact of Covid-19. There is, therefore, less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the s151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The s151 Officer is responsible for the other information. The other information comprises the Annual Governance Statement information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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DRAFT AUDITOR'S REPORT

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the s151 Officer for the financial statements

As explained more fully in the Statement of the s151 Officer's Responsibilities, the s151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The s151 Officer is also responsible for such internal control as the s151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The s151 Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The s151 Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on City of York Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, City of York Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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DRAFT AUDITOR'S REPORT

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of City of York Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack and financial statements. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Kirkham
For and on behalf of Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP
DD/MM 2020

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APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



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