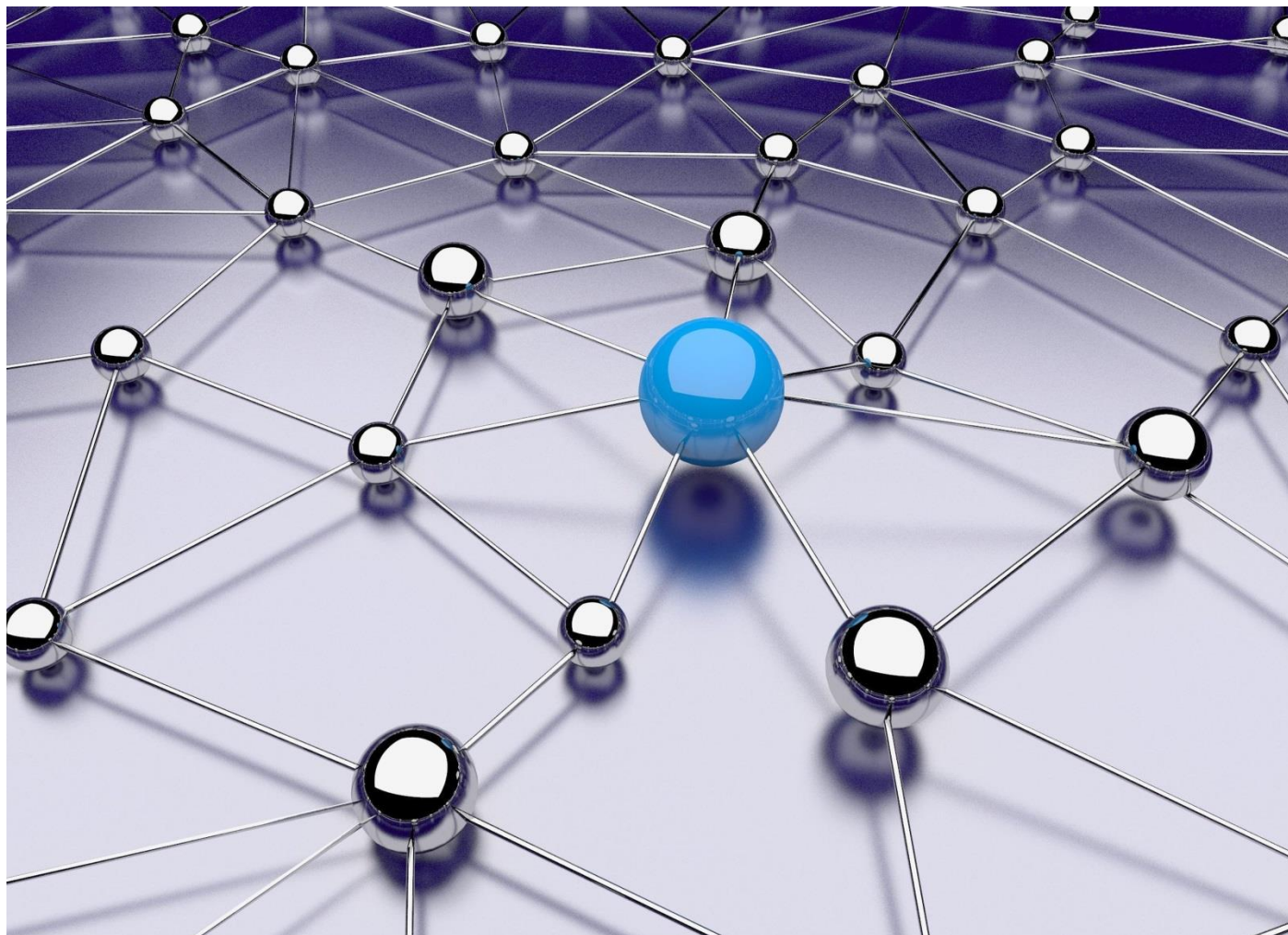


Audit Completion Report

City of York Council – year ended 31 March 2016

September 2016



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20 September 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit findings and conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented to the Committee on 13 April 2016. We have concluded that the original significant audit risks and areas of management judgement remain appropriate.

At the time of drafting our report, we are considering an objection to the Council's accounts in relation to two specific procurements of services by the Council. The implications of the objection are set out in our report.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

This document will be presented to the Audit and Governance Committee on 28 September 2016. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or gareth.davies@mazars.co.uk.

Yours faithfully

Gareth Davies
Partner
Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Audit Appointments Limited. 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.

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit and Governance Committee of City of York Council and forms the basis for discussion at the Audit and Governance Committee meeting on 28 September 2016.

Our communication with you is important to:

- Share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- Provide you with constructive observations arising from the audit process;
- Ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing City of York Council;
- Receive feedback from you on the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements identified as part of the audit in section 5.

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

Status and audit opinion

Objection to the accounts

On 11 August 2016 we were notified by a local elector of an objection to the Council's accounts. The objection notice raised a number of issues, from which two specific areas relating to the procurement of services from two separate suppliers constituted a valid objection. At the time of writing, we are considering the Council's response to the issues raised in the objection.

The expenditure in the 2015/16 accounts relating to these procurements is below £100k and consequently well below the level of materiality for our opinion on the financial statements. Consequently, we expect to be able to issue an unqualified opinion on the financial statements by 30 September 2016, but we will be unable to certify completion of the audit until the objection has been determined, which we expect to be in October 2016.

Other work on the financial statements

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on your statement of accounts on 30 September 2016.

We anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Work on the Value For Money (VFM) conclusion

We have substantially completed our work on the VFM conclusion.

We are satisfied that none of the issues we have identified in our work to date would give rise to a qualification of our VFM conclusion.

Subject to the satisfactory completion of the remaining VFM conclusion audit work, we anticipate:

- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- issuing our VFM conclusion on 30 September 2016.

We are preparing a separate and more detailed audit report on the findings from our additional VFM conclusion work (covering programme and project management, the community stadium, the older persons' accommodation programme, integration of health and social care and the operation of the Better Care Fund, and the 'future shape and size' programme) and this will be discussed with officers and reported to a future meeting of the Audit and Governance Committee. Summary conclusions are provided in section 6 of this report.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Well-managed finances are the foundation of the Council's ability to deliver essential services and to achieve value for money for taxpayers. The Statement of Accounts is the key medium by which the Council communicates financial performance with external stakeholders. As such it provides valuable data on how resources have been employed and what assets and liabilities are outstanding, and is a useful indicator as to the financial health of the organisation.

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2015/16 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16. The statement shows a surplus for the year for the provision of services of £55.9m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2015/16 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Narrative Report to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.9m.

The CIES then accounts for other items, primarily an actuarial adjustment in the defined benefit liability for pensions and the gains arising from the revaluation of Property, Plant and Equipment, and the bottom line result on the CIES is a surplus of £99.1m.

Movements in Reserves Statement (MIRS)

The MIRS takes the surplus on the provision of services of £99.1m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2015 and 31 March 2016 these increased from £96.0m to £114.1m. The General Fund balance, which is available to meet unforeseen circumstances, was reduced from £8.1m to £7.8m (excluding balances held by schools).

Housing Revenue Account (HRA)

The HRA shows the financial performance of the Council's ring-fenced housing provision. The statement shows a surplus for the year for the provision of services of £45.4m. As with the CIES, this position differs from the Council's reported performance on the HRA for 2015/16 because of items of income and expenditure which are correctly included in the HRA under accounting rules but are not reflected in the HRA under statute. In 2015/16 capital accounting adjustments reflecting increases in the valuation of council dwellings explain £38.0m of this surplus.

The HRA performance against its revenue budget is set out in the Narrative Report to the Statement of Accounts. The outturn position represented a surplus on the revenue budget for 2015/16 of £4.3m, compared to a budgeted surplus of £1.7m, representing an underspend of £2.6m. The overall HRA balance increased from £14.1m to £18.4m.

Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2015/16 was £41.5m, and £26.0m of this was financed from capital grants and contributions.

Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £493.3m which was an increase of £99.1m or 25.1% on last year.

The most significant movements from last year relate to an increase in the net book value of property, plant and equipment of £47.5m (mainly relating to the upward revaluation of council dwellings), a reduction in the net pension liability of £25.3m following the assessment by the actuary, a net increase in cash and short term investments of £17.8m and a £6.7m increase in the net book value of investment property.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance, funds held by schools, and the HRA balance, the Council also has £8.9m in a capital receipts reserve and £13.1m of capital grants unapplied. A further £56.1m is held in earmarked reserves.

Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £41.9m is held in General Fund earmarked reserves and £14.2m relates to the HRA.

It is notable that £18.4m of the general fund earmarked reserves relates to s106 agreements with developers where the funds are only usable for specific purposes. The majority of the amount held here relates to the community stadium project.

03 Significant findings

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

- Our audit conclusions regarding the 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 8 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; and
- Any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

International Standards on Auditing (ISA) 240 – The auditor’s responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to 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 updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment.

As part of this process we obtained information from the Audit and Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

Our testing included:

- consideration and review of accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or 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

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Pension entries (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, 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.

How we addressed this risk

We discussed with officers any significant changes to the pension estimates prior to the preparation of the financial statements.

In addition to our standard programme of work in this area, we also:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary (Aon Hewitt); and
- considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which was commissioned by the National Audit Office.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting policies and disclosures

We have reviewed City of York Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting. There have been no significant changes to accounting policies from the previous year.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example, disclosures related to remuneration, going concern, subsequent events, and contingencies). There are no reporting issues arising from our review.

Significant matters discussed with management

During the course of the audit we did encounter one significant matter that required discussion with management, relating to the revaluation of Council dwellings.

In the draft accounts presented for audit, the value of Council dwellings increased by £43.9m, or 16.0%, between 1 April 2015 and 31 March 2016, against a gross book value of £276.1m. This followed a full revaluation carried out by the valuer at 1 April 2015; a full valuation is undertaken once every 5 years with a desktop revaluation exercise in the intervening years.

In view of the material nature of the increase in the valuation and the low likelihood that the increase related entirely to the past year, we discussed with officers whether a prior period adjustment should be made.

We accepted officers' view that it should not because (under *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*) the significant increase following the revaluation arose from a change in accounting estimate rather than a change in accounting policy or an error, and IAS 8 states that for a change in accounting estimate, in this case the value of council dwellings, this would be adjusted in the current year and not give rise to a prior period adjustment.

We have recommended that the Council reviews its approach to the revaluation of Council dwellings in the years when a full revaluation is not carried out. This recommendation and the management response to it is included in section 4, internal control recommendations.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as 1 July 2016 to 11 August 2016.

We received an objection from a local elector on 11 August 2016 as explained in section 1 of this report.

04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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.

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.	None
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.	ONE
3 (Low)	In our view, internal control should be strengthened in these additional areas when practicable.	None

Other deficiencies in internal control – (Level 2)

Revaluations of Council dwellings

Description of deficiency

The value of Council dwellings increased by £43.9m, or 16.0%, between 1 April 2015 and 31 March 2016, against a gross book value of £276.1m. This followed a full revaluation carried out by the valuer at 1 April 2015; a full valuation is undertaken once every 5 years with a desktop revaluation exercise in the intervening years. The Code of Practice on Local Authority Accounting only allows a desktop process to be undertaken where the carrying value of assets has not changed materially. The quantum of the increase reflected in a single year suggests that the desktop valuations may not have identified potentially material changes in the intervening period.

Potential effects

In the intervening years between full revaluations, the financial statements could be materially misstated in respect of Council dwelling values.

Recommendation

That the Council reviews its approach to the revaluation of Council dwellings in the years when a full revaluation is not carried out. Any desktop valuations undertaken between full valuations need to be sufficiently robust to identify any potentially material change in the valuation of Council dwellings and ensure that any material changes are reflected in the carrying value of these assets. This recommendation is particularly relevant when house prices are either markedly increasing or markedly decreasing.

Management response

The Council's approach to council dwellings valuations involves a full valuation every 5 years, with a desktop valuation in the intervening years. This approach is consistent with the CIPFA Code of Practice and is the approach adopted by the majority of other local authorities. Due to the nature of a desktop versus a full valuation there may, at times, be a material increase or decrease in the valuation amount upon full valuation. This would clearly only become apparent at the point of the full valuation.

Desktop Valuations of Council Dwellings are carried out by the Council's professional Valuers using the best information available at the time of valuation, eg. Land Registry data on percentage house price increases in the York area. It should be noted that, as York is a relatively small urban area, there are no other indices produced on changes in house prices that could be used. Most indices are for the Yorkshire area as a whole or the major urban areas such as Leeds. The Land Registry index is based on all residential sales in the York area and so, as the only suitable index, the published figure was used when the 2014 valuation was carried out in May 2014.

We do, however, recognise that there may be areas for improvements and the Property team, in consultation with Corporate Finance, will consider further options for increasing the accuracy of desktop valuations carried out in intervening years, including whether capacity exists to increase the frequency of the full valuation exercises on Council Dwellings.

Follow up in relation to the bank reconciliation

Members will recall that in last year's Audit Completion Report we included a recommendation to resolve historic discrepancies in the Council's bank reconciliation.

We are pleased to report that our recommendation has been fully implemented and there are no outstanding issues relating to the bank reconciliation to bring to the attention of Members.

05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £8.1m with a clearly trivial threshold of £243k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2015/16 audit, based on the final statement of accounts, is £7.4m, with a trivial threshold of £222k.

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment.

The table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Property, Plant and Equipment			379	
	Cr: Assets Held For Sale				379
Heworth Family Centre is to be transferred to the HRA in 2016/17. It is not therefore being actively marketed for disposals and thus does not meet the definition of an Asset Held For Sale and should be shown as Property, Plant and Equipment.					
2	Dr: Other Long Term Liabilities			247	
	Cr: Other Short Term Liabilities				247
This relates to a PFI liability – the whole balance is being shown as due as after 12 months, but this element is due within 12 months.					

There were no other misstatements identified as part of the audit that required adjustment by management during the course of the audit.

Disclosure amendments

A number of amendments were made to disclosures in the accounts:

- Additional explanation in note 12 on property, plant and equipment of the impact of the increase in value of council dwellings on the accounts;
- The value of remuneration for the Member of the Council who sits on the Board of Yorwaste was disclosed in note 41, related parties;
- Amendment to the classification of debtors in note 19;
- A minor amendment was made to the value of exit packages disclosed in note 37, officers remuneration;
- Amendments to disclosures in note 16, financial instruments and note 42, capital expenditure and financing;
- Amendments to the cash flow supporting notes;
- Amendment of note 10 to the HRA; and
- A number of other minor errors, omissions, clarifications and typographical errors were corrected.

06 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We detail this risk in the table below alongside a description of how we have addressed this risk.

VFM risk – Responding to financial pressures and competing demands, and delivering significant projects and new ways of working

Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

There have been some high profile examples of problems with project delivery, such as the housing for older people procurement and more recently with the community stadium project. This has been the first year of operation of the Better Care Fund, which requires the Council to work with the local CCG and the wider health economy to reduce demand for acute healthcare. Any failures in these areas could compound the Council's financial and operational difficulties and impact adversely on services provided.

How we addressed this risk

We reviewed budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and seeking to minimise any adverse impact on service delivery. We reviewed the plans that are being developed to deliver savings and improvements.

We focused on:

- the budget process and the Medium-Term Financial Strategy;
- the progress made in identifying savings required;
- budget monitoring reports and other finance updates; and,
- delivery of improved outcomes.

In addition, we carried out a number of more detailed specific probes in four areas of particular risk:

- a review of the Community Stadium project;
- a review of the operation of the first year of the Better Care Fund;
- follow up on progress made on the housing for older people procurement; and,
- a review of the operation of the improved programme and project management arrangements.

Overall conclusion

We have substantially completed our work on the VFM conclusion.

The auditor is required to qualify the VFM conclusion where they identify significant weaknesses in the audited body's arrangements. We are satisfied that none of the issues we have identified to date would give rise to a qualification of our VFM conclusion for the 2015/16 audit in relation to City of York Council.

Subject to completing this work, we therefore expect that our overall conclusion will be that, in all significant respects, City of York Council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We expect to issue an unqualified Value for Money (VFM) conclusion as set out in Appendix B.

Financial management

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power coupled with increased demand for services.

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions.

The 2015/16 revenue budget included savings proposals to address reduced funding and cost pressures.

The Council achieved a better than expected outturn for both the General Fund and HRA in 2015/16.

2015/16	Original Budget	Funding	Net Budget position	Outturn Position	Comparison against Original Budget
General Fund - revenue expenditure	£119.8m	£119.8m	£0	£876k Surplus	£876k Improvement
Housing Revenue Account	£32.0m	£34.6m	£2.624m surplus	£4.344m Surplus	£1.720m Improvement

The main reasons for the better than expected General Fund Outturn included a £1.8m saving against central budgets, which was partly offset by a £968k overspend in directorate budgets. Central budgets benefitted mainly from reduced interest costs and increased interest income, arising from slippage in the capital programme. The biggest directorate overspend was in children's services, education and skills (£791k). Adult social care, an area which has been subject to significant cost pressures in recent years achieved a net budget saving of £101k.

The Council has a significant capital programme, and the outturn for 2015/16 was £41.5m, compared to an original budget of £71.1m, the reduction mainly arising from slippage in the programme and re-profiling of budgets to future years.

The Council has set its revenue budget for 2016/17, including a 3% council tax increase. The medium term financial plan estimates the savings required in the four years 2016/17 to 2019/20 as £23m, of which £6.5m has been reflected in the 2016/17 budget.

In the budget for the HRA a key factor in the next few years will be a requirement to reduce rents by 1% per annum. The Council has still been able to set a budget for 2016/17 for the HRA which predicts a £3.7m surplus.

Additional detailed probe work

The work which is still ongoing at the time of drafting this report is the additional detailed probe work which was outlined in our Audit Progress Report presented to the Audit and Governance Committee on 22 June 2016.

This audit work has been undertaken by members of our specialist public services advisory team.

A separate report setting out our detailed findings and conclusions will be discussed with officers and presented to a future meeting of the Audit and Governance Committee, covering the following key areas:

- overall programme and project management arrangements;
- the community stadium project;
- the older persons' accommodation programme;

- integration of health and social care and the operation of the Better Care Fund; and
- The 'future shape and size' programme, which considers the Council's future operating model and how services might be re-shaped to meet the challenges the Council faces.

The separate report will set out our detailed findings, including recommendations for improvement.

In this report we provide our summary conclusions in the paragraphs below.

Overall programme and project management arrangements

We found that the arrangements being put in place to improve programme and project management reflect good practice. We recognise that the new arrangements will take time to embed in the Council's wider management arrangements. It is important that the recommendations arising from the recent review by Veritau of programme and project management are fully implemented. We also see it as key that corporate oversight of programme and project management is maintained, and that adherence to the arrangements being put in place by the Programme Manager and other colleagues is supported and monitored by the Corporate Management Team. Reporting on programme and project management to the Audit and Governance Committee has noticeably improved as the Council has developed its new arrangements.

The community stadium project

The Community Stadium is one of the Council's most ambitious projects aiming to deliver a sustainable future for local football and rugby clubs whilst providing much wider economic and social benefits to the whole community through leisure, retail and health facilities on the site. The project has evolved over a significant period of time through:

- the initial concept for a new shared football and rugby stadium in 2009;
- a comprehensive business case in 2012 for the stadium combined with other sporting, health and educational facilities; and
- final plans for an extensive new stadium and leisure complex including significant retail development and a cinema.

The project has attracted considerable public interest and is highly complex in terms of the legal and contractual framework, planning requirements, procurement process, technical specification and costing as well as the management of the multiple stakeholders involved.

A key objective is to maximise private sector funding for the project with minimal Council contribution. The current plan shared with the Executive in March 2016 is for a £44.2m development with £14.4m of Council funding. In broad terms this represents £2 of private investment for every £1 of public funds.

Following our preliminary review of the Council's arrangements for the delivery of this project as part of our Value for Money work in the 2014/15 audit, the project has progressed in many areas. Greenwich Leisure Ltd were approved as the preferred bidder for the design, build, operate and maintain contract in September 2014 and following detailed planning approval in March 2015, dialogue has continued to finalise the design specification including value engineering work to contain costs where feasible.

However, the project continues to experience significant delays due to the complexities of finalising the design, planning approvals and associated legal agreements. A necessary planning amendment was approved in June 2016. The latest anticipated timescale for the stadium to be operational is early 2018. Early works have been implemented to mitigate the impact of the delays.

The timescale slippage has had a consequent impact on costs due to inflation and contractors not being in a position to fix prices until financial close when agreements can be signed. Including project costs and contingency, the total cost of the development has risen to £44.2m as reported to the Executive in March 2016 against an original budget of £37m based on the final tender price submitted in May 2014, an increase of almost 19.5%.

The reasons for the capital cost increase reported in the paper are progression of the detailed design, construction inflation, delays in the timetable and the inclusion of an increased contingency. However, as reported at March 2016, the revenue consequences of the scheme show a favourable impact over the 13 years of the scheme. The projected net revenue cost of £1.3m over 13 years compares to a budget of £5.6m over the same period, a saving of £4.3m.

The current estimated final costs of the project and the costs that have been incurred to get the scheme to its current position have been the subject of public comment.

The Council has been unable to debate many of these issues in public whilst within a competitive dialogue procurement exercise and whilst involved in commercial negotiations with a range of parties to the project.

As part of our review we have had access to all information held in relation to this project, including commercially sensitive information. The view we have to form is not whether the project will succeed, but whether the Council has proper arrangements in place to manage this project and mitigate the risks of failure.

The Outline Business Case approved in March 2012 was of a high standard. The procurement process ran well with two bidders remaining at the final stage thereby providing a market benchmark for the final accepted tender price.

The most recent public report to Executive on the project in March 2016 set out recommendations to proceed with the Community Stadium and Leisure Facilities Project, agree the required project budget and agree to complete all final negotiations and legal agreements for the project to reach financial close.

Until financial close can be achieved, which is subject to constraints outside of the Council's control, contractor and sub-contractor agreements and leases cannot be signed. As is common for major construction projects of this nature, this means prices are not fixed and therefore cost variations have and will continue at least to reflect the impact of inflation over time.

The project team has implemented a detailed cost tracking approach to evidence scrutiny of cost revisions for both capital and revenue. Challenge of costs is provided by independent technical experts employed as part of the project team. This has happened from the commencement of the procurement process at each formal cost restatement stage including the accepted tender price and as the design was developed, through to the latest cost estimates. The Council has therefore tested on an ongoing basis whether the project represents value for money to the public at each stage and has continued to update that assessment over the project life cycle.

A further recent development is a judicial review claim lodged by Vue Cinemas against the June 2016 planning approval. The Council continues to assess the impact of this further delay.

Despite the significant complexities of this major project, we have observed good practice in many areas including disciplined governance and project management, a well-run procurement process, appropriate technical resourcing of the project team, detailed cost tracking and the use of specialist independent support when necessary.

Members of the Executive have received regular briefings on the project, and this continues to be the case.

Our observations are that the public reporting to Executive could have been expanded without compromising commercial confidentiality. Officers' view is that they sought external legal advice on what to disclose and that the reports were at the limits of what it was possible to include in a public report.

Our suggestions are that some limited additional narrative could have been used to provide more assurance to Members and the public, for example:

- the arrangements that had been put in place to scrutinise and challenge the costs through the cost tracking process, including the use of independent and specialist external advisors. The reports set out the costs but did not explain the controls which have been put in place by the project team to ensure value for money;
- summarising how the scope of the project had changed over time and the impact on costs. The cost increases are clear but the narrative explanation could have been expanded, setting out the key factors explaining the increases, eg. the cost escalation due to inflation; and
- providing more information on the reasons for the delays and a revised project plan for the key workstreams.

We recommend that as the Council progresses the community stadium project:

- The Council ensures there is at least quarterly reporting of the project to the Executive;
- The Council continues to assess the balance between putting information in public papers, and the clear need to exercise commercial sensitivity at times;
- The Council provides narrative explanation of its assurance arrangements, and how it has demonstrated that value for money has been achieved;
- There is a clear re-statement of the costs and benefits of the project and further consideration of risks once financial close is reached and agreements are in place; and
- Continued regular reporting to the Executive during the construction phase.

We conclude that the Council has proper arrangements in place for the ongoing management of the external challenges, risks and delivery of this complex scheme. The challenge now is to overcome the remaining planning obstacles, contain further cost pressures and achieve financial closure on the project so that the focus can move to the construction phase.

The older persons' accommodation programme

We followed up the actions taken since our review of the housing for older people's project which was reported to the Audit and Governance Committee on 29 July 2015. This review identified a number of areas for improvement following the abandonment of the older people's procurement early in 2015 on the grounds that the programme was not affordable.

Our report concluded that the older people's accommodation project was an ambitious and complex programme of work for the Council involving multiple inter-related work-streams, various stakeholder interests and a high public profile. This required a disciplined business case development, robust governance arrangements and tight programme management to provide assurance on risks and appropriate, timely communication to decision-makers and stakeholders. Although we identified some areas of good practice, there were some weaknesses in the Council's approach and arrangements in these areas and consequent opportunities for improvement and learning on future major projects.

Part of the Council's response was to strengthen its programme and project management methodologies which was considered earlier in this report.

In addition, in July 2015 the Executive approved the business case for a new older persons' accommodation programme. This programme has progressed well and in July 2016, there was a very comprehensive progress report to the Executive which recorded the tangible progress that had been made in a number of specific areas, future plans, and in particular placed this in the context of an analysis of demand, financial considerations, risk assessment, consultation and community engagement.

In our view, the work undertaken on the older persons' accommodation programme has comprehensively addressed the issues we raised, and arrangements are in place to deliver improved outcomes.

Integration of health and social care and the operation of the Better Care Fund

As experienced nationally, there have been significant challenges in progressing the integration of health and social care services. Some of these difficulties were evident in the operation of the first year of the Better Care Fund (BCF) in York.

The BCF is a national initiative which requires local authorities and Clinical Commissioning Groups (CCGs) to pool resources to realise the benefits of integrated care and support services. In the case of York, the pooled fund was £12.1m in 2015/16 with the majority of the funding provided by the Vale of York CCG.

The BCF objectives were summarised succinctly in reports to the Health and Well Being Board:

“In 2015/16 the main aim of the BCF was to reduce Non Elective Admissions to hospital, as well as having an impact on permanent admissions to residential care, improving the effectiveness of reablement and helping to reduce the number of Delayed Transfers of Care (DToC) across the system. A local aim to reduce the number of falls related injuries for the over 65s was also agreed. Partners across the health and social care system agreed these aims and our ambitious plan was finally fully signed off through the National Assurance Process in January 2016.”

The Council and the CCG identified schemes that would support these objectives, however, it became clear that the measures taken were not delivering the level of improvement that had been hoped for on the measures included in the BCF plan for 2015/16.

The CCG experienced financial difficulties and in the Council's third quarter financial monitoring report for 2015/16, a potential financial pressure of £3m was reported due to issues with the Vale of York CCG, although it was hoped that this position would be resolved by the year end. The financial position was resolved for the Council and in terms of the adult social care budget a small underspend was achieved as noted earlier in this report.

There is an increasing imperative nationally and locally for more comprehensive and accelerated integration of health and social care, and an Integration and Transformation Board has been established as a sub board of the Health and Well Being Board to take this forward, including the development of a strategy for joint commissioning.

The 2016/17 BCF Plan, which is for £12.2m, has taken significant time to be agreed, due to ongoing negotiations between the Council and the CCG. We understand that NHS England confirmed that the 2016/17 BCF Plan had been approved on 15 August 2016, and that work is now being undertaken to ensure that the Section 75 agreement between the Council and the CCG is updated.

In considering the impact of these issues on our VFM conclusion, we have concluded that the Council has managed a difficult situation in relation to integration with health during 2015/16. Despite the challenges, the Council's contribution to BCF work streams in 2015/16 that were delivered within the financial envelope available is evidence that the Council had proper arrangements in place. As these pressures remain in 2016/17, this is likely to be an area we will seek to review again in next year's audit.

The 'Future Shape and Size' programme (FSS)

“Future Shape and Size” is the Council's over-arching transformation programme which aims to deliver an operating model which will realise significant financial savings whilst ensuring sustainable services into the long-term. The programme continues the ambition and themes of the previous Rewiring Public Services programme which was subject to a review of programme management arrangements in 2014/15 as part of our VFM conclusion work.

In line with our recommendations, the Council has taken the opportunity to clarify the direction of the programme, define priorities and streamline governance arrangements.

The refreshed programme has progressed well since its initiation having developed and evaluated concepts into emerging proposals for implementation. It has benefited from the significant amount of groundwork undertaken as part of the previous transformation programme of work.

Local Area Teams is the first major project under the programme umbrella at the implementation phase. This is the place-based operating model proposed for Children and Young People's prevention and early intervention services. We found good practice in terms of the project management and governance processes in place over this project, particularly in terms of the improved use of the Verto project management system. We concluded that the Council's arrangements are appropriate and effective for the management of this major change programme.

Corporate direction and management arrangements

The Council Plan 2015 – 2019 sets out the Council's corporate priorities.

Key Priorities

a prosperous city for all - where local businesses can thrive and residents have good quality jobs, housing and opportunities

a focus on frontline services - to ensure all residents, particularly the least advantaged, can access reliable services and community facilities

a council that listens to residents - to ensure it delivers the services they want and works in partnership with local communities

The Plan was approved by full Council in October 2015 and is a high level document that sets out key aims, improved outcomes and what the Council will do over the next 4 years.

In March 2016, the Council invited a Local Government Association (LGA) peer challenge review team to undertake follow up work on their previous Corporate Peer Challenge in June 2013. This identified a number of issues to address including the need for stronger and more visible leadership (political and managerial), improvement in the working relationship between officers and members, improved clarity of the Council's vision and a budget process that better follows the Council's stated priorities. The peer review also highlighted some areas that had improved and also concluded that service delivery had been good to date.

The Council has developed an action plan in response to the issues raised in the peer review.

Part of the response has included a revised performance management framework which aims to establish a 'line of sight' from the Council's vision and priorities, through key strategies, statutory plans and directorate plans and down to individual and team performance plans. As part of this initiative the Council has articulated a 'New Vision' for the City of York in 2030 which reflects the overall vision that *"the Council will secure the future of York as a prosperous, progressive, and sustainable city, giving the highest priority to the wellbeing of its residents, whilst protecting the fabric and culture of this world-famous historic city"*.

The Council's current performance reporting, including the Annual Report for 2015/16 published in June, includes a large amount of performance data and reporting on activities that have been undertaken, but lacks milestones that show how the Council will move from where it is now to where it aims to be.

The development of the new vision provides an opportunity for the Council to take stock on what it is seeking to achieve, clarify what needs to be done and then the steps that need to be taken over time. Through this process the Council needs to assess whether all of its current activities and projects are appropriately directed towards its key objectives and take corrective action where this is not the case.

Over the last year, the Council has experienced significant changes in senior management, and interim arrangements have been in place in some areas, including at Chief Executive level. A new permanent Chief Executive started on 1 August 2016 and a new management structure is being implemented.

Future challenges

The challenges for the future include:

- Implementing the new management structure;
- Making a reality of the key priorities in the Council Plan 2015 – 2019 and the new vision for 2030;
- Delivering the challenging and demanding programme of projects that the Council has in place to improve the outcomes for the City and its residents;
- Continuing to operate in an environment of austerity where further cuts in spending, new ways of working and alternative models of service delivery are likely to be required ; and
- Positioning the City of York to best advantage in terms of devolution.

In the tables below we comment briefly on our assessment using the sub-criteria of the VFM conclusion.

Informed decision making

Proper arrangements	Comments on City of York Council
<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p>	<p>The Council operates an Executive with a Leader model, and this is governed by a Council Constitution including all of the normal features of a governance framework in local government.</p> <p>We review Executive and Council papers on an ongoing basis.</p> <p>We have not identified any evidence of decisions being taken that are not supported by reports that outline appropriate options and relevant considerations.</p> <p>The Council's system of internal control is subject to Internal Audit and for 2015/16, Veritau, the Council's internal auditors, have given an opinion of substantial assurance.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework including approval of the Council's financial statements. We attend all Audit and Governance Committee meetings. The committee can have a lot of business to deal with at times, reflecting the issues that exist and the debate can be lively. We have seen some good examples of challenge and oversight.</p> <p>The Council's Annual Governance Statement includes a balanced assessment of the effectiveness of the Council's governance arrangements. The statement is open that significant governance issues do exist and need to be addressed. The 2015/16 statement highlighted issues that included information governance, absence management and risk management.</p>
<p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.</p>	<p>As noted above, we review Executive and Council papers on an ongoing basis.</p> <p>We have not identified any evidence of decisions being taken that are not supported by reports that outline appropriate options and relevant considerations.</p> <p>All reports include a section on financial and legal issues.</p> <p>Performance issues are included in reports where appropriate, and overall performance outcomes are monitored quarterly and also included in the Council's Annual Report, the latest version of which is the York Monitor 2015/16.</p>
<p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>Financial issues are set out in reports related to individual decisions. In addition, regular financial reporting takes place, with formal reporting quarterly to the Executive.</p> <p>There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas.</p> <p>The development of the Council's vision and priorities described earlier in this report provides an opportunity for the Council to take stock on what it is seeking to achieve, clarify what needs to be done and then the steps that need to be taken over time. This process provides an opportunity to better align resources to strategic priorities over the medium term.</p>

Proper arrangements	Comments on City of York Council
<p>Managing risks effectively and maintaining a sound system of internal control.</p>	<p>The Council has a risk management strategy and framework in place. The Council has recently refreshed its corporate risk register. Key corporate risks are monitored quarterly by the Audit and Governance Committee.</p> <p>The Council's system of internal control is subject to Internal Audit and for 2015/16, Veritau, the Council's internal auditors, have given an opinion of substantial assurance.</p>

Sustainable resource deployment

Proper arrangements	Comments on City of York Council
<p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>The Council has made good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p>
<p>Managing and utilising assets effectively to support the delivery of strategic priorities.</p>	<p>The Council has a Corporate Asset Management Plan. The current plan for the period 2011 to 2016 is due to be refreshed soon. There are good examples of the Council seeking to make best use of its assets, with one of its largest and most successful projects so far being the development of the Council offices at West Offices, which includes elements of co-location with other public services.</p> <p>The Council also has a strategy for the management of its stock of council dwellings.</p>
<p>Planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>In the current climate, workforce planning can easily become focused on reducing staff numbers in the face of austerity and the increasing challenge of delivering more with less resource.</p> <p>The Council has recognised the need to invest in its workforce. As part of the response to the peer review follow up, the Council has developed a People Plan. Although this is very high level at present, and needs to be further developed, it does identify the need:</p> <ul style="list-style-type: none"> • To be an organisation that can transform quickly and effectively that is outcome focussed, that values and engages with employees and has a culture that is collaborative, innovative, inclusive and creative; • To have a visionary ambitious workforce to enable effective delivery of outcomes for residents in challenging times. To further develop our teams so that in enabling the provision of outcomes they can demonstrate flexibility, innovation, decision making, an ability to engage with external parties and at all times excellent customer service; and • To be an organisation that supports and manages wellbeing, that promotes effective and active employee engagement with staff initiative encouraged and welcomed.

Working with partners and other third parties

Proper arrangements	Comments on City of York Council
Working with third parties effectively to deliver strategic priorities.	<p>The Council works with a range of third parties. One of the most important partnerships is with health bodies, for example, working with the Vale of York Clinical Commissioning Group (CCG) to reduce emergency admissions to hospital and provide as much support as possible in a social care setting.</p> <p>Particular strains were evident in the health economy in York during 2015/16, and for a time there was a concern that the CCG may withhold funding from the Council because of its own financial difficulties. This situation was avoided, but there remain issues with the operation of the Better Care Fund in 2016/17.</p> <p>The Council are dealing with the risks by being prepared to adjust planned delivery of services if CCG funding is not secured in full.</p>
Commissioning services effectively to support the delivery of strategic priorities.	<p>Commissioning and procurement are closely aligned. The Council has defined commissioning as “the strategic activity of assessing needs, resources and current services, to develop a strategy to make best use of available resources to meet the assessed needs and desired outcomes”, and procurement as “the process of acquiring goods, works and services, covering acquisition from both third parties and in-house providers.”</p> <p>The Council has described how commissioning is supported by procurement:</p> <p>“The procurement function is designed to support and deliver the commissioners intentions in a legal and compliant manner. Whilst the procurement function sits centrally within the council, and commissioning sits within departments it is key that we develop and maintain strategic links to commissioners to ensure procurement activities are undertaken efficiently and economically.”</p> <p>The Council benchmarks its commissioning and procurement activity.</p> <p>As part of our work on the VFM conclusion we consider the information in VFM profiles, which provides comparative data with other similar authorities.</p> <p>Although there are variations in the costs within and between services, overall, the Council compares favourably with the authorities in its comparator group.</p>
Procuring supplies and services effectively to support the delivery of strategic priorities.	<p>The Council has procurement procedures in place and maintains a contracts register. The Council 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. Along with other authorities in the area, the Council makes use of the Yortender system for the management of key procurements.</p> <p>The Council is in the process of refreshing its Procurement Strategy.</p> <p>As noted earlier in our report, we are still considering issues raised in relation to two specific procurements as part of the objection to the accounts.</p>

Follow up of issues arising from our Public Interest Report

On 26 February 2016, we issued a Public Interest Report on governance issues in relation to remuneration of Council officers for work as Directors of City of York Trading Ltd. As part of the 2015/16 audit, we have followed up the implementation of our recommendations.

We asked officers to provide us with an update on progress made to date. We asked for this as close as possible to the Audit and Governance Committee meeting, so that the update is as current as possible. The response was received on 15 September 2016. In the table below, we include our original recommendations, the update provided by officers and our own comments on the progress to date.

Recommendations	Progress report from officers	Our comments on progress
<p>R1 The Council should take steps to rectify the omission of Council approval for the payments made to the two directors of City of York Trading Ltd in March 2015 for work for the company in 2013/14.</p>	<p>The two directors have voluntarily repaid the payments made to them. No further action required.</p>	<p>Agree no further action is needed.</p>
<p>R2 Where the Council envisages a role for a committee within a Council-owned trading company to fulfil a Council function, as appears to have been the case with the Shareholder Committee of City of York Trading Ltd, the Council should ensure that the Constitution is amended to reflect this role and that the composition of the Committee is consistent with the Council's decision making and governance arrangements.</p>	<p>The Council continues to review the governance of its companies, including consideration of opportunities presented by trading some of its activities through external trading companies. Following the recommendations from the paper which went to June's Executive, a further report will be taken to September's Executive, which will set out the proposals to create a governance structure to oversee the activity of its current and future external bodies in which the council has an interest.</p>	<p>We note the decision to establish a single member decision making committee to act as shareholder and oversee the business of all Council trading companies. When these arrangements take effect the Council's Constitution needs to be updated to reflect them.</p>
<p>R3 The Council should review its approach to the establishment and governance of Council-owned companies to ensure that it fully reflects good practice and the lessons from this report.</p>		<p>We note that a comprehensive review of all Council trading companies was reported to the Executive on 30 June 2016. At the time of drafting this report we have not been able to review the further report that will be taken to the Executive on 29 September 2016.</p>

Recommendations	Progress report from officers	Our comments on progress
<p>R4 In the light of the conclusions of the review recommended in R3, the Council should prepare specific guidance to members and officers on their involvement in Council-owned companies.</p>	<p>The Council continues to review the governance of its companies, including consideration of opportunities presented by trading some of its activities through external trading companies. Following the recommendations from the paper which went to June's Executive, a further report will be taken to September's Executive, which will set out the proposals to create a governance structure to oversee the activity of its current and future external bodies in which the council has an interest.</p>	<p>The specific guidance to members and officers on their involvement in Council-owned companies still needs to be produced. As noted in the response to R5, the Council intends to address this when it has implemented the measures arising principally from its response to R2 and R3.</p> <p>We note that this is an important recommendation and needs to be given priority in the near future.</p>
<p>R5 The guidance recommended in R4 should address the conflict of interest risks likely to arise where members and officers hold both Council and Council-owned company roles (unpaid and paid) and set out clear advice on how these should be managed. The guidance should also specifically address how the conflict of interest risks should be managed where the Council officers involved hold one of the three Statutory Officer roles of Head of Paid Service, Chief Finance Officer and Monitoring Officer.</p>	<p>As previously advised, the recommendation will be addressed when drafting new guidance once R2/3/4 have been completed.</p>	<p>As noted above, the Council intends to address this when it has implemented the measures arising principally from its response to R2 and R3.</p> <p>We note that this is an important recommendation and needs to be given priority in the near future.</p>
<p>R6 The Council should review its arrangements for ensuring that internal legal advice is followed, and that any instances where such advice is not followed are identified.</p>	<p>As previously confirmed this will continue to be managed within the Council's constitutional procedure and where legal advice is prescriptive it will be followed.</p>	<p>We note the Council's response in relation to this recommendation and have no further comments.</p>

Recommendations	Progress report from officers	Our comments on progress
<p>R7 Where there are unusual or sensitive transactions such as the remuneration paid to Council officers for their work for a Council-owned trading company, particularly where they take place for the first time, the Council should bring the matter to the auditor's attention during the audit.</p>	<p>As previously confirmed this will be picked up as part of the Council's Statement of Account procedures and any issues discussed with External Audit.</p>	<p>These issues have been considered in the audit of the 2015/16 financial statements. As noted in the response to R8 below, Council officers no longer receive payments of this nature.</p>
<p>R8 Where senior Council officers receive remuneration for their work for a Council-owned trading company, the Council should recognise this as a related-party transaction and disclose it in the notes to the financial statements.</p>	<p>As previously advised Council Officers no longer receive payments of this nature.</p>	<p>As noted in the response, as Council officers no longer receive payments of this nature, there are no such transactions to disclose in the related parties note to the financial statements.</p>
<p>R9 The Council should update the officer register of interests form and guidance notes to require disclosure of the value of any remuneration received for an individual officer's role in a Council-owned trading company.</p>	<p>New procedures have been put in place to ensure that staff at grade 10 and above complete an annual register of interests' declaration. The form and guidance has been updated to reflect best practice in local government.</p>	<p>Officer disclosures have been reviewed as part of the audit of the 2015/16 financial statements and we have not identified any audit issues from our review.</p>
<p>R10 The Council should review its system for ensuring that all annual returns are received for the officer register of interests.</p>		<p>Officer disclosures have been reviewed as part of the audit of the 2015/16 financial statements and we have not identified any audit issues from our review.</p>

Appendix A – Draft management representation letter

City of York Council

28 September 2016

Dear Mr Davies

City of York Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for City of York Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations 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 statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 statement of accounts 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 Director of Customer and Business Support Services 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 Executive 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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.

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 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 Executive Director 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 statement of accounts 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 statement of accounts 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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.

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. A further 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not 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 statement of accounts as a whole. A list of the uncorrected misstatements is set out below.

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Property, Plant and Equipment			379	
	Cr: Assets Held For Sale				379
Heworth Family Centre is to be transferred to the HRA in 2016/17. It is not therefore being actively marketed for disposals and thus does not meet the definition of an Asset Held For Sale and should be shown as Property, Plant and Equipment.					
2	Dr: Other Long Term Liabilities			247	
	Cr: Other Short Term Liabilities				247
This relates to a PFI liability – the whole balance is being shown as due as after 12 months, but this element is due within 12 months.					

Yours faithfully

Ian Floyd
Director of Customer and Business Support Services

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF YORK COUNCIL

Opinion on the Council financial statements

We have audited the financial statements of City of York Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of City of York Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the City of York Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Director of Customer and Business Support Services and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Director of Customer and Business Support Services 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Business Support Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**Respective responsibilities of the Council and the auditor**

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.

We are required under section 20 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 issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. 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.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local elector in an objection to the accounts. We are satisfied that these matters do not have a material effect on the financial statements or a material impact on the value for money conclusion.

Gareth Davies

For and on behalf of Mazars LLP

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30 September 2016