

Audit Progress Report

City of York Council



April 2017



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Audit progress

2016/17 audit planning

We have now completed our 2016/17 planning and the results are reflected in the Audit Strategy Memorandum included as a separate agenda item for discussion at the Audit and Governance Committee on 5 April 2017.

Our planning included:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering financial performance;
- assessing internal controls, including reviewing the control environment;
- evaluating and testing the IT control environment;
- assessing the risk of material misstatement arising from the activities and controls within the information systems; and
- completing walkthrough tests on the key controls within the material financial systems.

As part of our work, we took into account the most recently published updated VFM guidance for local government bodies (in essence, no significant change). <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

We held planning meetings with senior managers to inform our planning risk assessments and to better understand the priorities and challenges the Council faces. We also discussed the previous year's audit and considered any areas for improvement.

As part of our commitment to quality, team members have already attended our annual audit training conference which included technical issues in respect of the local government sector and feedback from quality reviews to

take into account in the coming year. For example, the workshop covered the new format for the Comprehensive Income and Expenditure Statement to be used in 2016/17.

Issues arising

At this stage of our audit work, we have no significant deficiencies in internal control to report to you.

Changes in the audit team

We have made a change within the audit team.

Jon Leece, Senior Manager has now taken over from Gavin Barker as the engagement manager on the audit. Jon is a very experienced senior manager, and is our lead on local government technical and accounting issues.

Public interest report follow up

As part of our audit planning this year we have followed up the implementation of the recommendations from our February 2016 public interest report on City of York Trading. We have updated our previous assessment of progress as reported in our Audit Completion Report for the 2015/16 audit.

Our latest assessment is included in the next section of this report and we are pleased to note that all of the recommendations have now been implemented.

Follow up of Public Interest Report recommendations

Recommendations	Our comments on the action taken to address our recommendations
<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>As reported in September 2016, the two directors had voluntarily repaid the payments made to them. Consequently, no further action is required.</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 reviewed the governance of its companies in a paper which went to the Executive in June 2016, and a further report was taken to the September 2016 Executive, which 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. One key aspect of these arrangements was to have a single Shareholder Committee to oversee all such companies.</p> <p>The Shareholder Committee is to be reflected in amendments to the Constitution that are planned to be considered by full Council in March 2017.</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>The Council reviewed the governance of its companies in a paper which went to the Executive in June 2016, and a further report was taken to the September 2016 Executive, which 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. In our view, these reports and the action subsequently taken did consider good practice and the lessons learned from the public interest report.</p>
<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>In September 2016, we reported that specific guidance to members and officers on their involvement in Council-owned companies had not yet been prepared. This was because the Council had sought to implement R2 and R3 before producing the guidance.</p> <p>The guidance was subsequently produced and circulated before the end of December 2016.</p>

Recommendations	Our comments on the action taken to address our recommendations
<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>The guidance produced is comprehensive and sets out how both officers and members should consider and address conflict of interest risks.</p> <p>We note that in respect of remuneration of officers, the guidance clearly states that it is the Council's policy not to allow such payments to officers. We also note that no statutory officers are any longer directors on the Board of City of York Trading Ltd.</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 reported in September 2016, this will continue to be managed within the Council's constitutional procedure and where legal advice is prescriptive it will be followed. We note the Council's response in relation to this recommendation and have no further comments.</p>
<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 reported in September 2016 this will be picked up as part of the Council's Statement of Account procedures and any issues discussed with External Audit. This was considered as part of our audit of the 2015/16 financial statements and no issues of concern were identified. As noted in the response to R5 above and R8 below, Council officers no longer receive payments of this nature.</p> <p>We will review this annually as part of our final accounts audit, including later this year as part of the 2016/17 audit.</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. There are therefore 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>As reported in September 2016, 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. We will review this annually as part of our final accounts audit, including later this year as part of the 2016/17 audit.</p>

Recommendations	Our comments on the action taken to address our recommendations
<p>R10 The Council should review its system for ensuring that all annual returns are received for the officer register of interests.</p>	<p>As reported in September 2016, 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. Officer disclosures were reviewed as part of the audit of the 2015/16 financial statements and we did not identify any audit issues from our review.</p> <p>We will review this annually as part of our final accounts audit, including later this year as part of the 2016/17 audit.</p>

National publications and other updates

National publications and other updates	
1.	Health and Social Care Integration, National Audit Office, February 2017
2.	Housing in England: overview, National Audit Office, January 2017
3.	Auditor General Guidance Note AGN/01, National Audit Office, December 2016
4.	Highways Network Asset briefing, CIPFA, January 2017
5.	Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

1. Health and Social Care Integration, National Audit Office, February 2017

The NAO has recently published a report on health and social care integration. The report highlights that progress with integration of health and social care has, to date, been slower and less successful than envisaged and has not delivered all of the expected benefits for patients, the NHS or local authorities. As a result, the government's plan for integrated health and social care services across England by 2020 is at significant risk.

In the face of increased demand for care and constrained finances, while the Better Care Fund, the principal integration initiative, has improved joint working, it has not yet achieved its potential. The Fund has not achieved the expected value for money, in terms of savings, outcomes for patients or reduced hospital activity, from the £5.3 billion spent through the Fund in 2015/16.

The Department of Health and the Department for Communities and Local Government have identified barriers to integration, such as misaligned financial incentives, workforce challenges and reticence over information sharing, but are not systematically addressing them. Research commissioned by the government in 2016 concluded that local areas are not on track to achieve the target of integrated health and social care by 2020.

The report also found that NHS England's ambition to save £900 million through introducing seven new care models may be optimistic. The new care models are as yet unproven and their impact is still being evaluated. While the Departments and their partners have set up an array of initiatives examining different ways to transform care and create a financially sustainable care system, their governance and oversight of the initiatives is poor.

In addition, no compelling evidence was found to show that integration in England is yet leading to sustainable financial savings or reduced acute hospital activity. While there are some good examples of integration at a local level, evaluations have been inhibited by a lack of comparable cost data across different care settings, and difficulty tracking patients through different care settings.

<https://www.nao.org.uk/report/health-and-social-care-integration/>

2. Housing in England: Overview, National Audit Office, January 2017

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. The need for housing in England has in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015/16. The most significant element of this is housing benefit. In 2015/16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market. The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001/02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010/11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

<https://www.nao.org.uk/report/housing-in-england-overview/>

3. Auditor General Guidance Note AGN/01, National Audit Office, December 2016

The National Audit Office (NAO) issues guidance to auditors of public sector bodies. The main revision to the General Guidance note is to update explanatory and supplementary guidance on meeting the requirements in the Code of Audit Practice to safeguard integrity, objectivity and independence in the conduct of local audit. The Annex to the guidance also illustrates how the requirements of the Financial Reporting Council's (FRC) ethical standard on financial, business, employment and personal relationships apply to audits of local public bodies.

The guidance note and its Annex is addressed to local auditors however it is recommended that audit teams ensure that their audited bodies are aware of the need for auditors to comply with relevant ethical requirements and also that those charged with governance are briefed as appropriate on the requirements of the FRC's ethical standard.

We confirm that we have taken into account the updated guidance and fully comply with the FRC's ethical standard.

<https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

4. Highways Network Asset briefing, CIPFA, January 2017

The latest briefing covers the postponement of the introduction of the new measurement requirements for Housing Network Assets until the 2017/18 financial statements (subject to the full confirmation of that decision at the March 2017 meeting of CIPFA/LASAAC). It also reminds relevant authorities to review and reassess their plans for implementing the changes in accordance with the extended timetable.

<http://www.cipfa.org/policy-and-guidance/highways-network-asset-briefing>

UPDATED - A CIPFA/LASAAC statement, following its meeting on 8 March 2017, effectively put an end to the Highways Network Assets project for the foreseeable future, principally because of the lack of commitment from government departments to fund the work required to keep central rates up to date.

5. Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

The latest 2016/17 monitoring report (quarter 3) highlights full compliance with the Regulator's standards for Mazars LLP.

<http://www.psa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

Contact details

Please let us know if you would like further information on any items in this report.

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