

Annual Audit Letter

City of York Council

Year ending 31 March 2018





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for City of York Council (the Council) for the year ended 31 March 2018. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none"> ▪ give a true and fair view of the Council's financial position as at 31 March 2018 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 2017/18.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on the same date included our opinion that:</p> <ul style="list-style-type: none"> ▪ the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 31 July we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts (WGA) return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>We have received correspondence from local electors which we continue to consider before we can issue our certificate formally closing the audit for 2017/18.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure.	£8.20m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.25m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:	
	- Members' allowances and expenses	£0.13m
	- Senior officer remuneration	£0.005m
	- Exit packages	£0.16m

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> ▪ accounting estimates impacting on amounts included in the financial statements; ▪ consideration of identified significant transactions outside the normal course of business; and ▪ journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to report, in relation to management override of control.</p>
<p>Valuation of property, plant and equipment The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment (PPE), with the majority of property assets required to be carried at valuation. Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.</p>	<p>We have carried out a range of procedures designed to address the risk. These include:</p> <ul style="list-style-type: none"> ▪ assessing the skill, competence and experience of the Council's valuer; ▪ considering the accuracy of source data used by the Council's valuer; ▪ using our own valuation expert to provide information on regional valuation trends; and ▪ testing the valuations of a sample of properties. 	<p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to report, in relation to the valuation of PPE.</p>
<p>Valuation of the defined benefit liability The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	<p>We have carried out a range of procedures designed to address the risk. These included:</p> <ul style="list-style-type: none"> ▪ assessing the skill, competence and experience of the Fund's actuary; ▪ challenging the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; ▪ seeking assurance from the Fund's auditor in relation to asset valuations and other core elements of the IAS 19 valuation; ▪ carrying out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation. 	<p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to report, in relation to the valuation of the defined benefit liability.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED) ANNEX A

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiency in internal control as part of our audit.

Description of deficiency	Related party disclosures <p>We carried out a full check of officer and member interests in the year, including checks to Companies House records. We have noted two instances of members not declaring directorships in line with the Council's policies. Both of these occurred after the year end so do not relate to this year of account, but are still instances of non-compliance with Council policies by members. The circumstances are outlined below:</p> <ul style="list-style-type: none">▪ One instance of a Councillor failing to declare an interest as a Council appointee Director of York BID; and▪ One instance of a Councillor failing to declare an interest as a Director of a company which has no relationship to the Council. <p>We confirmed that there are no errors in the related party disclosures as a result of these missing declarations.</p>
Potential effects	Failure to properly declare and disclose interests in related parties can erode public trust.
Recommendation	Members should be reminded again of the need to declare interests in line with the Council's policies.
Management response	<p>As identified from a detailed review of all member interests, two issues have been identified. One relates to a Council appointment (as did the single member instance the previous year), so it is fully known and details clearly accessible on the internet, whilst another relates to a relatively new issue and the details have now been received mid July.</p> <p>Reminders are sent to members, twice this year and most recently on 28th June, and this will continue. Whilst these two instances are disappointing, the detailed review has also identified that fundamentally the system of member declarations works well as all other members interests were up to date. Ultimately it is for members to ensure that they have declared all relevant interests, however officers will continue to remind members regularly on this matter, and the matter will be discussed with the chair of Standards Committee.</p>

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

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

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

- Informed decision making;
- Sustainable resource deployment;
- Working with partners and other third parties.

Our auditor's report, issued to the Council on 31 July 2018, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p> <p>The Council's internal auditor carries out an annual review of the effectiveness of the Council's system of internal control. In 2017/18 this was a 'substantial assurance' opinion.</p> <p>As those charged with governance, the Audit and Governance Committee is responsible for the oversight of the Council's governance framework. There have been a number of high-profile reports considered by the Committee over the last 18 months and on occasion the relationship between officers and members of the Committee has appeared strained.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities</p> <p>The Council has again delivered an outturn within budget in 2017/18. Financial forecasts are provided to senior officers and members on a quarterly basis, allowing for appropriate levels of scrutiny and challenge of the Council's financial performance and its ability to deliver strategic priorities.</p>	Yes

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

3. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Planning finances to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <p>As we have reported consistently for a number of years, the Council has continued to respond to the challenges it faces in respect of reductions in central funding. Savings plans have been largely delivered and where individual savings have not been delivered, additional savings have been identified to compensate.</p> <p>The Council, like most local authorities, will face particular challenges in respect of expenditure on social care in the coming years but appears to be well placed to respond to these challenges.</p> <p>The Council's strategic plans, particularly those that will require capital investment, are forecast to lead to an increase in the Council's level of net external debt up to 2022/23. We believe the Council has arrangements in place to appropriately manage this while continuing to fund statutory services over the medium term.</p> <p>Managing and utilising assets effectively to support the delivery of strategic priorities</p> <p>The Council has made good progress in 2017/18 on its programmes to improve the return achieved from its relatively large investment property portfolio. In addition, third party income associated with the rental of space at West Offices has yielded planned net savings in 2017/18.</p>	Yes
Working with partners and other third parties	<p>Working with third parties effectively to deliver strategic priorities</p> <p>The local health economy in York has experienced significant strain in recent years and there is little indication that this situation will abate any time in the near future.</p> <p>The Council has a Better Care Fund arrangement in place with Vale of York Clinical Commissioning Group ('the CCG'). 2017/18 has seen a change in the governance arrangements for the Fund as well as the development of the Fund plan for the period 2017-2019 which was approved by NHS England following a national assurance and escalation process that saw the partners challenged on the plan.</p>	Yes

3. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
	<p>Commissioning services effectively to support the delivery of strategic priorities</p> <p>We have considered the information in VFM profiles published by the Local Government Association, in relation to commissioning activity. These provide data that compares the Council's performance against a range of metrics with those of its statistical nearest neighbours or other comparative groups.</p> <p>Although there are variations in the costs within and between services, overall, the Council's performance against relevant metrics indicates that arrangements are in place to efficiently commission services when compared to its comparator group.</p>	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risks. We have subsequently refreshed our risk assessment and can confirm that this has not identified any significant Value for Money risks.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Council which must be responded to publically.

We have not exercised any of these statutory reporting powers at the date of publishing this report. We have received correspondence from local electors that we are currently considering. As we have not yet finalised our consideration of the matters brought to our attention we have not issued the certificate formally closing the 2017/18 audit.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of the Council's consolidation data. We submitted this information to the NAO on 31 July 2018 and confirmed to them that the Council was below the thresholds requiring further testing to be undertaken.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in April 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£101,607	£101,607
Certification of Housing Benefit Subsidy Claim	£11,415	£11,415

At the time of issuing this letter, we are yet to complete our work on matters brought to our attention by electors and certification of the Council's Housing Benefit Subsidy claim. As such, the final fees quoted above are subject to change.

Fees for other work

Subsequent to the completion of our audit, we have been engaged by the Council to carry out two pieces of assurance work, as follows:

Area of assurance work	2016/17 fee	2017/18 indicative fee
Teachers' Pensions return	£5,000	£5,000
Homes England return	N/A	£2,500

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