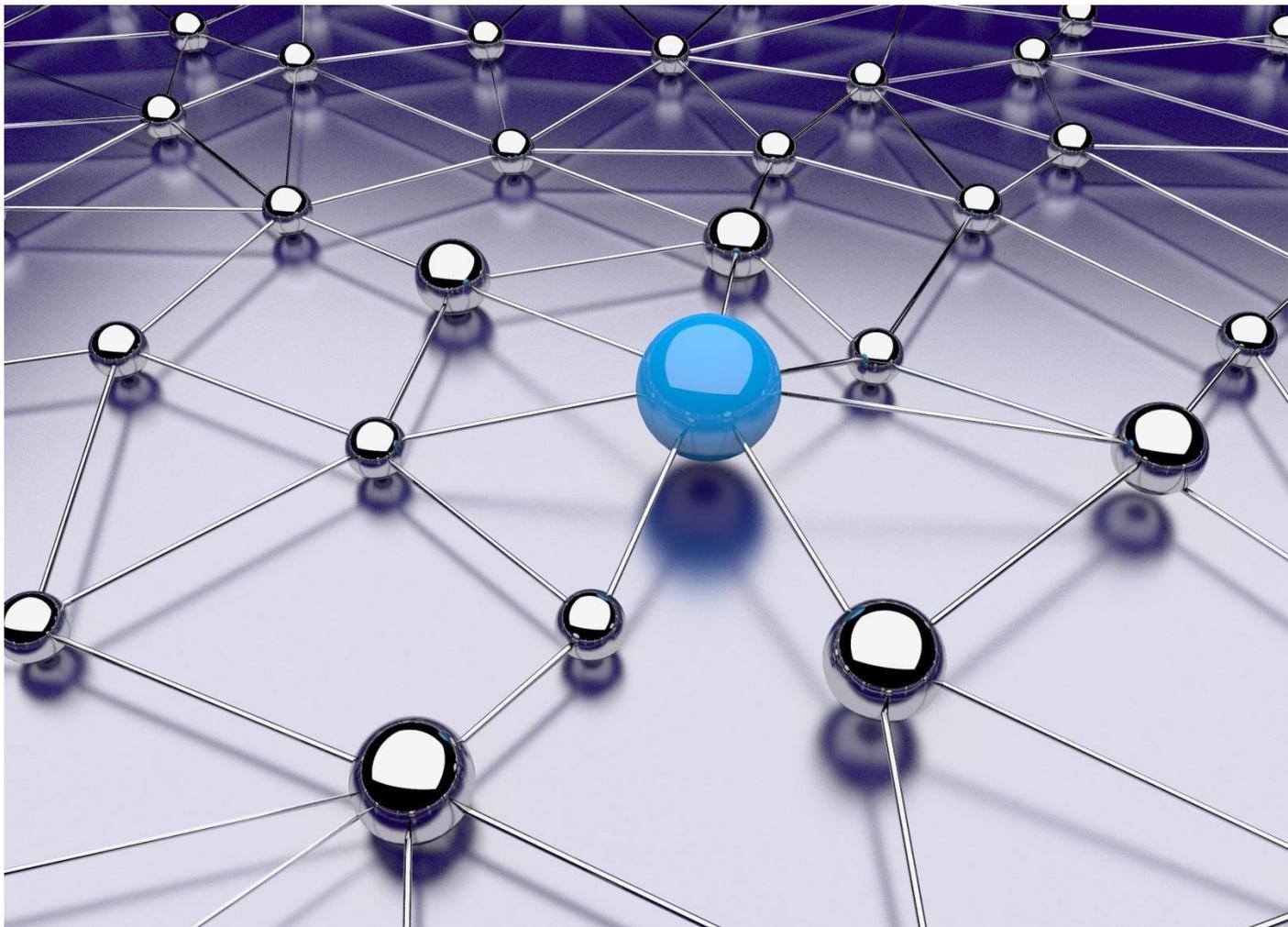


City of York Council Audit Progress Report

June 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to City of York Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit and Governance Committee of City of York Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

02 Summary of audit progress

Certification of the closure of the 2014/15 audit

Members will recall that we issued an unqualified opinion and Value for Money (VFM) conclusion on the 2014/15 audit on 30 September 2015, but were unable to issue an audit certificate at that time:

“The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention shortly before the date of this audit report. We are satisfied that these matters do not have a material effect on the financial statements.”

Subsequently, 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. Our report, and the Council’s response to it, was considered by the Council at its meeting on 24 March 2016 and also by the Executive at its meeting on 28 April 2016.

On 7 June 2016, we issued an audit certificate to formally conclude the 2014/15 audit.

We have noted the Council’s actions and proposed further actions in response to the Public Interest Report and we will follow these up as part of the current year’s audit.

2015/16 update

At this stage we have completed our planning work and carried out some interim testing. We are in the process of updating our IT risk assessment.

Based on our work to date, including walkthroughs of the key financial systems, we have no matters arising to report to you and there are no changes to our original assessment of significant risks (opinion and Value for Money) as set out in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 13 April 2016.

We have liaised closely with the accountancy team during the production of the Council’s draft financial statements for 2015/16. This year, officers have experimented with bringing forward the accounts production timetable in preparation for the requirement to prepare the accounts by the earlier date of 31 May from 2017/18.

After completing this year’s audit, we will jointly assess with officers the earlier preparation arrangements and discuss how both of our teams can build on the progress to deliver an earlier audit for 2016/17.

On value for money (VFM) work, we have shared the results of an analysis of the latest VFM profiles with officers. There were no issues from this analysis that needed to be brought to the attention of Members.

Members will also recall from our Audit Strategy Memorandum that we identified a number of areas of additional VFM conclusion audit work that would be required in the 2015/16 audit. We have now scoped this work and this is covered in section 3 of this report.

North Yorkshire Governance Forum

The second meeting of our North Yorkshire Governance Forum takes place on the morning of Friday 8 July 2016 at the Mercure York Fairfield Manor Hotel, Shipton Road, Skelton, York. We are still finalising the agenda with the input of attendees.

The Chair and Vice Chair are unable to attend the 8 July meeting due to other commitments. If any other members of the Committee wish to attend, please get in touch with Gavin Barker at gavin.barker@mazars.co.uk.

03 Additional VFM Work

Background

Members will recall from our Audit Strategy Memorandum that we identified a number of areas of detailed VFM conclusion audit work that would be required in the 2015/16 audit. We proposed 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 revised programme and project management arrangements.

This is set out in the extract from the Audit Strategy Memorandum at Appendix 1.

The additional areas of work were estimated at an additional fee of £25,000 plus VAT, subject to the agreement of our regulator, Public Sector Audit Appointments (PSAA) Ltd.

Scoping discussions

We have now scoped this additional work and defined the work more precisely.

On 19 May 2016 Gavin Barker, Senior Manager and Jane Valle, Manager from Mazars held a series of meetings with key officers to inform this process:

- Dave Atkinson, Programme and Project Management Lead;
- Martin Farran, Director of Adult Social Care;
- Ian Floyd, Director of Customer and Business Support Services;
- Mark Wilson, Project Lead Community Stadium; and
- Roy Wallington, Procurement Lead Older People's Project.

Programme and project management arrangements

In December 2015, and partly in response to our previous audit recommendations, the Council introduced a new framework for project management called All About Projects (AAP), the City of York Council's guide to project management.

The Council has also continued to develop its electronic project management system Verto and have produced a number of reports which summarise the progress of major projects for Audit and Governance Committee.

There are plans to further develop project management arrangements and to provide a framework for corporate and directorate oversight of programme and project management arrangements.

As part of our review, we will:

- Review the steps taken to date and the plans for further progress;
- Evaluate the adequacy of the programme and project management arrangements that have been put in place; and
- Make recommendations arising from our findings.

The Council's internal auditor, Veritau, has recently reviewed the AAP methodology. We will evaluate Veritau's conclusions in this and any other areas they have considered and avoid duplication of work.

Specific probes in key risk areas

Although we will comment on the Council's overall arrangements, our work will be focused on a more detailed review of the approach adopted in key risk areas:

Programme / Project Area	Why we have selected this for review?
The community stadium project	<ul style="list-style-type: none"> • The Council's own report on the community stadium describes it as one of the largest projects the Council has ever embarked on and that it contains a number of significant risks; • Capital costs of the project have increased by £7.2m to £44.2m; • The timetable for the project has slipped, partly because the scope of the project has increased over time; • Complex commercial development with numerous partnership arrangements to manage; and • This is a controversial scheme locally.
The older persons accommodation programme	<ul style="list-style-type: none"> • An area reviewed last year following the failure of a previous procurement exercise in January 2015; • Important recommendations made for improvement; • Next steps taken including consultation with public on future proposals, closure of an additional two Council care homes, implementation of 24/7 care at Glen Lodge, receipt of tenders for 27 additional homes at Glen Lodge and development of proposals for Burnholme Health and Well Being campus including a new care home; and • Further plans are being developed.

Programme / Project Area	Why we have selected this for review?
Integration of adult social care and health and the operation of the Better Care Fund	<ul style="list-style-type: none"> • The Council's most significant cost pressures are in adult social care, an area that has experienced difficulties in the past and where there were interim leadership arrangements until autumn 2015; • This is an area of critical importance in terms of partnership working with the Vale of York Clinical Commissioning Group (CCG) and other partners; and • Financial pressures at the CCG have created uncertainty and risk for the Council in terms of delivery of the Better Care Fund and improved services to local people.
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	<ul style="list-style-type: none"> • To assess a programme which has been recently started and therefore initiated under the new All About Projects (AAP) framework.

Tailored focus of scope in each risk area

For each risk area we will consider in detail:

- The specific programme and project management arrangements;
- The business case;
- Risk assessment and management;
- Financial evaluation;
- Communication and consultation; and
- Resourcing.

The precise focus of our questioning will be determined by the point the project has reached in the project life cycle.

The table below identifies the key areas of focus in each probe area.

Programme / Project Area	Key areas of focus
The community stadium project	<p>We will review how the Council has determined that the proposed costs represent value for money, and the evidence that exists to inform this assessment.</p> <p>We will review how the Council is managing the risks relating to further cost increases.</p>

Programme / Project Area	Key areas of focus
The older persons accommodation programme	<p>We will review how the Council has determined that its programme of measures best meets the needs of its residents.</p> <p>We will review how the Council has determined that the proposed costs represent value for money, and the evidence that exists to inform this assessment, with a focus on the additional homes at Glen Lodge and the proposed scheme at Burnholme.</p> <p>We will review how the Council is managing the remaining risks relating to delivery of the remaining programme.</p>
Integration of adult social care and health and the operation of the Better Care Fund	<p>We will review how the Council has managed the delivery of improved outcomes and addressed financial pressures in terms of delivery of the first year of the Better Care Fund.</p> <p>We will review how the Council is managing the ongoing risks in relation to financial delivery and improvements for local people.</p>
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	We will review the development of the Council's plans to re-shape service delivery, with an initial focus on option identification and appraisal.

Our specialist advisory team

This work will be carried out by Jane Valle and Michelle Carberry from Mazars' specialist public services advisory team.

Timing of our work and reporting

We will undertake our work during the period June 2016 to early September 2016.

We will produce a report highlighting our findings and conclusions, and any recommendations for improvement.

Our findings will feed directly into our VFM conclusion. We expect to issue our formal VFM conclusion by 30 September 2016.

Audit fee

Our estimated additional fee is £25,000 plus VAT, subject to the agreement of our regulator, Public Sector Audit Appointments (PSAA) Ltd.

Our estimate of the fee in each area of work is as follows:

Area of work	Estimated percentage of overall work	Estimated fee (excluding VAT)
Overall programme and project management arrangements	5%	£1,250
The community stadium project	45%	£11,250
The older persons accommodation programme	15%	£3,750
Integration of adult social care and health and the operation of the Better Care Fund	25%	£6,250
The 'future shape and size' programme	10%	£2,500

04 National publications and other updates

This section contains updates on the following:

	National publications and other updates
1.	English devolution deals , <i>National Audit Office, April 2016</i>
2.	Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019 , <i>Department for Communities and Local Government, April 2016</i>
3.	Oversight of audit quality , <i>Public Sector Audit Appointments, quarterly compliance reports 2015/16</i>

1. English devolution deals, National Audit Office, April 2016

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended, according to the National Audit Office.

Over the last 18 months, 10 devolution deals have been agreed, outlining the transfer of powers, funding and accountability for policies and functions previously undertaken by central government, in Greater Manchester, Cornwall, Sheffield City Region; the North East; Tees Valley; Liverpool City Region; the West Midlands, East Anglia; Greater Lincolnshire; and the West of England. They are the latest in a range of initiatives and programmes designed to support localism and decentralisation.

HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole. All of the deals include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. Other policy areas included in some of the deals are housing and planning, employment support and health and social care.

The government has announced new additional investment funding of £246.5 million a year alongside the devolution deals announced so far. Over time, the government intends to combine this funding with a number of other funding streams into a 'single pot' to enable more local control over investment decisions, and has announced £2.86 billion of initial allocations over 5 years for the first 6 mayoral devolution deals.

Central government's management approach to brokering devolution deals is designed to support its policy of localism. The government considers that devolution proposals should be led by local areas, and that central government's role should be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals.

According to the NAO, however, there are significant accountability implications arising from the deals which central government and local areas will need to develop and clarify. These include the details of how and when powers will be transferred to mayors and how they will be balanced against national parliamentary accountability. The deals agreed so far involve increasingly complex administrative and governance configurations. And as devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact. To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should clarify the core purposes of devolution deals as well as who will be responsible and accountable for devolved services and functions, and should ensure it identifies and takes account of risks to devolution deals that arise from ongoing challenges to the financial sustainability of local public services.

<https://www.nao.org.uk/report/english-devolution-deals/>

2. Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019, Department for Communities and Local Government, April 2016

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters to account more quickly and efficiently, and improve the recovery of losses. This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment, and illustrates the financial benefits that can accrue from fighting fraud more effectively;
- calls upon central government to promote counter fraud activity in local authorities by ensuring that the right financial incentives are in place and helping them break down barriers to improvement, and updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan; and
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

<https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019>

3. Oversight of audit quality: quarterly compliance reports 2015/16, Public Sector Audit Appointments Ltd

There are no issues arising highlighted in respect of Mazars LLP in the latest quarterly report (quarter 4 of 2015/2016).

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

05 Contact details

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

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Appendix 1- Extract from Audit Strategy Memorandum

We have considered the risks that are relevant to our value for money conclusion and have identified the following significant audit risk that we will address through our work.

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 will address this risk

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

We will focus 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 propose 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.

We will work with officers to scope the work appropriately.

We propose to engage our specialist advisory team to undertake the four specific probes work and we will report separately on the findings of this work.

The budget review work is part of the core work on the VFM conclusion and is included in the scale fee. The four specific probes represent additional VFM work outside of the scale fee, and will be at an additional fee as set out in section 6 of this report. We will need to seek the approval of our regulator, Public Sector Audit Appointments Ltd for this level of additional work.