

Audit Completion Report

City of York Council – year ended 31 March 2014

September 2014



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Audit and Governance Committee
City of York Council
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16 September 2014

Dear Sirs/Madams

Audit Completion Report – Year ended 31 March 2014

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit 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 Audit and Governance Committee on 16 April 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

At the time of drafting our report, we have received an objection to the Council's accounts in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. In addition, we have received a further notice of objection in relation to the Annual Governance Statement which we have determined was not an objection within the meaning of the legislation, and we are on notice that a further objection to the accounts is being prepared for us to consider.

The implications of the objections 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 24 September 2014. 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
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Non-Executive Directors, Directors or managers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Director or Manager 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 2014 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 24 September 2014.

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; and
- receive feedback from yourselves as to 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 discovered as part of the audit in section 5.

Status and audit opinion

Objections to the accounts

On 12 September 2014 we were notified by a local elector of an objection to the Council's accounts in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. The local elector asks that we apply to the Courts to seek a declaration that an item of account (ie. the penalty charge income) is contrary to law, and that we make a report in the public interest on this matter. We are currently considering the objection.

The income relating to the penalty charge notices is £1.8m, which is below the level of materiality for our opinion on the financial statements. Because of this, subject to satisfactory completion of our work on the financial statements, we intend to issue an unqualified opinion on the financial statements on 30 September 2014, but we will be unable to certify completion of the audit until the objection has been determined.

In addition to this objection, we received a further notice of objection in relation to the Annual Governance Statement from another local elector. We determined that this was not an objection within the meaning of the legislation, as it did not relate to an item of account. However, we have taken the issues raised by the local elector into account in the work that we have undertaken to review the Council's Annual Governance Statement.

We are on notice that a further objection to the accounts is being prepared for us to consider, but we do not know what the content of this objection will be.

In view of these issues, we will plan to table a letter to update Members at the Audit and Governance Committee meeting on 24 September 2014, and we may need to issue a further letter to update Members on 30 September 2014, which is the statutory deadline for concluding the audit.

Other work on the financial statements

In respect of our other work on the accounts, we have substantially completed our audit of the financial statements for the year ended 31 March 2014.

A number of adjustments have been made to the financial statements by officers as set out in section 4 of this report. None of the adjustments identified during the audit resulted in a change to the Council's underlying financial position.

At the time of preparing this report, there are a number of audit procedures which need to be concluded, and we have not yet received and reviewed the required assurance from the auditors of North Yorkshire Pension Fund (Deloitte LLP) over IAS 19 (pensions) related entries in the financial statements.

We will also provide an update to you in relation to this matter in the follow up letters we mentioned above.

Proposed audit opinion and VFM conclusion

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

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources except for the arrangements for financial management in adult social care. This is explained further in section 5 of this report.

As noted earlier, we will not be able to certify completion of the audit until the objection has been determined.

We also 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 3 October 2014.

In accordance with our normal practices, we require a letter of representation from you, as set out in Appendix A.

Our proposed audit report is set out in Appendix B.

02 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 7 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

Significant risk: management override of controls

Description of the risk

Auditing standards state that 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. This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

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 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:

- general ledger journal testing;
- consideration and review of material accounting estimates;
- consideration and review of any unusual or significant business transactions; and
- consideration of local factors.

Audit conclusion

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

Significant risk: revenue recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. As there is an inherent risk of fraud in revenue recognition we consider it to be a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls which mitigated this risk. In addition we undertook a range of substantive procedures including:

- testing receipts in March and April 2014 to ensure they were recognised in the correct year;
- testing year end receivables and accruals;
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger; and
- testing journals.

Audit conclusion

Our work has provided the assurance we sought in relation to revenue recognition. There are no matters arising requiring reporting to Members.

Significant risk: expenditure recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of expenditure recognition and in relation to judgements made by management as to when expenditure has been incurred. As there is a risk of fraud in expenditure recognition we regularly consider it to be a significant risk. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls which mitigated this risk. In addition we undertook a range of substantive procedures including:

- testing payments in March and April 2014 to ensure they have been recognised in the right year;
- testing year end payables and accruals;
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger; and
- testing journals.

Audit conclusion

Our work has provided the assurance we sought in relation to expenditure recognition. There are no matters arising requiring reporting to Members.

Significant risk: 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 (Mercers); and
- considered the reasonableness of the actuary's (Mercers') output, referring to an expert's report on all actuaries nationally which was commissioned by the Audit Commission.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of North Yorkshire Pension Fund (Deloitte LLP) over IAS 19 (pensions) related entries in the financial statements.

Audit conclusion

We identified a number of additional disclosures that were required for IAS19 pensions, and these have been reflected in the amended financial statements.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of North Yorkshire Pension Fund (Deloitte LLP) over IAS 19 (pensions) related entries in the financial statements.

Subject to a satisfactory response from Deloitte LLP, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Key areas of management judgement:

Property, Plant and Equipment – depreciation, revaluations and impairments

Description of the area of judgement

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment are depreciated, unless there is a specific exception. There are also requirements to regularly revalue assets carried at fair value on the Council's balance sheet and to carry out impairment reviews.

These involve management judgements over the useful lives and valuations of assets.

How we addressed this area of management judgement

We evaluated the design and implementation of controls in respect of depreciation, revaluations and impairments as part of our walkthrough of the property, plant and equipment system.

In addition, we undertook a range of substantive procedures including:

- substantive testing of depreciation, revaluations and impairments per the disclosure note to the financial statements;
- review and evaluation of the work of the in-house valuer, including the valuer's report; and
- consideration of regional valuation trends.

Audit conclusion

We identified an error in the treatment of the revaluation of Council dwellings, which reduced Property, Plant and Equipment as disclosed in the Balance Sheet by £9.968m, and had consequential impacts on the Housing Revenue Account (HRA) and other statements. The financial statements were amended for this error, and this is set out in section 4 of this report.

With the exception of this, our work has provided the assurance we sought and has not highlighted any other 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.

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.

We have identified scope for further improvement in the working papers supporting the financial statements and in the joint arrangements underpinning our shared Audit Protocol and Project Plan. We will work closely with officers to make the required improvements over the next year.

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

Other deficiencies in internal control – Level 2

Bank reconciliation

Description of deficiency

The current bank reconciliation process is extremely complex with a number of significant adjusting items, many of which are historic matching issues within the general ledger.

The Council has made significant progress in reviewing these adjustments during the year. Officers consider that the reconciliation process provides a strong control mechanism for identifying errors and issues as they arise, and that further progress on clearing any outstanding issues will be made in 2014/15.

We recognise the controls that have been put in place in relation to the Council's bank accounts. Our testing identified that the trail between these reconciliations and the actual year end cash position reflected in the statement of accounts could be improved.

Potential effects

The complexity of the processes in place could mask errors.

Recommendation

We recommend that the Council reviews and strengthens the documentation demonstrating how the bank reconciliation process feeds into the year end balance sheet cash position.

Management response

Finance welcome the acknowledgment of the progress made on bank reconciliation and are content that it provides a robust control mechanism. Building on this, the Council will look to further develop the inter relationship between the strong control mechanism and the production of the year end balance sheet cash position.

Property Plant and Equipment - Assets under Construction

Description of deficiency

Capital expenditure on larger capital schemes is recorded as assets under construction in the fixed asset register, and is only transferred to operational assets once the scheme has been completed.

Our review of assets classified within Assets under Construction has identified a number schemes which have been completed, and should have been reclassified. The impact of these errors was not material.

Potential effects

The classification of property, plant and equipment may not be correctly recorded in the financial statements.

Recommendation

We recommend that a full review of assets classified as Assets under Construction is undertaken during 2014/15 and the results reflected in the 2014/15 financial statements.

Management response

Corporate finance will undertake an exercise with the accountants to ensure that all assets currently classed as 'Asset Under Construction' are reviewed in 2014/15 to ensure their recorded position is reflective of their current status resulting in reduction of AUCs and an increase of Other Land and Buildings and Plant/Vehicle/Equipment all within note 12.

Operating and finance leases

Description of deficiency

Leasing records were updated in preparation for IFRS implementation. A review of leases was undertaken by officers in 2013/14 to ensure that information remained up to date for existing leases.

Our sample testing has identified a number of instances where the initial lease information has been incorrectly recorded, or where the lease details have changed but the register has not been updated. The impact of these errors was not material. Management has agreed that a further review of leases should be undertaken in 2014/15.

Potential effects

Leases may not be correctly recorded in the financial statements.

Recommendation

We recommend that a review of leases is undertaken and the results reflected in the 2014/15 financial statements.

Management response

Corporate finance will ensure that a further review of leases (to include both service leases and property portfolio) is undertaken during 2014/15 and will take a materiality approach to review high value lease contracts in detail.

Section 106 balances

Members may recall that a number of issues have been raised with us by members of the public, and we reported in our Audit Progress Report in June 2014 that we would review s106 balances as part of our work:

“There have been inconsistencies in recording the application of s106 funds and balances remaining on s106 accounts. This appears to have been a result of errors in record keeping. Officers are updating and correcting records as part of the closure of the accounts. We will consider this further during the audit of the accounts.”

S106 funds are secured from developers in relation to planning proposals, and usually represent a contribution from the developer to the wider public infrastructure. The funds have to be applied in accordance with a specific s106 agreement, which is a formal legal agreement with the developer.

We have carried out further work on s106 balances as part of our audit. This included:

- reviewing the internal controls in place in relation to managing s106 receipts, and reviewing management’s response to addressing the inconsistencies that were identified earlier in the year; and
- testing a sample of s106 balances as at 31 March 2014, as recorded in the Council’s financial statements.

Although some inconsistencies in the application of s106 funds were highlighted following the responses to several Freedom of Information requests, we found that the Council has taken the necessary action to address the errors in its recording arrangements. We found that strengthened procedures have been put in place for recording s106 balances including introducing a system of quarterly management review. We are also satisfied that the inconsistencies highlighted in the Freedom of Information requests resulted from errors in record keeping and there was no evidence of any fraud or impropriety. Our sample testing of s106 balances did not identify any residual issues requiring reporting to Members.

04 Summary of misstatements

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment. The first 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. We accept that this is a reasonable course of action for errors which are not material.

The second table outlines the misstatements that have been adjusted by management during the course of the audit. The third table highlights adjustments made by the Council following events which occurred after the balance sheet date.

None of the adjustments identified during the audit resulted in a change to the Council's underlying financial position.

Unadjusted misstatements 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr. Investment Property			1,898	
Cr. Revaluation Reserve				1,898
An error was made in reflecting the value of Hospital Fields / Fulford Business Centre in Investment Property at the time of the last revaluation. This has not been corrected. Investment property is understated by £1.898m in this respect, which is not material.				
2 Dr. Assets Held For Sale			2,070	
Cr. Investment Property				2,070
Low Fields Farm is continuing to be included as an Investment property even though no rent is being collected and it should be reclassified as a surplus asset (Asset Held for Sale). Investment Property is overstated by £2.070m in this respect, which is not material.				
3 Dr. Other Operating Expenditure - Losses on Disposal	3,827			
Cr. Revaluation Losses on Non-Current Assets		3,827		
Academy school assets have been removed from the Council's accounts as a downward revaluation rather than as a disposal. This impacts on how this is treated in the Comprehensive Income and Expenditure Statement (CIES). This error is not material.				
4 Dr. Comprehensive Income and expenditure statement - Loss on revaluation	825			
Cr. Asset under Construction		825		
A balance held within assets under construction has not been written out following the revaluation of a school on the completion of a major capital redevelopment. This error is not material.				

Adjusted misstatements 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Revaluation of Council Dwellings				
Dr. Property, Plant & Equipment				
- HRA (Upward Revaluations)			407	
Cr. Property, Plant & Equipment				
- HRA (Impairment & Depreciation)				10,376
Dr. Revaluation Reserve			10,352	
Cr. Capital Adjustment Account				383

Error in reflecting the revaluation of Council dwellings in the accounts. The correction of this led to a net reduction of £9,968k in Property, Plant & Equipment Values in the Balance Sheet with the opposite entries to the Revaluation Reserve and Capital Adjustment Account.

2 Dr. HRA - Impairment & Depreciation	10,376			
Cr. MIRS - Adjustments between accounting basis and funding basis under the regulations		10,376 (MIRS)		

Error 1 above also had an impact on the HRA in terms of increased impairment and depreciation, which in turn was reversed through the Movement In Reserves Statement (MIRS).

3 Dr. Creditors			181	
Cr. Other Short-Term Liabilities				181

Lease payments reclassified from creditors to Other Short-Term Liabilities.

Adjustments made by the Council for events that occurred after the Balance Sheet date

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Dr. Service Costs				
- Highways, Roads and Transport Services	708			
Cr. MIRS - Transfers to / from Earmarked Reserves		708 (MIRS)		
Dr. Earmarked Reserves -			708	
Cr. Provisions due to be settled within 12 months				708

The Council has made this adjustment to reflect events after the balance sheet date. When the accounts were prepared at the end of June 2014, the Council included income of £1.8m arising from penalty charge notices at Lendal Bridge and Coppergate in an earmarked reserve. This was in response to challenges to the validity of these charges. Although the Council disputed these challenges, it took the view that it was prudent to set these sums aside and not spend them in view of the uncertainty.

The Council has subsequently taken the decision that, whilst arguing that the charges in relation to Lendal Bridge were lawful, it will make settlement payments equivalent to the fines charged where members of the public contest the charge made.

Consequently, the Council has now made a provision for a proportion of the Lendal Bridge income (£708k), in recognition that payments are probable. In effect, £708k of the £1.8m is now set aside in a provision and the remainder remains set aside in an earmarked reserve.

Disclosure amendments

The disclosure notes were amended as follows:

- To reflect the impact of the adjusted misstatements throughout the accounts.
- A number of clarifications were made to the Explanatory Foreword, including to the financial position of the HRA.
- A number of minor typographical errors were corrected in the Annual Governance Statement.
- The Cash Flow Statement and its associated notes were corrected and updated.
- A number of clarifications were made to the Accounting Policies.
- The note on Critical Judgements in Applying Accounting Policies (note 3) was expanded and updated.
- The Financial Instruments note (note 16) was updated.

- The Amounts Reported for Resource Allocation Decisions note (note 30) was updated to ensure consistency with other parts of the financial statements.
- Clarifications were made to the Exit Packages disclosed in note 37.
- External audit costs were updated to reflect the latest estimate of costs for 2013/14 (note 38).
- The note on Dedicated Schools Grant (note 39) was updated to reflect the expenditure of funds during 2013/14.
- Some clarifications were added to the Related Parties note (note 41).
- Amendments were made to lease disclosures (note 43).
- Amendments were made to Pension Disclosures, including additional disclosures required by IAS19 (notes 48 and 49).
- The contingent liabilities note was updated in respect of Lendal Bridge (note 50), and the events after the balance sheet date note (note 6) was also updated for the latest information.
- The Collection Fund Statement and notes were updated.
- A number of other minor errors, omissions, clarifications and typographical errors were corrected.

05 Value for money

The scope of our work

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report our conclusion to those charged with governance, having regard to criteria specified by the Audit Commission.

The criteria are to consider whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

We are not required to consider, nor have we, all aspects of the Council's arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist.

We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

Our conclusion

On the basis of our work, with the exception of the matter reported below, 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 ending 31 March 2014.

The exception to this is that there were weaknesses in budgetary control and financial management in Adult Social Care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced. The Council has since taken action to address the issues identified in 2013/14 and has a clearer understanding of the performance of the service and the scope for future efficiency savings.

It is important to understand the context of our overall conclusion and the Council's response to the issues in relation to adult social care, and this is set out below.

The Council's overall arrangements

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending.

The Council has delivered £9m of savings in 2013/14 and achieved a small underspend overall (£0.3m), even after absorbing overspends in adult social care and other services.

This is on top of significant savings of £41.9m being delivered in the last 3 years:

- 2010/11 savings £10.2m;
- 2011/12 savings £21.0m;
- 2012/13 savings £10.7m.

The Council expects to have to make a total of £23m further savings during 2014/15 and 2015/16. The prospects are for further reductions to follow in future years.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances (£7m) and for specific earmarked purposes (£49.4m). These secure the Council's immediate financial resilience.

As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services. Last summer, the Council participated in a Local Government Association (LGA) corporate peer challenge review, which recognised the Council's ambition, but also warned of stretched officer capacity and the need to be clear about priorities and also about non-priorities. In the context of the savings that had been delivered to date and those that will have to be delivered going forward, there was a recognition that difficult choices needed to be made about what to stop doing as well as what to continue doing or do differently.

Part of the response to the peer review process has been a recognition of the need for a council-wide approach to change and transformation, and the Council launched its transformation programme, 'Re-wiring Public Services', in February 2014.

The Council has used VFM profiles and other data, to help identify the service areas to focus on that provide the greatest potential for savings and improved outcomes. Based on our analysis of VFM profiles, most services are relatively low cost in terms of spend per head when compared to similar councils in the CIPFA nearest neighbours grouping. However, the Council recognises that further real savings still need to be delivered and it believes that there is still potential to make improvements and make further savings even where spend per head is relatively low to start with.

The action plans arising from the transformation programme are still developing and the Council sees community engagement as a fundamental part of the process.

The measures that are being taken are the right ones to address the future challenges that the Council faces. The task now is to implement these plans, deliver the savings that are needed, and make improvements in service delivery and outcomes for the citizens of York.

Context to our conclusion in relation to adult social care

Like most councils, City of York Council faces budget pressures arising from an increasing demand from an ageing population. In addition, the Better Care Fund and the Care Act provide both a challenge and an opportunity to work with health colleagues and providers, to develop more integrated and innovative service solutions.

The aim is to help people to live more independent and fulfilled lives where they can, enabling people to take more control of their own care whilst dealing with the reality of decreasing resources.

The Council has recognised these challenges. The Chief Executive and Corporate Management Team sought our assistance in assessing the adult social care service's ability to manage the financial pressures. In addition, the service was identified as a key part of the Council's transformation programme to deliver better services with reduced resources.

We recognise that these are difficult challenges to face, and that the Council has a dedicated workforce that is committed to doing the right things for those requiring adult social care services in the City of York.

However, the view we formed was that the service was not responding quickly enough or effectively enough to the challenges it faced. In particular, we found that there was an urgent need to:

- improve financial management and develop a much better understanding and ownership of budgets within adult social care services;
- improve performance information obtained from the care management system, to make it easier to link activity and costs and manage the service more effectively;
- work jointly with health colleagues to address poor performance on delayed discharge from hospital, with the common objective of ensuring that services are flexible and provide the range of preventative interventions that minimise the need for adult social care support; and
- secure efficiencies and increased flexibility by encouraging user choice through wider use of direct payments. Currently, take up of these options is in the lowest quartile compared to other authorities, although we note that there are high levels of satisfaction amongst users with the services they receive.

The Council's response to our conclusion in relation to adult social care

We are pleased to report that the Chief Executive has recognised that insufficient progress had been made and has instituted an accelerated recovery and improvement process, working closely with the Director of Health and Well-Being and others.

An action plan has been developed in response to our findings, which we believe addresses the areas requiring improvement.

New management has been brought in to help with the improvement process. The new managers recognise that there is scope for improved management and working practices in a number of areas. However, they have compared contract prices against benchmarking data for other authorities, and this indicates that the Council has been getting good value for money from the services it has commissioned. An important focus is for the Council to work closely with its health partners, including NHS Vale of York Clinical Commissioning Group (CCG), to ensure that the overall health and social care economy makes best use of its combined resources to meet the needs of the City and its citizens.

We will continue to assess the Council's progress in improving financial management in adult social care as part of future value for money conclusion work.

Summary of our response to significant risks to value for money

In the Audit Strategy Memorandum, and in updates through our Audit Progress Reports to the Audit and Governance Committee, we identified significant risks relevant to the value for money conclusion. We detail below how we have addressed these risks and our conclusions.

Responding to the financial pressures

Description of the risk

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

How we addressed this risk

We reviewed budget monitoring and reporting, focusing on areas where action plans were in place to make savings and seek to minimise any adverse impact on services. We reviewed VFM profiles and the plans developed to deliver future savings, including those being developed through the Council's transformation programme.

Conclusion

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending. As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services. The Council recognised the need for a council-wide approach to change and transformation, and the Council launched its transformation programme, 'Re-wiring Public Services' in February 2014. The measures that are being taken are the right ones to address the future challenges that the Council faces. The task now is to implement these plans, deliver the savings that are needed, and make improvements in service delivery and outcomes for the citizens of York.

VFM risks in relation to Adult Social Care services

Description of the risk

Adult social care is identified as one of the highest priorities within the Council's service transformation programme. During the audit, we have become concerned at the lack of progress in making improvements to budget management and other aspects of adult social care services.

The development of the Better Care Fund provides a major challenge but also a significant opportunity for the Council and the Clinical Commissioning Group (CCG) to work together to increase investment in much needed intermediate and preventative care.

We are concerned that the lack of progress in delivering service improvement, together with the challenges of the Better Care Fund and the new Care Act, mean that the Council is at risk of failing to deliver good value for money in adult social care services and the best outcomes for local people.

How we addressed this risk

We reviewed budget monitoring and reporting in adult social care, focusing on areas where action plans were being developed to make savings and seek to minimise any adverse impact on services. We reviewed the plans developed to deliver future savings, including those being developed through the Council's transformation programme.

Conclusion

There were weaknesses in budgetary control and financial management in adult social care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced. The Council has since taken action to address the issues identified in 2013/14 and has a clearer understanding of the performance of the service and the scope for future efficiency savings.

New management has been brought in to help with the improvement process. The new managers recognise that there is scope for improved management and working practices in a number of areas. However, they have compared contract prices against benchmarking data for other authorities, and this indicates that the Council has been getting good value for money from the services it has commissioned. An important focus is for the Council to work closely with its health partners, including NHS Vale of York Clinical Commissioning Group (CCG), to ensure that the overall health and social care economy makes best use of its combined resources to meet the needs of the City and its citizens.

Appendix A – Draft management representation letter

City of York Council

24 September 2014

Dear Mr Davies

City of York Council - audit for year ended 31 March 2014

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 2014 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 affect 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 Cabinet and other 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.

Fraud and error

I acknowledge my responsibility as Director of Customer and Business Support Services 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 attached to this letter as an Appendix.

Yours faithfully

Ian Floyd
Director of Customer and Business Support Services

Appendix to letter of representation

Schedule of unadjusted misstatements

Unadjusted misstatements 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr. Investment Property			1,898	
Cr. Revaluation Reserve				1,898
<p>An error was made in reflecting the value of Hospital Fields / Fulford Business Centre in Investment Property at the time of the last revaluation. This has not been corrected. Investment property is understated by £1.898m in this respect, which is not material.</p>				
2 Dr. Assets Held For Sale			2,070	
Cr. Investment Property				2,070
<p>Low Fields Farm is continuing to be included as an Investment property even though no rent is being collected and it should be reclassified as a surplus asset (Asset Held for Sale). Investment Property is overstated by £2.070m in this respect, which is not material.</p>				
3 Dr. Other Operating Expenditure - Losses on Disposal	3,827			
Cr. Revaluation Losses on Non-Current Assets		3,827		
<p>Academy school assets have been removed from the Council's accounts as a downward revaluation rather than as a disposal. This impacts on how this is treated in the Comprehensive Income and Expenditure Statement (CIES). This error is not material.</p>				
4 Dr. Comprehensive Income and expenditure statement - Loss on revaluation	825			
Cr. Asset under Construction		825		
<p>A balance held within assets under construction has not been written out following the revaluation of a school on the completion of a major capital redevelopment. This error is not material.</p>				

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 2014 under the Audit Commission Act 1998. 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 and 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 2013/14.

This report is made solely to the members of City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director (s151) and auditor

As explained more fully in the Statement of 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, 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 explanatory foreword 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 2014 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 2013/14.

Opinion on other matters

In our opinion, the information given in the explanatory foreword 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 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

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 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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 have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Basis for qualified conclusion

In considering the Council's arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources we identified weaknesses in budgetary control and financial management in Adult Social Care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced. The Council has since taken action to address the issues identified in 2013/14 and has a clearer understanding of the performance of the service and the scope for future efficiency savings.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the matter reported in the basis for qualified conclusion paragraph above, 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 ending 31 March 2014.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention by local electors. We are satisfied that these matters do not have a material effect on the financial statements.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2014

Appendix C – Independence

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

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