

Audit Update Report

City of York Council

February 2018



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This document has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents.

1. AUDIT PROGRESS

2017/18 audit planning

We are in the process of completing the planning phase of the audit, which focuses primarily on:

- updating our understanding of the Council and its control environment;
- forming initial risk assessments for our audit and value for money responsibilities;
- developing our audit strategy; and
- undertaking early substantive testing of items as at the month 9 ledger position.

Although this work is yet to be completed, we are pleased to report that, at this stage, we have no matters to bring to the Committee's attention in relation to our planning activity.

We will issue our Audit Strategy Memorandum that sets out the results of our planning work as well as giving audit committee members information on significant audit and value for money risks and how we intend to address those risks. We intend to present the Audit Strategy Memorandum at the April Audit and Governance Committee meeting.

We also intend to do early work on the Council's existing schools PFI scheme, following up on prior year findings in relation to the appropriateness of the accounting treatment adopted, as well as considering the Council's proposed treatment for the new scheme at Allerton Park in conjunction with North Yorkshire County Council. In respect of the latter, we will liaise with the County Council's auditor (KPMG) to ensure a consistent approach is taken across the two Councils.

Objection to the 2016/17 statement of accounts

Members will be aware that we received objections to the Council's 2016/17 accounts from a local elector in respect of two separate items of account. Given the nature of the items of account subject to objection, we were satisfied that they did not give us any reason to believe that the items could have led to a material misstatement in the Council's financial statements. We gave our opinion on the financial statements in September 2017 but were not able to issue our certificate formally closing the audit for the 2016/17 financial year as we had not yet discharged our responsibilities to determine the objections.

Since September we have been gathering information and evidence, making enquiries of officers and carrying out other work in order to determine our response to the objections. Our work is nearing conclusion and we intend to write to the elector setting out our determinations in the coming weeks.

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2. MEETING THE CHALLENGE OF EARLIER DEADLINES

Background

As we have previously reported, the Council must adhere to the revised accounts publication timetable set out in the Accounts and Audit Regulations 2015, for the first time for the 2017/18 financial statements. The deadlines are outlined in the table below.

Requirement	New deadline	Old deadline	Change
Publish draft statement of accounts and accompanying information	31 May	30 June	1 month earlier
Publish audited statement of accounts and accompanying information	31 July	30 Sept	2 months earlier

As a result of the changes in both deadlines, the period within which electors and other parties can exercise their rights in relation to the Council's statement of accounts will also change.

How we're managing the earlier deadlines

In order to help meet the new deadlines, officers have agreed a protocol with us that outlines overall principles for the audit and performance expectations for aspects such as query response times. Although this will not fundamentally change the way we work with the Council's finance team, it has been useful to discuss and codify mutual expectations.

We have also changed the pattern of our work so that we will carry out our testing on certain areas of the accounts in advance of the financial statements being published. As outlined in section 1, this work is currently being delivered.

Implications for the Audit and Governance Committee

As has been commonplace in other sectors, such as in the NHS which already has significantly tighter accounts preparation and audit deadlines, it is likely that the audit will not be fully complete at the point we report to the Committee in our Audit Completion Report, in July. Where there is audit work outstanding at the point we issue our Audit Completion Report, we will detail the outstanding areas of work and provide members with a verbal update at the July meeting, followed-up with a formal letter to the Committee outlining the results of the outstanding testing.

Where audit deadlines are tight, it is also relatively common for late amendments to the financial statements to be made by management following the completion of our audit work. Members may wish to discuss arrangements for obtaining amended financial statements outside of the standard timetable for papers.

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3. HOUSING BENEFIT SUBSIDY CERTIFICATION

Background

As the Council's appointed auditor, we act as an agent of Public Sector Audit Appointments (PSAA) who are responsible for making certification arrangements for specified claims and returns, including the Housing Benefit Subsidy return. In 2016/17 this return was the only piece of certification work we undertook as an agent of PSAA.

We are required to follow a work programme, prescribed by PSAA and agreed with the Department for Work and Pensions (DWP). On completion of our work we issue a certificate which states whether the claim has been certified with or without amendment, and with or without qualifications.

In the event that we issue a qualification letter, the grant paying body, in this case the DWP, may decide that it will withhold or claw-back funding from the Council.

Results of our testing

We completed our work and reported to DWP in advance of the deadline at the end of November. The results of our work are outlined below.

Claim or return	Value of return	Amended?	Qualified?
Housing Benefit Subsidy return	£40,484,425	No	No

Our fees

PSAA outlines an indicative fee for the Housing Benefit Subsidy certification work on an annual basis. We confirm that our fees for certification of the 2016/17 return were in line with the indicative fee set by PSAA of £11,415 (£11,679 in 2015/16).

In April 2017, we wrote to the Council outlining our fees for the 2017/18 year, including the indicative fee for the certification of the Housing Benefit Subsidy return. At the time of writing, PSAA had not set its fees and we reported that it was likely that the indicative fee would be in line with the fee for 2016/17 of £11,415. PSAA has now confirmed that the indicative fee for City of York Council for 2017/18 is £11,679.

The future of assurance work on Housing Benefit Subsidy

2017/18 is the final year that we will certify the Council's Housing Benefit Subsidy return as an agent of PSAA. From next year, local authorities will need to appoint an independent reporting accountant to provide assurance services under a new framework that will be put in place by the DWP.

We are supporting the DWP and the Institute of Chartered Accountants in England and Wales (ICAEW) to finalise the framework that will be adopted under the new regime.

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4. WIDER UPDATE AND NATIONAL PUBLICATIONS

Update areas

1	PSAA audit procurement and fee consultation
2	PSAA Report on the results of auditors' work 2016/17: Local government bodies
3	PSAA Annual Report on Regulatory Compliance and Quality 2017
4	Sustainability and Transformation in the NHS, National Audit Office, January 2018

1. PSAA audit procurement and fee consultation

For audits of 2018/19 local government accounts, PSAA is specified as an appointing person under the Local Audit and Accountability Act 2014, meaning that any local authority that opted-in to the sector-led audit procurement exercise will have their auditor appointed by PSAA. As Members are aware, the Council opted in to the PSAA procurement conducted in 2017.

Following consultation, PSAA has confirmed that Mazars has been appointed to audit the Council's accounts from 2018/19 onwards and we look forward to continuing to work with the Audit and Governance Committee in that role.

2. PSAA Report on the results of auditors' work 2016/17: Local government bodies

Members may be interested in the overall themes presented in PSAA's annual report on the result of auditors' work in the local government sector. The report can be found on [PSAA's website](#).

3. PSAA Annual Reporting on Regulatory Compliance and Quality 2017

PSAA has recently issued its annual report for 2017 on the regulatory compliance and quality of its audit suppliers. PSAA uses a RAG rating to score the compliance and audit quality of the five firms appointed as auditors to principal local authorities. A summary of the results is provided below and the report can be found on [PSAA's website](#).

Firm	BDO	EY	GT	KPMG	Mazars
Firm rating	Amber	Amber	Amber	Amber	Green

4. Sustainability and Transformation in the NHS, National Audit Office, January 2018

Additional funding, aimed to help the NHS get on a financially sustainable footing, has instead been spent on coping with existing pressures, according to the National Audit Office's (NAO) report.

The NAO has made a number of recommendations to the Department, NHS England and NHS Improvement, which includes moving further and faster towards aligning nationwide incentives, regulation and processes, as well as reassessing how best to allocate the sustainability and transformation funding.

<https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/>

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CONTACT

GARETH DAVIES

PARTNER

TOWER BRIDGE HOUSE, ST KATHARINE'S WAY,
LONDON E1W 1DD

T: 020 7063 4310

M: 07979 164 467

gareth.davies@mazars.co.uk

JON LEECE

SENIOR MANAGER

SALVUS HOUSE, AYKLEY HEADS, DURHAM,
DH1 5TS

T: 0191 383 6347

M: 07768 775 477

jon.leece@mazars.co.uk