

Audit Completion Report

City of York Council – year ended 31 March 2015

September 2015



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Audit and Governance Committee
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10 September 2015

Dear Audit and Governance Committee members

Audit Completion Report – Year ended 31 March 2015

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. 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 on 25 March 2015. We have reviewed the significant audit risks and areas of management judgement included in our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

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 23 September 2015. 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
Partner
Mazars LLP

Contents

01 Executive summary	3
02 Commentary on the financial statements	4
03 Significant findings	5
04 Internal control recommendations	8
05 Summary of misstatements	11
06 Value for money	14
Appendix A – Draft management representation letter	21
Appendix B – Draft audit report	25
Appendix C – Independence	27

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 members or officers are prepared for the sole use of the audited body and we take no responsibility to any member or officer 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 2015 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 23 September 2015.

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

We have substantially completed our audit of the financial statements for the year ended 31 March 2015.

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. We will provide an update to you in a follow up letter to this report should any issues arise in relation to this matter.

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.

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 2 October 2015.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2014/15 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15. The statement shows a surplus for the year for the provision of services of £9.8m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2014/15 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.7m.

The CIES then accounts for other items, primarily the gains arising from the revaluation of Property, Plant and Equipment and a significant actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a deficit of £33.2m.

Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £33.2m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2014 and 31 March 2015 these increased from £91.1m to £96.0m. The General Fund balance, which is available to meet unforeseen circumstances, increased from £7.1m to £8.1m.

Housing Revenue Account (HRA)

The HRA shows the financial performance of the Council's ring-fenced housing provision. The statement shows a surplus for the year for the provision of services of £21.5m. As with the CIES, this position differs from the Council's reported performance on the HRA for 2014/15 because of items of expenditure which are correctly charged to HRA under accounting rules but are not charged to the HRA under statute.

The HRA performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget for 2014/15 of £1.3m. The overall HRA balance increased by £1.9m to £14.0m.

Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2014/15 was £48.2m, and £25.6m of this was financed from capital grants and contributions.

Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £394.2m which was a decrease of £33.2m or 7.8% on last year.

The most significant movement from last year relates to an increase in the net pension liability of £51.9m following the assessment by the actuary. This has been partly offset by increases in the net book value of property, plant and equipment (£14m) and an increase in net current assets (£10m).

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance, funds held by schools, and the HRA balance, the Council also has £5.7m in a capital receipts reserve and £10.9m of capital grants unapplied. A further £49.0m is held in earmarked reserves. Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £37.6m is held in General Fund earmarked reserves and £11.4m relates to the HRA. Although these reserves are earmarked, and in some cases they are ring-fenced for specific purposes, they do provide the Council with some flexibility in managing in the current challenging financial environment.

03 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

Management override of controls

Description of the risk

International Standards on Auditing (ISA) 240 – The auditor’s responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the 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.

How we addressed this risk

We addressed this risk through performing audit work on:

- accounting estimates that impacted on the amounts included in the financial statements;
- any unusual or significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in the preparation of the financial statements.

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.

We obtained information from the Audit and Governance 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.

Audit conclusion

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

Revenue recognition

Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council’s range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls which mitigated the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- testing receipts in March, April and May 2015 to ensure transactions 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

We identified some issues with the bank reconciliation which are discussed more fully in section 4 of this report. However, we did not identify any income that was recognised in the wrong period.

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

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 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

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.

Property, plant and equipment – accounting for depreciation, revaluations and impairments

Description of the risk

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. The accounting entries to reflect property, plant and equipment are complex and a material error was identified and corrected in the 2013/14 financial statements.

How we addressed this risk

We specifically reviewed the accounting entries to ensure that depreciation, revaluations and impairments were properly reflected in the financial statements.

Audit conclusion

We have carried out specific testing to address the significant risk in relation to property, plant and equipment entries and disclosures.

When accounting for a downward revaluation to the Askham Bar and Poppleton Park and Ride sites and making other minor adjustments in relation to this, charges of £19.469m were incorrectly allocated to environmental services rather than the highways, roads and transport services line in the Comprehensive Income and Expenditure Statement (CIES). The bulk of this adjustment (£19.199m) resulted from the park and ride sites being brought into use and their value changing from assets under construction (at cost) to other land and buildings (valued at existing use value). The accounting entries were recorded correctly in the balance sheet, and the only error was in the CIES.

This charge does not have an impact on the Council's outturn as it is essentially a notional cost, which is not required to be charged against the Council's bottom line financial position. Consequently, it is reversed in the Movement in Reserves Statement.

This error has been corrected in the final version of the financial statements and is included in the table of adjusted errors in section 5 of this report.

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. There have been no significant changes to accounting policies from the previous year.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example disclosures related to remuneration, going concern, subsequent events, and contingencies). There are no reporting issues arising from our review.

Significant matters discussed with management

During the course of the audit we continued to discuss with officers the issues around the bank reconciliation that we raised in last year's Audit Completion Report. The matters arising from these discussions are presented more fully in section 4 of this report. We did not encounter any other significant matters that required discussion with management.

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.

Last year, we 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 have once again worked closely with officers, and we feel that there were significant improvements in working papers and other arrangements during the 2014/15 audit process.

04 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 assign priority rankings to issues identified 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.	ONE ISSUE REPORTED BELOW In this case, our recommendation is to reconcile an outstanding unexplained difference, rather than strengthen internal control processes
3 (Low)	In our view, internal control should be strengthened in these additional areas when practicable.	None

Deficiencies in internal control – Level 2 (Medium Priority)

Follow up in relation to the bank reconciliation

In last year's audit, we reported on the complexity of the Council's bank reconciliation process and identified that the trail between these reconciliations and the actual year end cash position reflected in the statement of accounts could be improved. We recommended that further work be done to achieve this.

Officers have continued to address these issues, which arose from historic matching issues between the bank and the Council's financial ledger and separate bank reconciliation system.

We are pleased to report that the position has improved considerably in relation to the bank reconciliation at 31 March 2015 which is reflected in the 2014/15 financial statements. The work undertaken by officers has significantly reduced the number and value of adjustments required to carry out the year end bank reconciliation and consequently, the trail between the reconciliations and the accounts has been significantly improved.

Although the situation has improved, it is now clearer that there remains a non-material discrepancy between the bank account and the financial ledger which can not be fully explained by officers at present. The position at 31 March 2015 is set out on the following pages.

Bank Overdraft included in the Balance Sheet

	£000	
Bank Overdrawn at 31 March 2015 (currently included within Cash and Cash Equivalents in the Balance Sheet)	2,556 CR	
<p>Error – Cash received in the bank but not accounted for in cash because it was not posted to the ledger until April 2015.</p> <p>£1,375k of this income was accrued in Debtors as it was recognised as 2014/15 income that was expected to be received in 2015/16. The remaining amount was not accounted for in 2014/15 and relates to 2015/16 income.</p> <p>The accounting entries required to correct this error in the ledger would be:</p> <p>Debit Bank £1,761k (as indicated here)</p> <p>Credit Debtors £1,375k</p> <p>Credit Creditors £386k (ie. cash received in advance as it relates to 2015/16)</p>	1,761 DR	Unadjusted error – the Council does not intend to correct this error because it is not material – see section 5 of this report
If corrected, the correct Bank Overdrawn Balance at 31 March 2015 shown on the ledger and therefore in the statements would be	795 CR	

Bank reconciliation

	£000	
Bank statements	1,376 DR	A positive bank balance
Adjustments for expenditure processed in the ledger, but not yet in the bank statements	2,630 CR	
Adjustments for income processed in the ledger, but not yet in the bank statements	333 DR	
Other miscellaneous adjustments to cash; analysed to show gross debits and gross credits	475 DR 568 CR	
Expected Balance Overdrawn based on known adjustments	1,014 CR	

Discrepancy

	£000	
Difference between amount in the accounts (£795k credit, representing cash overdrawn) and amount based on the reconciliation to the bank balance as per the bank accounts (£1,014k credit, representing cash overdrawn)	219 CR	

In effect, this means that based on the bank statements and known adjustments, the financial statements overstate the Council's cash by £219k.

This £219k difference is a net difference, and it is possible to analyse the ledger differences in gross terms:

	£000
Gross Credit Differences	715 CR
Gross Debit Differences	496 DR
Net Difference	219 CR

Conclusions

The net difference of £219k is below the trivial level which does not require formal reporting to those charged with governance. However, the gross differences are above the trivial level, although they are still well below materiality.

Until all of the differences are identified and corrected, there remains a risk that this position could mask further unidentified errors, although they are unlikely to have a significant net impact.

We have reported the differences because the bank reconciliation is a fundamental element of the system of internal control.

Recommendation

We recommend that further work is undertaken to resolve the remaining differences in the bank reconciliation, so that a fully balanced position can be reflected in the 2015/16 financial statements.

Management response

The differences set out above relate to mismatches between the internal systems for bank reconciliation and the financial management system. At the time of writing, they have not all been resolved and officers continue to work on them. We expect all the issues to be fully resolved in the current financial year and they have no significant impact on the Council's financial position.

The Council has confidence that the bank reconciliation process and checks continue to provide a robust and transparent control mechanism ensuring that banking transactions are correctly identified, issued raised and matters resolved in a timely manner. Checks and balancing exercises take place on a daily basis with reconciliations taking place typically on a monthly basis following audit completion.

05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £7.06m with a clearly trivial threshold of £212k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2014/15 audit, based on the final statement of accounts, is £8.085m, with a trivial threshold of £243k.

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.

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

Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Dr: Bank			1,761	
	Cr: Debtors				1,375
	Cr: Creditors / Receipts in Advance				386
<p>This error was described in section 4 of this report. £1,761k was received in the bank account at the end of March 2015, but was not reflected in the accounts until April 2015. £1,375k of this income was accrued in Debtors as it was recognised as 2014/15 income that was expected to be received in 2015/16. The remaining amount was not accounted for in 2014/15 and relates to 2015/16 income. The entries to correct this error would be to recognise the cash in the bank, to reverse the debtor as the cash relating to 2014/15 was actually received in the year and transfer the amount relating to 2015/16 to receipts in advance so that it can then be recognised in the next financial year.</p>					
2	Dr: Equal Pay Provision (Long term provisions)			1,337	
	Cr: Equal Pay Earmarked Reserve				1,337
<p>The Council does not have any current equal pay claims made against it and also does not expect any to be made. This does not therefore meet the definition of a provision that there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers are of the view that they still need resources to be set aside for this, but agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					

Unadjusted misstatements 2014/15 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
3	Dr: Business Rates Provision (Long term provisions)			1,800	
	Cr: Business Rates Earmarked Reserves				1,800
<p>This element of the business rates provision is a general amount in case an unexpected liability arises and does not therefore meet the definition of a provision where there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					
4	Dr: General Fund Balance			219	
	Cr: Bank				219
<p>This uncertainty was described in section 4 of this report. This is technically below our triviality threshold, but we are reporting this because of the importance of the bank reconciliation as part of the Council's system of internal control. To correct this position would require a charge to the General Fund Balance. However, officers are still investigating this issue and are seeking to fully reconcile the bank balance in future years.</p>					

Adjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: CIES Service Costs – Highways, Roads and Transport Services	19,469			
	Cr: CIES Service Costs – Environmental Services		19,469		
<p>When accounting for a downward revaluation to the Askham Bar and Poppleton Park and Ride sites and making other minor adjustments in relation to this, charges of £19.469m were incorrectly allocated to environmental services rather than the highways, roads and transport services line in the CIES. The bulk of this adjustment (£19.199m) resulted from the park and ride sites being brought into use and their value changing from assets under construction (at cost) to other land and buildings (valued at existing use value). The accounting entries were recorded correctly in the balance sheet, and the only error was in the CIES.</p> <p>This charge does not have an impact on the Council's outturn as it is essentially a notional cost, which is not required to be charged against the Council's bottom line financial position. Consequently, it is reversed in the Movement in Reserves Statement.</p>					

Adjusted misstatements 2014/15 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
2	Dr. Short term provisions	3,800		3,800	
	Cr. Long term provisions		3,800		3,800
This error was identified by officers and corrected a misclassification between short and long term provisions.					

Disclosure amendments

- A number of minor errors, omissions, clarifications and typographical errors were corrected in the financial statements.

06 Value for money

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.

Criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review your annual governance statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (where applicable); and
- carry out any risk-based work we determine to be appropriate.

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.

Focus for this year's work

In the Audit Strategy Memorandum we identified two significant risks relevant to the value for money conclusion. We carried out work to address these risk areas.

One of the significant risks was to follow up last year's qualification of the VFM conclusion. The conclusion for the 2013/14 audit was 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 with one exception. The exception to this was that there were weaknesses in budgetary control and financial management in Adult Social Care services.

We took into account the matters disclosed in the Council's annual governance statement in undertaking our work.

There were no reports by other regulatory bodies or inspectorates that are relevant to our work this year. We did note, however, the issues raised in the Local Government Association (LGA) peer review of member behaviour commissioned by the Council and published in December 2014. We also noted the actions that have been taken as a result of this review.

In addition, we identified a need to carry out additional risk-based audit work in relation to programme and project management.

Our conclusion

On the basis of our work, 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 2015.

The Council has addressed the issues we raised last year in relation to adult social care. We recognise that adult social care still represents a huge challenge from the increasing demand from an ageing population, the impacts of changes in legislation, and the need to work more closely with partners, particularly in terms of better integrating health and social care. However, we found that the Council has addressed the weaknesses in budgetary control and financial management in Adult Social Care services that we identified, has a better grip on the financial position and is consequently better placed to address the challenges that it faces.

We did identify a number of areas for improvement in programme and project management, however, on balance we concluded that the Council did have proper arrangements in place, which recognises that the Council is seeking to deliver innovative and demanding projects and this will not always go smoothly, difficult decisions may be required and there may also be a need at times to change approach. The key issue for our conclusion was that the Council has proper arrangements in place to deal with these issues when they arise, and that risks are managed and mitigated as far as possible.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

The basis for our assessment of the Council's arrangements is set out in more detail on the following pages.

Financial resilience

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

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power at a time of increasing demand for services.

The 2014/15 budget included £10.7m of revenue savings. This is on top of the total of £51m savings already achieved in the period 2010/11 to 2013/14.

The following table summarises the 2014/15 financial outturn position.

Area	Budget	Year end position	Underspend for the Year
2014/15 General Fund Net revenue expenditure	£124.2m	£123.5m	(£0.7m)

The Council has delivered £10.7m of savings in 2014/15 and achieved a small underspend overall (£0.7m).

The financial outlook remains extremely challenging, and the 2015/16 budget included £11.9m in revenue savings.

As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services.

It is estimated that a further £35m of savings will be required between 2016 and 2020, representing over 30% of the Council's net budget. If savings can not be delivered in adult social care, where there are increased demand pressures from an ageing population, the Council's remaining services could face cuts of 50%. Following the local elections in May 2015, there is now a new political administration for the Council. This was followed by a 2015/16 budget amendment in July 2015, identifying an additional £1.5m of new commitments, funded using the £0.7m underspend from 2014/15 and other measures.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances (£8.1m) and for specific earmarked purposes (£49.0m). These secure the Council's immediate financial resilience.

The Council has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot be used to sustain services and the underlying budget reductions identified will need to be delivered.

Securing economy, efficiency and effectiveness

Like most local authorities, the City of York Council is learning how to operate with significantly reduced resources, and with the prospect of even fewer resources in the future. At the same time there will be increasing demands on the Council's services for example in social care as a consequence of an ageing population with increasingly complex needs.

In response, as well as targeting specific areas for efficiency improvement and savings, the Council has also sought to implement an ambitious transformation programme and is seeking to build resilience within local communities and the voluntary sector. The scope for integration of health and social care provides an opportunity for real improvement in service delivery and outcomes for local people. Economic development builds a stronger City and creates additional capacity and opportunity.

Effective programme and project management is critical to deliver the required changes, manage the associated risks and ensure that the desired outcomes are delivered for the Council, the City and its residents.

The City of York Council has shown ambition and drive. The Council can point to improvements, including successes in project delivery that have brought significant benefits. However, the Council has also experienced considerable difficulties with some projects, including the Lendal Bridge traffic scheme and more recently, with the housing for older people programme.

These impact on the Council's reputation, take considerable officer time to deal with and can have significant costs associated with them.

We were concerned that, if the high profile examples of problems in project delivery were repeated in other areas, this may impact adversely on the Council's delivery of change and transformation, delay much needed improvements and incur unnecessary costs. As a consequence, as part of our audit programme this year, we have focused on programme and project management and governance as a priority topic.

We were separately commissioned by the Council to review the Housing for Older People programme and terminated procurement process to identify the reasons for the issues that arose and the key lessons to be learnt.

In addition, as part of the 2014/15 audit of value for money arrangements, we also carried out additional risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in relation to other key ongoing programmes and projects.

We selected two key areas for our focus:

- the project management of a current high profile outward facing project – we selected the Community Stadium project, to assess how well the risks were being managed and how the lessons learned from experience on other projects have been reflected in establishing more robust arrangements; and,
- the programme management for the Re-wiring Public Services transformation programme, including an assessment of governance and risk management arrangements. This is a more internally focused change programme, but the improvements are essential to how well the Council will be able to adapt to further funding restraint.

In the following sections we summarise the outcomes of our advisory review of the Housing for Older People programme, our views on the community stadium project and on the Re-wiring Public Services transformation programme.

Advisory review of the housing for older people procurement

The Older People's accommodation project was an ambitious and complex programme of work for the Council involving multiple inter-related work-streams, various stakeholder interests and a high public profile. This required a disciplined business case development, robust governance arrangements and tight programme management to provide assurance on risks and appropriate, timely communication to decision-makers and stakeholders. Although we identified some areas of good practice, there were some weaknesses in the Council's approach and arrangements in these areas and consequent opportunities for improvement and learning on future major projects.

The underlying issue pervading our findings was the lack of a structured, best practice approach to business case development. The impact of this was that information on which to base the economic, financial and commercial cases and the adoption of the preferred solution was presented to Cabinet in a piecemeal way in a series of reports over a protracted period of time and highly caveated. Some of the key challenges involved were considered; but the lack of a more disciplined approach (for example, the Treasury's Five Case Model) meant that it was difficult to evidence in the formal records that the strategic case had been made, all options were properly considered and evaluated, or that financial, commercial and other risks were fully debated and mitigated.

Affordability was the key risk highlighted throughout the process. Financial information was available at the early stages of the project but heavily caveated pending further work. Operational assumptions were not robustly challenged and the Council did not develop a contingency plan in the event of this significant risk materialising. Affordability was repeatedly highlighted as a key area of concern in reports to Cabinet throughout the process. There were therefore alerts at early stages to the need for more rigorous scrutiny of the economic and financial elements of the business case. Robust scrutiny at an earlier stage would have acted as an effective brake and "reality check" on

proposals before the launch of a procurement process which was subject to the vagaries of the market during a recession.

Governance arrangements over risk were not appropriate for a project of this scale, although risks were presented in Cabinet papers and progress reporting to the Programme Board. Risks were debated at the Project Board, however, minutes of meetings do not evidence escalation of these risks. A comprehensive risk register was not in place throughout the duration of the project. Mitigations proposed were not sufficient in some cases and significant risks were not routed in a systematic way to Corporate Management Team and Cabinet.

The programme aimed to drive cost improvements whilst at the same time delivering higher quality and transformational change for York residents. A competitive dialogue route was chosen as the procurement route to achieve this. Council officers involved had limited experience in this form of procurement and associated commercial issues. Although the process was well managed in the circumstances, significant problems were encountered by the team in maintaining sufficient interest by the market. In June 2014, the Council was left with a single remaining bidder before the Invitation to Submit Detailed Solution stage. This presented a commercial challenge and although market failure can be difficult to predict, fuller consideration of the commercial implications before commencement of the process may have allowed measures to be put in place to allow better management of this scenario.

Following budget discussions the budget approved in February 2015 confirmed that additional resources would not be allocated to the project. Cabinet then approved termination of the procurement in March 2015 and the pursuit of alternative options.

It is equally important to reflect upon the areas of good practice and successful delivery of elements of the programme:

- A comprehensive and well managed public consultation on the strategic direction and a good mechanism for engagement with external stakeholder representatives through a wider reference group;
- The successful transition of residents and staff following the closure of two homes in March 2012 which was externally scrutinised and confirmed as meeting best practice;
- Elements of sound project management at project team level in terms of disciplined reporting to Programme Board, highlighting/debate of risks and follow up of actions in the face of considerable resourcing and capacity constraints as well as numerous changes in the composition of the project team over the life of the project; and
- The project team demonstrated considerable commitment and diligence in exploring ways to deliver an affordable solution in the face of considerable challenges to realise the programme's ambition, in particular given the duration of the project capacity issues and changes in personnel over that time.

Our separate advisory review report identified a number of areas for improvement. This was considered by the Audit and Governance Committee on 29 July 2015, along with an action plan prepared by officers to address the issues raised.

The Community Stadium project

We carried out a brief review of the arrangements for the delivery of the Community Stadium project. This was undertaken in May and June 2015, and followed up in August 2015. The nature of our review was such that any comments we make are about the arrangements the Council has put in place, and can not be interpreted as giving any assurance in relation to the successful delivery of the project.

The Community Stadium project proposes wide social, economic and community benefits. It aims to deliver an 8,000 seat community stadium, state of the art leisure facilities and a community hub involving a range of partners. Retail, restaurants and a cinema development are also planned on the site. The objective for the Council is to achieve these benefits with the minimal use of Council resources and with maximum leverage of external funding and commercial investment from the private sector.

Following a competitive dialogue process, Greenwich Leisure Ltd was identified in September 2014 as the preferred bidder on a design, build, operation and ongoing maintenance arrangement, covering the community stadium, the new stadium leisure complex and the Council's wider leisure facilities. The current plan is for a £37m development, which will require £8m of capital investment by the Council. The revenue consequences of the investment have been taken into account in the forward planning.

The project involves considerable risk, sensitive negotiations with a number of commercial partners and a need to deliver within the cost envelope that has been estimated. Affordability is a key risk and is continually reviewed by the project team.

Our review of arrangements identified that:

- Project management arrangements were clear and streamlined, with a Programme Director, focused project team and a monthly Project Board with appropriate representation from senior officers;
- The original plans were underpinned by a comprehensive business case, agreed by Cabinet in March 2012. The project expanded in size significantly with the addition of the new leisure facilities, and the report to Cabinet in September 2014 setting out the expansion of the project was comprehensive and appeared to address all relevant issues;
- Our review of risk documentation and other key supporting evidence for the management arrangements for the project indicated a robust and comprehensive approach was being adopted;
- There have been some contentious issues to address and consequent delays in the project to date; these are perhaps not unexpected due to the nature of the project and the complexity of the arrangements. The evidence reviewed suggests that the Council has continued to manage its way through these complexities in a professional manner; and
- A further update to the new Executive Committee in August 2015 sets out the latest position in detail, revealing further uncertainty about the completion date. Members have been provided with appropriate updates on project progress while maintaining the necessary commercial confidentiality.

We do not have any recommendations to make in relation to the arrangements for the community stadium project.

The Transformation programme

We reviewed the project management and governance arrangements for the Re-wiring Public Services transformation programme over the summer of 2015. Our review considered overall programme management and governance arrangements, supplemented by a detailed review of a sample of projects within the programme.

The Re-wiring Public Services Programme was introduced in October 2013 as a major programme of work to redesign services and develop new operating models with full engagement with York residents to ensure client focus whilst managing the major funding challenges faced by the Council. There are three broad principles underpinning the transformation programme:

- Helping residents to be independent and supporting those that need help to have a better quality of life;
- Commissioning outcomes efficiently and focusing resources on the real needs of the community; and
- Understanding communities and businesses and working with partners to enable and commission the outcomes.

The programme consists of several core overarching programmes of work:

- Business efficiency and consolidation
- Place Based Services and Public Realm
- Adult Social Care
- Communication and Resident Engagement
- Children's Services, Education and Skills

An Organisational Development project supports the transformation programme.

A strategic case setting out the key dimensions of the programme was presented to the Cabinet in February 2014. Cabinet considered further updates in July 2014, October 2014, December 2014 and February 2015.

Skills and capacity issues were cited as key challenges by officers during our review and this was recognised in Corporate Management Team discussions and Cabinet papers as a risk.

Project teams include resources from teams with operational roles. This places pressure on service managers and significant reliance on key individuals to support concurrent programmes of work, for example, in Finance and HR. The corporate transformation team supporting the process is relatively small and their capacity is therefore stretched in supporting the whole programme.

From our review, we noted that:

- Programme briefs have provided a high level summary of each programme. Generally, there is limited articulation of risks, financial and workforce impacts of programmes. However, we note that for Place Based Services a considerably greater level of detail is provided on financial implications;
- Corporate Management Team noted in September 2014 that business cases for all programmes were to be submitted to the Cabinet in October 2015; business cases for projects under Children's Services have been taken to Members, the Executive did receive proposals on the future plans for older people's accommodation in July 2015, and proposals for Place based services are progressing; and
- there has been a significant investment of officer time in the transformation programme; it is important that this is evaluated against the outcomes, improvements and savings that are delivered.

Funding constraints may not allow any additional resourcing to support the programme. However, it would be sensible to take stock and re-assess priorities and timescales. Within this context, we would recommend consideration of a re-phasing of the programme and a thorough review of resources required to support it, in terms of skills and capacity. In our view, the Council should take the opportunity to re-assess, redefine and reprioritise aspects of the programme which otherwise risks failure due to the breadth of scope of the programme and associated governance and project management requirements. This would allow expectations to be managed for all stakeholders in terms of deliverability of core, critical programmes of work to a feasible timescale.

We have produced a detailed findings document for management, and we propose to bring a short report to the next Audit and Governance Committee setting out our recommendations in relation to the transformation programme in more detail.

Follow up of issues raised last year in respect of Adult Social Care

The conclusion for the 2013/14 audit was 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 with one exception. The exception to this was 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 Audit and Governance Committee received a number of update reports which documented the action that had been taken in response to our findings. We have followed up the action taken to address the issues we raised last year in the 2014/15 audit and concluded that all of the action points were satisfactorily addressed.

We found that the Council has addressed the weaknesses in budgetary control and financial management in Adult Social Care services that we identified, has a better grip on the financial position and is consequently better placed to address the challenges that it faces. The best evidence for the improvement was the delivery of an improved outturn position on the adult social care budget. The budget outturn for 2014/15 was an overspend of £193k, which was 0.4% of the £51.2m budget, compared to a previous history of more significant overspends.

We recognise that adult social care still faces a huge challenge from the increasing demand from an ageing population, the impacts of changes in legislation, and the need to work more closely with partners, particularly in terms of better integrating health and social care. Whilst the Council has started to develop plans to address these areas, there is still much work to do, and adult social care remains a significant financial and operational risk for the Council. A new Director of Adult Social Care has been appointed and will begin to take these issues forward when he takes up his post in the autumn.

Significant Value for Money risks

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.

There have been some high profile examples of problems with project delivery. Most recently, the Council is considering whether to continue its long-running housing for older people procurement and has begun to consider a new strategy.

How we addressed this risk

We reviewed:

- the budget process and the Medium-Term Financial Strategy;
- the progress made in identifying savings required;
- progress of the Council's Transformation Programme;
- budget monitoring reports and other finance updates;
- delivery of improved outcomes; and
- whether project management practices are robust and lessons are being learned from difficult experiences.

Conclusion

Based on the work completed (and described in the paragraphs above), we are satisfied that the Council has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources.

Risks in relation to adult social care services

Description of the risk

We identified weaknesses in budgetary control and financial management in adult social care services in the 2013/14 audit and this led to an 'except for' qualification of the VFM conclusion. The risk is that the measures taken by the Council to address the issues raised last year are not effective.

How we addressed this risk

We followed up on the work undertaken in adult social care to ensure that previously agreed actions had been implemented. We considered how well the service was responding to a large number of challenges, such as preparing for Care Act implementation, increasing demand (ageing population and high proportion of over 85s in York), reducing resources, and the extent to which it has taken the opportunity to improve overall outcomes through working with partners, such as Vale of York CCG through the Better Care Fund.

Conclusion

Based on the work completed (and described in the paragraphs above), we are satisfied that the Council has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources.

Appendix A – Draft management representation letter

City of York Council

23 September 2015

Dear Mr Davies

City of York Council - audit for year ended 31 March 2015

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 2015 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 / Executive 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.

Specific representation in relation to the bank reconciliation

I confirm that I have shared with you all information in relation to the bank reconciliation, and there is no additional information which has not disclosed to you which could indicate that the unreconciled difference of £219k could mask any further errors or uncertainties or any evidence of fraud or irregularity.

Yours faithfully

Ian Floyd
Director of Customer and Business Support Services

Appendix to letter of representation
Schedule of unadjusted misstatements

Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Bank			1,761	
	Cr: Debtors Cr. Creditors / Receipts in Advance				1,375 386
<p>£1,761k was received in the bank account at the end of March 2015, but was not reflected in the accounts until April 2015. £1,375k of this income was accrued in Debtors as it was recognised as 2014/15 income that was expected to be received in 2015/16. The remaining amount was not accounted for in 2014/15 and relates to 2015/16 income. The entries to correct this error would be to recognise the cash in the bank, to reverse the debtor as the cash relating to 2014/15 was actually received in the year and transfer the amount relating to 2015/16 to receipts in advance so that it can then be recognised in the next financial year.</p>					
2	Dr: Equal Pay Provision			1,337	
	Cr: Equal Pay Earmarked Reserve				1,337
<p>The Council does not have any current equal pay claims made against it and also does not expect any to be made. This does not therefore meet the definition of a provision that there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers are of the view that they still need resources to be set aside for this, but agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					
3	Dr: Business Rates Provision (Long term provisions)			1,800	
	Cr: Business Rates Earmarked Reserves				1,800
<p>This element of the business rates provision is a general amount in case an unexpected liability arises and does not therefore meet the definition of a provision where there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					
4	Dr: General Fund Balance			219	
	Cr: Bank				219
<p>This is technically below the triviality threshold, but the auditor has reported this because of the importance of the bank reconciliation as part of the Council's system of internal control. To correct this position would require a charge to the General Fund Balance. However, we are still investigating this issue and are seeking to fully reconcile the bank balance in future years.</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 2015 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, 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 2014/15.

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 Director of Customer and Business Support Services and auditor

As explained more fully in the Statement of the 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 2015 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 2014/15.

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 Council 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 2015.

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.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, 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 ended 31 March 2015.

Certificate

We certify that we have completed the audit of the accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2015

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.