

# External Audit Progress Report

City of York Council

December 2018





## CONTENTS

- 1. Audit progress**
- 2. National publications**

This document is to be regarded as confidential to the City of York Council. It 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. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 1. AUDIT PROGRESS

## Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditor.

## Audit progress - 2017/18 audit

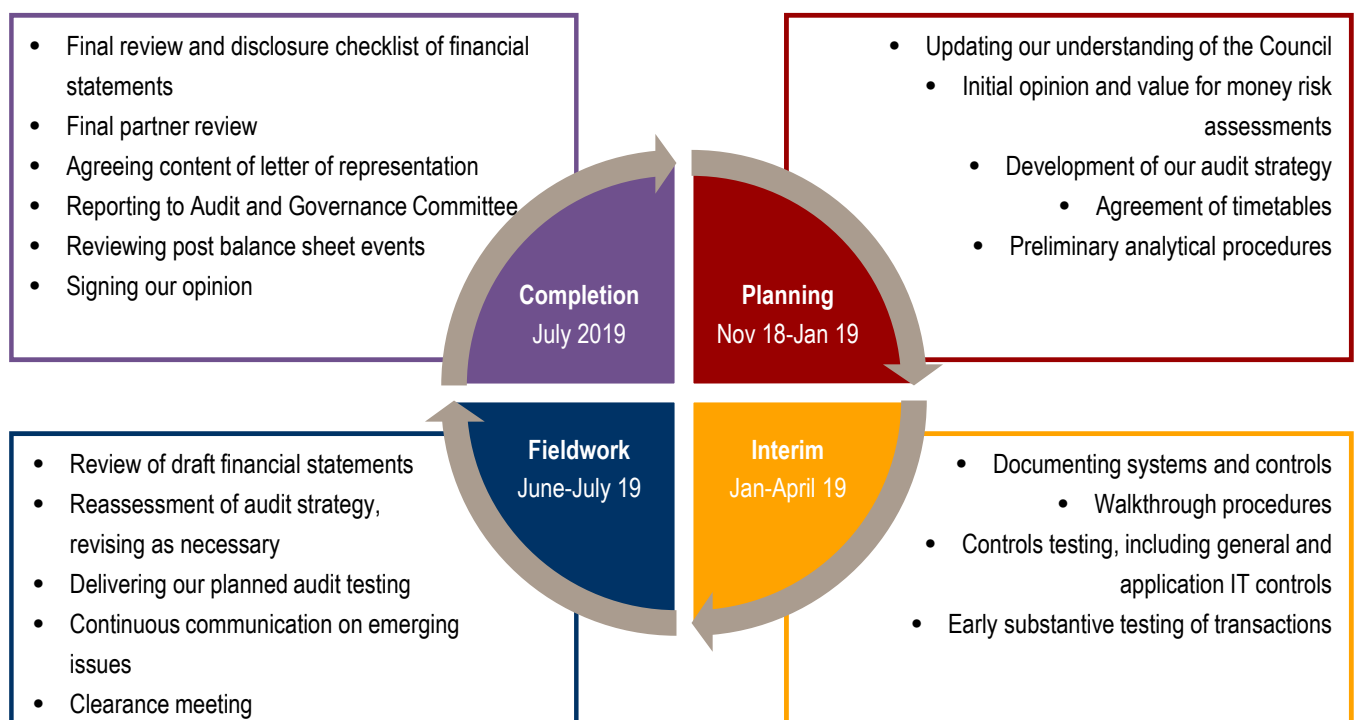
As reported in our Audit Completion Report, we were unable to issue our certificate formally closing the 2017/18 audit as a result of outstanding work to resolve an objection to the Council's accounts from a local elector. Our work on the matters brought to our attention is coming to a close and we anticipate finalising matters early in the new year.

Other work in this period includes the 2017/18 housing benefits subsidy return certification work which has a deadline of 30 November 2018; we will report to the Committee the outcome of this work upon completion.

## Audit progress - 2018/19 audit

This is our first progress report in respect of the 2018/19 audit year. Our key audit stages are summarised in the diagram shown below. Upon completion of our initial planning and risk assessment, we will present our Audit Strategy Memorandum to the February 2019 Audit and Governance Committee for discussion.

There are no significant matters arising from our work to date that we are required to report to you at this early stage of the audit cycle.



## 2. NATIONAL PUBLICATIONS

	Publication / update
<b>National Audit Office (NAO)</b>	
1.	Transformation guidance for Audit Committees
2.	Exiting the EU
3.	Departmental overview – Ministry of Housing, Communities and Local Government
4.	Departmental overview – Local authorities
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	
5.	Statement expressing concerns with Councils funding commercial investment through borrowing
6.	Local Authority Leasing Briefing 3
<b>Public Sector Audit Appointments Ltd (PSAA)</b>	
7.	Mazars Annual Regulatory and Compliance Report 2017/18
8.	Report on the results of auditors' work 2017/18: Principal local government and police bodies
9.	Consultation on 2019/20 scale of fees for opted-in bodies
10.	Oversight of audit quality, quarterly compliance reports
<b>Local Government Association (LGA)</b>	
11.	Sector-led improvement in 2017/18
12.	Speeding up delivery: learning from councils enabling timely build-out of high quality housing

### 1. Transformation guidance for Audit Committees, NAO, May 2018

Transformation is used to describe significant changes in service delivery or in day to day operations in an organisation.

The government continues to aim to make significant savings and transform services by introducing new organisational models and ways of working. However, transformation comes with risk and can be highly complicated. Evidence from the private sector suggests that 70% of transformations fail.

In many cases transformation programmes rely on new technologies and online services, and are highly ambitious and have a high risk of failure. The complexity of public service delivery and user needs can make the successful transformation of public services even more difficult. Oversight of these transformation programmes creates a major challenge for management and audit committees.

The NAO transformation guidance to Audit Committees sets out the questions to ask of management and the evidence and indicators to help audit committees to look out for at the three stages of any transformation project, as summarised below.

- At the set-up and initiation stage the key areas are: vision and strategy, and governance and architecture. The guidance addresses the evolving nature of transformation and what this implies for oversight.
- During the delivery and implementation stage the key areas are: change and implementation, and service and performance management. The guidance highlights the importance of tackling ambiguity and confusion in transformation objectives.
- Once live-running and benefits are being delivered the key areas are: people, process and technology. The guidance considers how audit committees can challenge the role of technology in supporting transformation.

<https://www.nao.org.uk/report/transformation-guidance-for-audit-committees/>

## 2. NATIONAL PUBLICATIONS

### 2. Exiting the EU, National Audit Office

The National Audit Office has produced a number of publications on the UK's exit from the EU, including:

- The UK border: preparedness for EU exit;
- Department for Environment, Food and Rural Affairs;
- Department for Transport;
- Consumer protection, competition and state aid; and
- Exiting the EU: the financial settlement.

[https://www.nao.org.uk/search/pi\\_area/exiting-the-eu/type/report](https://www.nao.org.uk/search/pi_area/exiting-the-eu/type/report)

### 3. Departmental overview: Ministry of Housing, Communities and Local Government (MHCLG) 2017-18, National Audit Office, October 2018

The Departmental Overview is designed to provide a quick and accessible overview of the Department and its performance over the last year. The report focuses on the Department's responsibilities setting out how it is structured, how it spends its money, and its major programmes. It also covers key developments in its areas of work, including exiting the European Union, and findings from recent NAO reports.

The main body of the report focuses on three key areas: financial sustainability; housing and homelessness; and devolution and reorganisation. The report concludes by setting out future developments, risks and challenges impacting on MHCLG.

The report also includes a section on the Department for Exiting the EU (pdf page 8).

<https://www.nao.org.uk/report/departmental-overview-ministry-of-housing-communities-and-local-government-2017-18/>

### 4. Departmental overview: local authorities 2017-18, National Audit Office, October 2018

The report summarises the work of local authorities, including:

- what they do and how they are organised;
- the system of accountability;
- where they get their funding and how they spend their money; and
- major programmes and developments across local authorities' main business areas and services.

The main body of the report covers: financial sustainability; housing and homelessness; and adult social care.

The overview addresses further developments in the sector, including those on 'fair funding', empty homes and the government's new Rough Sleeping Strategy will be driven by local authorities. It draws attention to the synergies required across local authorities and with MHCLG for the successful implementation of these programmes.

<https://www.nao.org.uk/report/departmental-overview-local-authorities-2017-18/>

### 5. Statement expressing concerns with Councils funding commercial investment through borrowing, CIPFA, October 2018

The Committee may be interested to note the CIPFA statement issued recently expressing concerns around commercial investment. The statement raises concerns with potential practices related to borrowing to fund commercial investment. CIPFA confirm in the statement that they will be issuing further guidance on the issue shortly.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/statement-from-cipfa-on-borrowing-in-advance-of-need-and-investments-in-commercial-properties>

<https://www.publicfinance.co.uk/news/2018/10/cipfa-warns-councils-over-serious-commercial-activity-concerns>



## 2. NATIONAL PUBLICATIONS

### 6. Local Authority Leasing Briefing 3, CIPFA, October 2018

This briefing focuses on discount rates, lessor accounting, disclosure requirements, concessionary leases – lessees and the measurement of the service concession arrangement (PFI/PPP) liability.

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

### 7. Mazars Annual Regulatory and Compliance Report 2017/18, Public Sector Audit Appointments Ltd, July 2018

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2017/18 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2016/17 work.

The report sets out that:

- Mazars is meeting PSAA's standards for overall audit quality and regulatory compliance requirements;
- Mazars' combined audit quality and regulatory compliance rating was green for 2017/18;
- The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor; and
- Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2017/18 indicators scored as green and the overall weighted audit quality score of 2.55 having increased slightly from last year's 2.45.

From its assessment of all firms, the FRC has identified key issues which firms need to address in order to improve audit quality. These were the:

- challenge and scepticism of management in key areas involving judgment, such as impairment reviews, asset valuations and provisions;
- group audit team's oversight and challenge of component auditors;
- audit of company pension scheme assets and liabilities; and
- arrangements for ensuring compliance with the Ethical Standard and independence requirements.

#### Summary of PSAA annual assessments – overall combined

	BDO	EY	DT	PwC	GT	KPMG	Mazars
2018	Amber	Amber	n/a	n/a	Amber	Amber	Green
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

1. Audit progress

2. National publications

## 2. NATIONAL PUBLICATIONS

### 8. Report on the results of auditors' work 2017/18: Principal local government and police bodies, Public Sector Audit Appointments Limited, October 2018

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers at 495 principal local government and police bodies for 2017/18.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 87 per cent of audited bodies received an audit opinion by the new deadline.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The most common reasons for auditors issuing non-standard conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates – 16 bodies;
- corporate governance issues – 12 bodies;
- financial sustainability concerns – 6 bodies; and
- procurement/contract management issues – 5 bodies.

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

### 9. Consultation on 2019/20 scale of fees for opted-in bodies, Public Sector Audit Appointments Ltd, October 2018

Public Sector Audit Appointments (PSAA) has published its consultation on the 2019/20 scale of fees for principal local government bodies that have opted into the appointing person arrangements.

The consultation proposes that scale audit fees for 2019/20, the second year of the five-year appointing period, should remain the same as the fees applicable for 2018/19. PSAA will review and update its assumptions and estimates each year, and consult on scale fees for the following year.

<https://www.psaa.co.uk/audit-fees/2019-2020scaleoffees/>

### 10. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd, September 2018

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality>

### 11. Sector-led improvement in 2017/18, Local Government Association, July 2018

This report shows how the LGA has used DCLG grant for 2016/17 to help councils and to support improvement in the sector.

Sector-led improvement is the approach that councils and the LGA have put in place to support continuous improvement. Challenge and support from one's peers lies at the heart of sector-led improvement and underpins its success.

During the year the LGA worked with Public Sector Audit Appointments (PSAA) to develop LG Inform Value for Money (VfM) a replacement for PSAA's existing VfM Profiles. The new tool was successfully launched in November. The VfM profiles bring together data about the costs, performance and activity of local councils and fire and rescue authorities. They have been designed to help auditors, people who work for councils and fire and rescue authorities and the public understand the costs of delivering local services, and to get an overview of comparative spend and performance over time and relative to others.

## 2. NATIONAL PUBLICATIONS

### 11. Sector-led improvement in 2017/18, Local Government Association, July 2018 - continued

#### Sector-led improvement: some reflections

- Councils continue to demonstrate exceptional leadership of place when called upon to do so (for example, Manchester and Salisbury). Emergency response demonstrates that partnerships are still strong despite the impact cuts to funding across the local public sector can have on on-going activity.
- Whilst recognising the opportunities, the uncertainty surrounding the potential practical implications of Brexit (funding, workforce, procurement, etc.) is becoming of increasing concern as March 2019 draws ever closer.
- Devolution and local government reorganisation continue to consume significant resources in some areas. This agenda can have a negative impact on relationships and present a distraction to on-going service delivery.
- Councils continue to grapple with the increasingly more challenging financial situation as evidenced by the recent National Audit Office report into local authorities' financial viability and now overlaid by the Fair Funding Review and business rates reset. This period of ongoing financial uncertainty is arguably as damaging to councils as the cuts themselves.
- We have seen an increasing request from councils, as leadership teams change or are renewed, for top team support to help them effectively lead their organisation through turbulent and challenging times.
- There continues to be a strong interest in exploring appropriate commercial opportunities and lots of interest in the commercial skills training that we have offered. But adverse publicity around borrowing to invest has meant that some councils appear less willing to share their knowledge and experience.
- Many councils that took out layers of strategic management, or whole functions such as policy development, are now struggling with capacity. A lack of corporate capacity in particular impacts councils' ability to horizon scan and think through how they need to change and adapt.
- Councils have devoted significant time and effort seeking to be equal partners in sustainability and transformation plans which haven't always led to outcomes, and there is frustration in the sector about this and a continuing concern at the delay in moving to new ways of working.
- Demand pressures particularly on children's and adult social care have become much more noticeable. An increasing number of councils are also reporting budget pressures on their temporary accommodation budgets.
- Homelessness has become a bigger issue for more councils this year and the number of homeless families and individuals placed in temporary accommodation has increased significantly.
- Housing growth is still a big issue. Councils are continuing to explore new vehicles to build homes.

### 12. Speeding up delivery: learning from councils enabling timely build-out of high quality housing, Local Government Association, August 2018

Many local authorities across the country are working to speed up the delivery and buildout of housing. This report highlights both the potential and the limitations of the measures local authorities can take to enable timely buildout of high-quality development. There are principles that all local authorities can follow and there are actions which may work better in some areas than others, depending to some degree on market conditions and developer activity.

Key points highlighted in the report include:

- understanding the issues to delivery in the area;
- considering the use of planning conditions and their proper use;
- design codes which can be a useful tool;
- use existing powers such as s215 enforcement notices;
- use s106 legal agreements to help solve the delivery problem;
- culture change in the planning department is key; and
- partner with others to help unlock sites by offering the types of housing needed that the industry isn't able to.

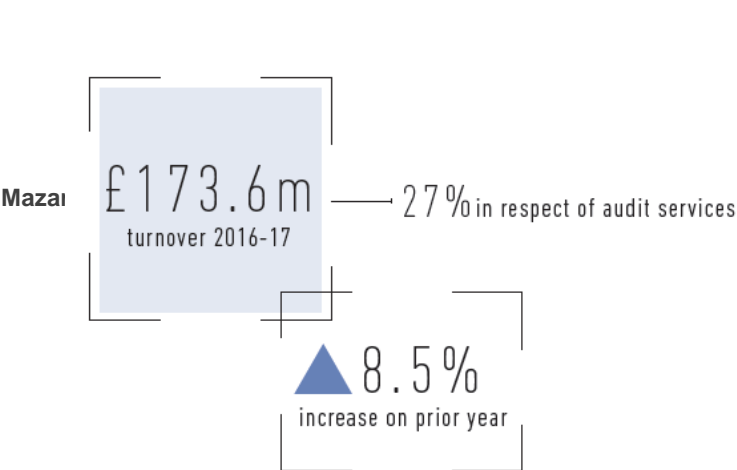
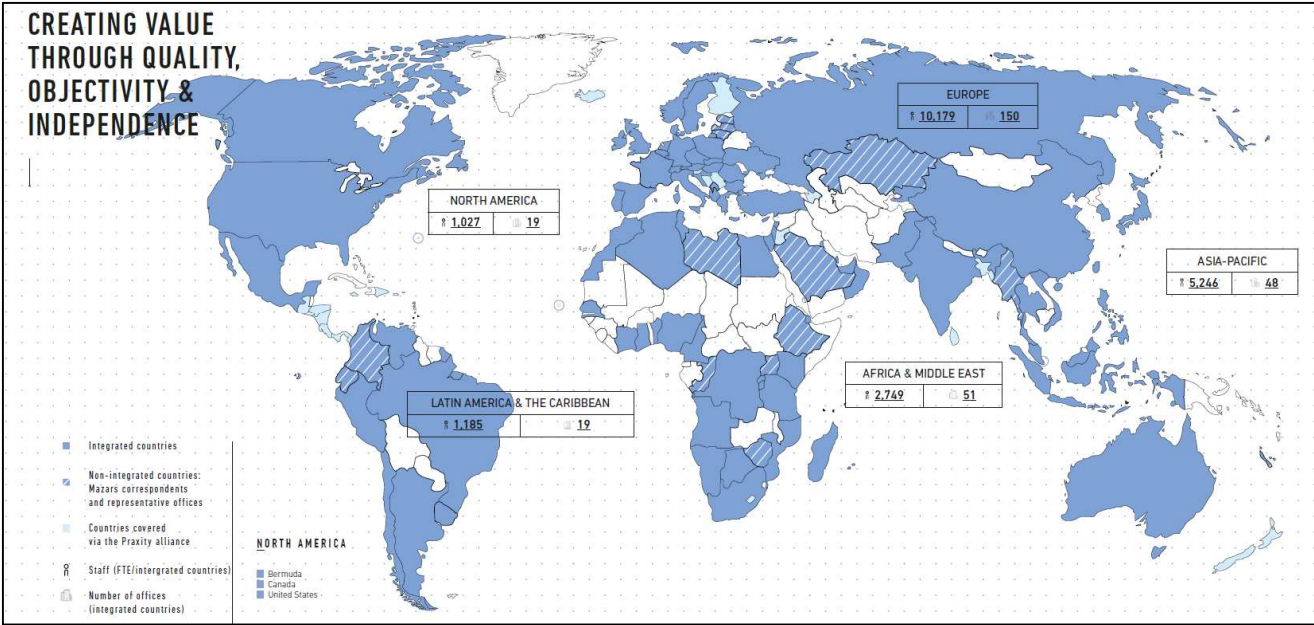
<https://www.local.gov.uk/speeding-delivery-learning-councils-enabling-timely-build-out-high-quality-housing>



# MAZARS AT A GLANCE

**Mazars LLP**

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



## CONTACT

Partner: Mark Kirkham

Phone: 0113 387 8850

Mobile: 0774 776 4529

Email: [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

0113 387 8850

07747 764 529

Senior Manager: Mark Dalton

Phone: 0113 387 8735

Mobile: 0779 550 6766

Email: [mark.dalton@mazars.co.uk](mailto:mark.dalton@mazars.co.uk)