

Annual Audit Letter

City of York Council
Year ending 31 March 2019





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for City of York Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised in the table below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 30 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the Council's financial position as at 31 March 2019 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 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 30 July 2019 included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 30 July 2019 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.
Statutory reporting	<p>Our report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 30 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure	£8m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£240k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of 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.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> ▪ accounting estimates impacting on amounts included in the financial statements; ▪ consideration of identified significant transactions outside the normal course of business; and ▪ journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to report, in relation to management override of control.</p>
<p>Property, plant and equipment valuations</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.</p> <p>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved in providing valuations.</p> <p>In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p>	<p>We considered the Council's arrangements for ensuring that PPE values are materiality fairly stated and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's in-house valuer.</p> <p>We reviewed the scope and terms of the engagement with the Council's in-house valuer and how management used the values report to value land and buildings in the financial statements. We also assessed the competence, skills and experience of the Council's valuer.</p> <p>In relation to the assets which have been revalued during 2018/19, we reviewed the valuation methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve, our expert and consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations.</p>	<p>Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to report, in relation to property, plant and equipment valuations.</p>

(continued on next page).

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Property, plant and equipment valuations (continued)

We also reviewed the approach that the Council adopted to address the risk that assets not subject to valuation in 2018/19 are materially misstated and considered the robustness of that approach in light of the valuation information reported by the Council's in-house valuers. In addition, we considered movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

Defined benefit liability valuation

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the North Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances.

We reviewed the controls that the Council has in place over the information sent to the scheme actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We also:

- evaluated the competency, objectivity and independence of the scheme actuary, AON Hewitt;
- liaised with the auditors of the North Yorkshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;
- reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and
- agreed the data in the IAS 19 valuation report provided by the Fund actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements.

Our audit work provided the assurance we sought and did not identify any indication of material estimation error in respect of the defined benefit liability valuation.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified one internal control deficiency as part of our audit. This was not significant in nature and related to the Council's IT password policy. Management has agreed to strengthen arrangements to address the control recommendation during 2019/20. We are content with Management's response.

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3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Council on 30 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council has a Constitution which provides the framework within which the Executive takes decisions in exercise of Council functions. Decisions are supported by reports that outline options and relevant considerations.</p> <p>The senior management structure is periodically refreshed to ensure it remains appropriate. The Council has a formal system of risk management and maintains both corporate and directorate risk registers which identify actions required to mitigate the identified risks.</p> <p>The Council uses corporate and directorate service level performance measures to report and manage service delivery. This includes quarterly financial and performance monitoring reports and associated outturn reports, which present the current and forecast position on performance and finance in relation to the Council's activities - supporting effective decision making.</p> <p>A set of corporate indicators is in place that focuses on key Council priorities. Performance is monitored through Directorate Management Teams, Corporate Leadership Group and Corporate Management Team with reporting to the Executive and full Council.</p> <p>The Audit and Governance Committee provides oversight of the Council's governance framework. The Council's internal auditor carries out an independent review of the effectiveness of the system of internal control including governance, risk management and the wider control environment operating within the Council. In 2018/19 the annual head of internal audit opinion again provided 'substantial assurance'.</p>	Yes

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3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Council continues to make good progress in addressing the financial challenges it faces and has a proven track record of strong budget management and delivering planned budget reductions. The Council has monitoring and reporting arrangements in place and operational to quickly identify and tackle emerging financial issues and / or to develop compensating savings.</p> <p>The Council delivered financial outturn for 2018/19 £801k better than originally planned achieving a small budget underspend of £0.15m along with £648k of unallocated contingency. In addition, the Council successfully delivered recurrent savings of £4.9m.</p> <p>A balanced budget has been set for 2019/20 and good progress has been made in managing financial risks and identifying savings within directorates.</p> <p>A medium term financial plan (MTFP) highlighting key financial risks and pressures is updated annually and fully refreshed every four years.</p> <p>The budget and MTFP recognise the service demand pressures for adult and children's services with additional resources made available in these areas short term and a recognition that some of the more transformational savings plans will require a longer delivery period.</p> <p>The MTFP for 2019/20 to 2023/24 recognises the uncertainty around the 2019 spending review, as well as reforms to the business rates arrangements. It identifies a total funding gap from 2020/21 to 2024/25 of £18.6m and early work is underway to identify savings plans within directorates and across the Council. Developing a strong economy is seen as a key priority to maximise Council Tax and Business Rate income and help to bridge the gap between anticipated spending requirements and available resources.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council continues to work with partners and other third parties to explore scope for alternative delivery models with some already in place and others being considered.</p> <p>The Council is an active member of a number of strategic delivery partnerships. Through the Health and Wellbeing Board, for example, the Council is working with local partners to create a strategic health and care economy that supports people to be healthy, well and independent. This includes a Joint Health and Wellbeing Strategy and a Mental Health Strategy.</p> <p>The Council has a Better Care Fund arrangement in place with the Vale of York Clinical Commissioning Group. This promotes the integration of health and social care and the development of transformational projects through the use of pooled budgets and integrated spending plans.</p> <p>In terms of arrangements to support effective procurement, the Council has an up to date Procurement Strategy and procurement procedures in place. The Council maintains a contracts register and seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. The Council has a corporate procurement team to oversee procurement and along with other authorities in the area, the Council makes use of the Yortender system for the management of key procurements.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had identified one significant audit risk. The work we carried out in relation to this risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Financial sustainability</p> <p>The Council's medium term financial plan (MTFP) sets out the financial challenges the Council faces in the medium term. The mid-year financial position for 2018/19 forecasted delivery of a balanced budget for the year. There were, however, financial pressures within Adult Social Care and Children's services, such that delivering a balanced budget was likely to require the use of contingencies and non-recurrent income.</p> <p>Whilst this was consistent with the MTFP, this use of one-off resources to support service delivery was indicative of the financial pressures faced by the Council in 2018/19.</p> <p>The continuing challenges the Council faced were not new and are not unique to the City of York Council. The challenges did, however, present a significant audit risk for our consideration of the arrangements in place to manage demand in your key service areas and deliver financial sustainability.</p>	<p>Building on our work in previous years, we reviewed the arrangements the Council has in place for ensuring financial resilience. Specifically, our work included reviewing:</p> <ul style="list-style-type: none"> the Council's MTFP to ensure it takes into consideration factors such as the latest income projections, funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors; and the arrangements in place to monitor progress in delivering a balanced budget for 2018/19 and the related savings plans. 	<p>The Council has revised its MTFP for 2019/20 to 2023/24 to reflect changes in priorities agreed by the new Council Members and the financial challenges it continues to face. This is based on income, funding, pay and non-pay assumptions and recognises the risks associated with these assumptions.</p> <p>A balanced budget has been set for 2019/20 with a £4m savings target consistent with the MTFP.</p> <p>The MTFP and balanced budget for 2019/20 have been subject to scrutiny and challenge via established governance and reporting arrangements within the Council.</p> <p>Arrangements for monitoring progress in delivering a balanced budget and related savings plans have ensured that the 2018/19 budget was met, with a small underspend and unused contingency rolled forward to 2019/20. As with many other councils, demand led challenges remain in Children's and Adult Social Care services. The 2019/20 budget and MTFP recognise this, and additional resources have been allocated to these areas.</p> <p>It is noted that the Council has a good track record of achieving its financial plans and the required savings. For 2017/18 and 2018/19 the Council secured the planned savings overall..</p> <p>There are no matters which give rise to VFM reporting issues for 2018/19..</p>

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. Whilst we did not receive any such objections in 2018/19, we did receive a number of questions from local electors. We have considered the matters brought to our attention through this correspondence as part of our 2018/19 audit and our work to date has not identified any matters to report.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 30 July 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in February 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£78,237	£78,237*

* Subject to approval by the Public Sector Audit Appointments Ltd, we are proposing an additional fee of £3,075 for work undertaken in response to questions raised by local electors.

Fees for other work

In addition to delivering audit work under the NAO's Code of Audit Practice, we have been engaged by the Council to carry out two pieces of assurance work as follows:

Area of assurance work	2018/19 proposed fee	2018/19 final fee
Housing Benefit Subsidy Claim	£11,500	£11,500*
Teachers' Pension Return	£5,000	£5,000*

* Our work on the Housing Benefit Subsidy Claim and Teachers' Pension Return is not yet completed and consequently the final fee quoted above is still on an estimated basis.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Council will need to incorporate the impact of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office intends to publish a report on Commercialisation during 2019. Depending on the appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

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6. FORWARD LOOK

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to:

- liaise with the Council's Internal Auditors to minimise duplication of work;
- attend Governance and Audit Committee meetings and presenting Audit Progress Reports including updates on regional and national developments; and
- host events for staff, such as our Local Government Accounts Workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

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CONTACT

Mark Kirkham

Partner & Engagement Lead

Phone: 0113 394 5315

Email: Mark.Kirkham@Mazars.co.uk

Mark Dalton

Director

Phone: 0113 394 5316

Email: Mark.Dalton@Mazars.co.uk