

Audit Completion Report

City of York Council – Year ended 31
March 2022

November 2022



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Dear Committee Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 June 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on 0113 387 8850.

Yours faithfully

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks in our Audit Strategy Memorandum, which were:

- management override of controls;
- revenue recognition;
- valuation of land and buildings; and
- net defined benefit pension liability.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements (unadjusted misstatements). Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

High risk areas of the audit were started early in the summer and the fieldwork stage of the audit started 3 October 2022. At the time of preparing this report, we are finalising our audit in respect of the financial statements for the year ended 31 March 2022.

The significant matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding in a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Page 7 of this report highlights a national issue in relation to infrastructure assets. We do not intend to complete our work in this area or issue our audit opinion until the matter is resolved.



Value for money arrangements

We are yet to complete our work in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. Our work is explained in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission for 2021/22. We are unable to commence our work in this area until such instructions have been received.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received an objections and a number of questions from local electors. We have not yet reached a decision in respect of the objection but our work to date suggests the subject matter is unlikely to affect our audit opinion.

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02




Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.







Audit area	Status	Description of the outstanding matters
Infrastructure assets		<p>As previously reported, CIPFA highlighted a national technical accounting issue relating to infrastructure assets, principally for highways authorities.</p> <p>Historically accounting for infrastructure has not been an area of risk because a historical cost basis is used in accounting for these assets. Concerns have, however, been raised that some authorities are not applying component accounting requirements.</p> <p>CIPFA's Local Authority Accounting Code Board (CIPFA LASAAC) is currently consulting with Local Authorities and Auditors, it is our understanding a proposed resolution will be confirmed in early 2023.</p> <p>Any changes will require additional audit work and has delayed the completion of our 2021/22 audit. We are working with management to resolve this issue as soon as possible.</p>
Whole of Government Accounts (WGA)		<p>We have not completed our 2020/21 or 2021/22 work in this area. We are waiting for clarification from the NAO in regard to 2020/21's audit requirements and Group Instructions to be issued for 2021/22.</p> <p>We cannot start this work until this information is received. We will work with management to complete this work as soon as possible.</p>




-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



2. Status of the audit

Outstanding matters continued.







Audit area	Status	Description of the outstanding matters
Standard audit enquiries		We are awaiting responses to our standard audit enquiries from the Monitoring Officer.
Journals		We are finalising our work in this area.
Non-pay expenditure		We have selected our sample and we are awaiting evidence finalise our work in this area.
Income and expenditure cut off		Our work in this area is substantially complete, however we are awaiting evidence to support the remaining items.
Payroll testing		We are finalising our work in this area.
CIES - non-grant income		Our work in this area has made significant progress but we are awaiting evidence to support remaining items.




-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



2. Status of the audit

Outstanding matters continued.







Audit area	Status	Description of the outstanding matters
CIES - grant income		Our work in this area is ongoing. We require evidence to support several items of grant income, including non-specific grant, capital grants and grant income credited to services.
Collection fund		There are several queries relating to business rates income, including those as part of the Technical Team's review of the draft accounts. The audit team has also raised queries and we require supporting evidence from management to complete our testing.
Property, plant and equipment		Our work in this is substantially complete, however we are awaiting evidence in regard to proposed audit adjustments and property disposals.
Creditors		We require evidence to support a minimal number of creditor transactions.
Debtors impairment		We are finalising our work in this area.
Private Finance Initiatives (PFI)		We have recently been informed that the Council has taken external advice on its PFI model for the waste recycling centre, which will result in material adjustments to the draft financial statements. Officers are awaiting information from their external advisors, which we will need to consider.




-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



2. Status of the audit

Outstanding matters continued.

Audit area	Status	Description of the outstanding matters
Pensions		Our work is substantially completed but we require the Pension Fund auditor’s letter to complete our work in this area. We also have other queries in regard to data sent to the actuary. We are still awaiting for responses to queries from the Administering Authority.
Final versions of the Annual Report and Annual Governance Statement		We will review the final versions of the Annual Report and Annual Governance Statement. This includes our technical and final review of the financial statements.
Letter of Representation		Receipt, and review, of signed letter of management representation.
Final check of information provided by the Council		We will complete procedures to ensure the completeness of financial data, including any journals posted subsequent to period 19 which are relevant to the 31 March 2022 financial statements.
Post balance sheet events		Review of post balance sheet events up to the point at which we sign our audit report.
Audit review and quality control		Completion of Manager and Partner review and our quality control processes in respect of the audit.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £9.3 million using a benchmark of circa 2% of gross operating expenditure. Our assessment of materiality, based on the draft financial statements was £7.8 million using the same benchmark.

As part of our closure procedures, we will revise materiality based on the final version of the financial statements.

Use of experts

As detailed in our Audit Strategy Memorandum, management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. There are no changes to our or management's use of experts:

Item of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Property, plant and equipment valuation	In-house valuer	We take into account any relevant information which is available from third parties.
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required.

As at the time of preparing this report, and as mentioned on page 11, we are awaiting information relating to the Council's PFI model, potentially requiring us to evaluate EY, as management's expert.

We will also need to consider Link, regarding their involvement developing the revised Minimum Revenue Provision (MRP) model and calculation, see page 19 for more detail.

Service organisation

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

As set out in our Audit Strategy Memorandum, we are not aware of any such arrangement at the Council.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 20 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;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.



4. Significant findings

Significant risks

Management override of controls]	<p>Description of the risk</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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 there is a risk of material misstatement due to fraud on all audits.</p>
<p>How we addressed this risk</p> <p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting 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>Audit conclusion</p> <p>We have not yet obtained the audit evidence required.</p>	

Revenue recognition	<p>Description of the risk</p> <p>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 for all income streams in 2021/22. We have identified income from fees and charges, as the key area for audit testing.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>
<p>How we addressed this risk</p> <p>We have completed the following work:</p> <ul style="list-style-type: none"> • testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger. 	
<p>Audit conclusion</p> <p>Subject to the satisfactory completion of the work highlighted in section 2 of this report, we do not expect there to be any matters to report in respect of revenue recognition.</p>	

4. Significant findings

Valuation of land and buildings

Description of the risk

At the planning stage, Council dwellings, infrastructure assets, other land and buildings were the Council's highest value assets totalling £983.3 million in 2020/21. The balance sheet also included investment properties totalling £65.1 million, and assets held for sale totalling at £0.8 million in 2020/21.

Per the CIPFA Code, each of these class of asset requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.

Management engages its own Valuer as an expert to assist in determining the fair value of land and buildings to be included in the financial statements but there remains a high degree of estimation uncertainty associated with the valuation of land and buildings due to the significant judgements and number of variables involved.

How we addressed this risk

We have:

- assessed the scope and terms of engagement with the Valuer;
- assessed the competence, skills and objectivity of the Valuer;
- assessed how management use the Valuer's report to value land and buildings included in the financial statements;
- tested the accuracy of the data used in valuations;
- challenged the Council and Valuer's assumptions and judgements applied in the valuations;
- reviewed valuation methodology used, including the appropriateness of the valuation basis;
- considered the reasonableness of the valuation by comparing the valuation output with market intelligence; and
- we engaged the Mazars Real Estates Valuation team to assist in the valuation of the Community Stadium, Allerton Waste Recycling Centre and Depreciated Replacement Cost valuation methodology. .

Audit conclusion

Subject to the satisfactory completion of the work highlighted in section 2 of this report and with the exception of issues highlighted in sections 5 and 6, we do not expect to report any other issues in regard to valuation of land and buildings.

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4. Significant findings

Net defined benefit liability valuation

Description of the risk

The financial statements contain material pension entries in respect of the 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 have:

- critically assessed the competency, objectivity and independence of the North Yorkshire Pension Fund’s Actuary;
- liaised with the auditors of the North Yorkshire Pension Fund to gain assurance over the design and implementation of controls in place at the Pension Fund. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 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 by the 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 Council’s financial statements.

Audit conclusion

As at the time of writing this report, our work on the valuation of the Council’s net pension liability valuation is substantially complete, with the exception of receipt of the Pension Fund auditor’s letter. At this stage there are no issues to report and we will report any issues to Audit and Governance Committee within our follow-up letter.



4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received on 29 June 2022 and were of a good quality, subject to audit adjustments.

Significant matters discussed with management

Minimum Revenue Provision (MRP)

As part of our review of the financial statements, we noted the Minimum Revenue Provision (MRP) had significantly reduced from the prior year (£7.95m to £4.73m). Our enquires confirmed that the method for calculating MRP has changed from an equal instalment basis to an annuity basis, which is permissible per statutory guidance. Management has confirmed that Members were made aware of the change during the meeting of the Finance and Performance Committee in February 2022. The matter was also included in the Executive report that was considered by the Audit and Governance Committee when the Treasury Management strategy for 2022/23 was presented. We are informed that Members were made aware of the savings in 2021/22 and the potential impact on future MRP charges.

Defined benefit pension liability and property valuations

As required by our regulator, we have increased our work on defined benefit pension schemes and the valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the fee required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. As set out in our ASM all fee variation requests are subject to approval from PSAA.

Group Accounts

The Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively or quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years, the Council will need to ensure it reviews this assessment and updates it for any significant changes.

Working together

Consistent with our experience at many of our other clients, post pandemic working practices have led to increases in the time taken to complete audits.

This year we have noted improvements in audit/client working practices, for example having a single point of contact at the Council has significantly improved coordination of audit queries.

We would like to work with management to enhance engagement in order to help deliver the audit in a more efficient manner. Some of the changes we would like to see include:

- clear agreement of the ledger to the accounts before the start of the audit. The current reconciliation is complex and takes a lot of audit resource to confirm;
- further improvements in working papers. There are several key working papers that could be updated to enable the audit team to easily identify source data and facilitate timelier sample selection; and
- identification and agreement of key system reports and evidence that could be provided in advance of the audit to enable earlier testing and samples to be selected in a timelier way.

We will of course consider any improvements we can make to our working practices.

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4. Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2021/22 audit.

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. We are currently carrying out follow up audit work after receiving a statutory objection which challenges the adoption of a highway in 2021/22 and the consequent expenditure.



05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	
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.	
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	



5. Internal control recommendations

1) Significant deficiencies in internal control – Level 2

Description of deficiency

In 2019/20 and 2020/21, we recommend that the Council improved its arrangement to review, challenge and document the output of management’s valuation experts relied upon in the production of its financial statements.

In 2021/22 our expert valuer completed a review of the Council’s Depreciated Replacement Cost (DRC) valuation methodology and noted a departure from RICS DRC guidance note (2018) in regard to the correct application of Modern Equivalent Asset (MEA) valuation guidance, including componentisation, physical, functional and economic adjustments.

As part of our work on Allerton Waste Recycling Centre (the Council’s largest property value), as part of the early discussion with the Mazars valuation team we recommended that management should complete its own independent indexation checks to assess if the value as at 31 March 2022, was materially accurate since the last valuation date, however this was not completed.

Potential effects

Without sufficient challenge, information relied upon in preparing the accounts could result in a material misstatement.

Recommendation

While we recognise improvements in the Council’s arrangement, in 2021/22 we noted the following areas for improvement:

- management should implement procedures to ensure RICS valuation guidance and methodology has been applied by the valuer; and
- for valuations where the Council does not have relevant expertise, it should consider other options to gain sufficient assurance for the valuation assertion.



5. Internal control recommendations

1) Significant deficiencies in internal control – Level 2

Management response

A number of improvements have been made in response to points previously raised, including:

- Providing a more detailed assessment of assets not revalued in year to ensure valuations are still materially accurate. Information provided was in a format suggested by the Auditors.
- Our Valuers have advised Mazars that this year they have checked floor areas of properties using the GIS mapping system for added reassurance. Buildings are generally a static asset in physical nature, and our Property Valuers are notified of any changes through the lease requirements which require tenants to seek approval for any alterations.

We will always need to place reliance on the expertise of our valuers who are professionally qualified (RICS) and undertake regular CPD (Continuing Professional Development)

AWRP – Allerton Waste Recycling Plant was built by and is now operated by Amey Cespa on behalf of North Yorkshire County Council (NYCC) and City of York Council (CYC) under a long term waste management service contract for the provision of landfill diversion services. NYCC is the major partner in this with 79% share, whilst CYC has a 21% share

The asset was formally revalued in 2020/21. Due to the specialist nature of this asset, our internal valuers do not have the knowledge and experience needed to provide an update on the valuation. Any valuation would need to be supplied by specialist external valuers at a significant cost to the Council. The plan is to have a formal valuation undertaken every 5 years, in line with how other land and buildings are revalued by both NYCC and CYC, however this will be kept under review. It is part of the agreement we have with Amey Cespa that the facilities, plant and machinery are kept in good working order and they have to undertake an annual programme of maintenance. If the asset is well maintained, this should reduce the risk of impairments and provides re-assurance that the value of the asset will not have altered materially as a result of this.



5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

As part of our work on IT general controls, IT auditors were unable to obtain evidence to show that there is a documented Disaster Recovery (DR) process nor that there has been a DR test performed within the period.

Potential effects

Unavailability of systems and partial or complete loss of data, resulting in reputational damage to the Council.

Recommendation

Management should:

- ensure that the DR plan is formalised and considers a variety of scenarios;
- ensure the document passes through version control at least once per annum; and
- ensure DR is tested and documented at least once per annum.

2021/22 update

No issues relating to this prior year issues were noted in 2021/22.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the audit, above the trivial threshold for adjustment of £0.315m.

The section below outlines the misstatements that were identified during 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.

The second paragraph outlines the misstatements that have been adjusted by management during the audit.

Unadjusted misstatements

As at the time of preparing this report we have not noted any unadjusted misstatements to report.

Adjusted misstatements

As at the time of preparing this report, we have no unadjusted misstatements to report.

As part of our work on property, plant and equipment valuations, we have identified an error relating to the Council's Depreciated Replacement Cost assets. We are waiting for management to quantify the error and confirm which classes of transaction will need to be changed.

Upon completed of the audit, we will write to Those Charged With Governance to confirm any other errors noted as part of the audit.



6. Summary of misstatements

Disclosure amendments

Management has made the following disclosure adjustments:

- **Note 1x (Financial instruments)** – minor disclosure amendment;
- **Note 2 (Accounting standards that have been issued but not yet adopted)** – the disclosure has been updated to remove reference to pension estimates, as this was not a judgement in the application of accounting policies;
- **Note 50 (Contingent liabilities)** – As reported in previous years, the disclosures did not meet the definition of a contingent liability and has been removed.

The financial statement have been updated for other minor disclosure errors.

Disclosure errors not amended

Management has decided not to make the following correction:

- **Note 3 (Critical judgements in applying accounting policies)** – the disclosure includes a reference to future levels of funding for local government but does not describe a judgement in the application of its accounting policies. In our view this does not meet the requirements of the Code.

Upon completed of the audit, we will write to Those Charged With Governance and confirm any other disclosure errors noted as part of the audit.



07

Section 07:

Value for money arrangements

7. Value for money arrangements

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in April 2023.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in April 2023.



7. Value for money arrangements

Our work to follow-up on previous recommendations

As part of our 2020/21 audit, we identified significant weaknesses in the Council's arrangements. The table below sets out the significant weakness identified, our previous recommendations and the work we intend to report in April 2023.

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2020/21 recommendations	Audit update
<p>We issued a Public Interest Report on 19 April 2021 including recommendations to address the significant weaknesses we identified in the Council's arrangements in respect of the severance of the former Chief Executive:</p> <ul style="list-style-type: none"> elements of the exit package, described in both the business case considered by Members and in the financial statements as contractual, were paid at the discretion of the Council and were not contractual entitlements; the business case considered by Members did not include sufficient facts, both in terms of financial analysis and background information, to make an informed decision; decision records that document the use of public funds under the scheme of delegation were not maintained; and safeguards to prevent conflicts of interest and demonstrate the Council applies the principles and values of sound governance were not applied. 	<p>Governance</p> <p>Improving the 3 Es</p>	<ul style="list-style-type: none"> The Council should adopt and apply appropriate standards for business case preparation in relation to exit and pension discretions to improve information supporting decisions. Decision notes should be maintained that document the factors that explain the case for the use of public funds under the scheme of delegation such as where payments exceed contractual entitlements. The Council should review the design of its governance policies and procedures to manage conflicts of interest (including self-interest threats). This should include updating the Council's constitution and scheme of delegation. The Council should ensure all Members fully understand the requirements of the Code of Conduct in relation to declaration of interests. The Council should review its policies and procedures to reflect Government guidance in the use of non-disclosure agreements. 	<p>We have noted the Council has made progress in addressing the recommendations relating to the significant weakness reported in 2020/21.</p> <p>The progress includes commissioning an 'Assurance Exercise on Actions Resulting from the 19 April 2021 Public Interest Report' from the Local Government Association.</p>



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

City of York Council
West Offices
Station Rise
York
YO1 6GA

X January 2023

Dear Mark

City of York Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of City of York Council (the Council) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

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 financial statements 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 Chief Finance Officer 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.



Appendix A: Draft management representation letter

Accounting records

I confirm that all transactions that have a material effect 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 Council and 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 Code 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 the methods, significant assumptions and the data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework..

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 Code and applicable law.

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.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



Appendix A: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Chief Finance Officer 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 financial statements 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 financial statements 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 Code and applicable law.

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. An impairment review is therefore not considered necessary.

Charges on assets

All the company's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

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.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2021/22 in relation to the Council's PFI schemes that you have not been made aware of.



Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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 cease to 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 financial statements as a whole. *Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Unadjusted should be numerical AND disclosure..*

Yours faithfully

Chief Finance Officer:

Date:



Appendix B: Draft audit report

Independent auditor's report to the members of City of York Council

As a result of the infrastructure assets issue and the potential impact of our work in regard your VFM arrangements, we are unable to provide a draft audit report at this stage.



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.



Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. Or detail significant matters identified.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Chief Financial Officer that City of York Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p>

Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Audit Committee,, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.