

AGENDA SUPPLEMENT

Audit and Governance Committee

To: Councillors Pavlovic (Chair), Daubeney, Fisher (Vice-Chair), Lomas, Mason, Wann and Webb

Date: Wednesday, 16 June 2021

Time: 5.30 pm

The Agenda for the above meeting was published on 8 June 2021. The attached additional documents are now available for the following agenda item:

- 11. Urgent Business** (Pages 1 - 20)
Any other business which the Chair considers urgent under the Local Government Act 1972.

Mazars Annual Audit Letter

This paper attached at Annex A from Mazars summarises the outcome of their audit of the Council's 2019/20 annual accounts and their work on the value for money conclusion which was circulated to members of the committee on the 24th May 2021.

This agenda supplement was published on **16 June 2021**.

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Audit and Governance Committee

16 June 2021

Report of the Chief Finance Officer

Mazars Annual Audit Letter**Summary**

1. The paper attached at Annex A from Mazars summarises the outcome of their audit of the Council's 2019/20 annual accounts and their work on the value for money conclusion which was circulated to members of the committee on the 24th May 2021.

Background and Analysis

2. The report covers:
 - a. Audit of the financial statements
 - b. Value for money conclusion
 - c. Other reporting responsibilities
 - d. Fees
 - e. Forward look.

Options

3. Not applicable.

Corporate Priorities

4. The report contributes to the overall effectiveness of the Council's governance and assurance arrangements.

Implications

5. There has been an increase in fees of £55k which will have to be funded from within existing budgets. There are no HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

6. The Council will fail to comply with legislative and best practice requirements to provide for a proper audit of the Council if it does not consider this report.

Recommendations

7. Members are asked to
 - (a) Note the matters set out in the Annual Audit Letter presented by the external auditor

Reason

To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

Contact Details

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Debbie Mitchell
Chief Finance Officer

Report	X	Date	16.6.21
Approved			

Wards Affected: All

For further information please contact the author of the report

Background Papers:

Mazars Audit Completion Report – A&G Committee 31st March 2021

<http://modgov.york.gov.uk/documents/s148583/2019-20%20CYC%20ACR%2022%20Mar%202021.pdf>

Annex:

Annex A – Mazars Annual Audit Letter 2019/20

Annual Audit Letter

City of York Council

Year ending 31 March 2020





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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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 independent auditor for City of York Council (the Council) for the year ended 31 March 2020. 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 our key findings.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 28 April 2021 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 2020 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 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"> • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our qualified auditor's report concluded that, except for arrangements for taking informed decisions, 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 2020. See page 8 of this letter for more detail on this matter.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we used our powers under s24 of the 2014 Act, to issue a report in the public interest on 19 April 2021. Additional details are provided on page 13 of this letter.</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 and of its financial performance.

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, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. We reported our concerns about the regularity and propriety of the exit package paid to the Chief Executive to the meeting of the Audit and Governance Committee on 31 March, and to the meeting of the Full Council on 4 May.

Emphasis of matter paragraphs

We included an emphasis of matter paragraph in our report because the North Yorkshire Pension Fund and the Council included material valuation uncertainty clauses within their reports which refer to the potential effect of Covid-19 on the Council's share of the Pension Fund's property assets and the valuation of the Council's property, plant equipment and investment assets. Our opinion was not modified.

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. 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. We 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 for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure (£m).	£8.701m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality (£m).	£0.261m

We applied a specific lower level of materiality to the following areas of the accounts:

- officer remuneration;
- Chief Executive's exit package;
- termination payments; and
- Members' allowances.



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 our 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 In all entities, management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which override could occur, we consider there to be a risk of material misstatement due to fraud on all audits</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 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>There were no matters arising from our work on management override of controls to bring to your attention.</p>
<p>Revenue recognition 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 concluded that there are insufficient grounds for rebuttal for all income streams in 2019/20. We identified income from 'customer and client receipts' and 'other operating income' as the key areas for testing. This does not imply that we suspect actual or intended manipulation but that we deliver our audit work with appropriate professional scepticism.</p>	<p>We addressed this risk by completing the following procedures:</p> <ul style="list-style-type: none"> • testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; • reviewing and testing revenue recognition policies, relating to 'customer and client receipts' and 'other operating income'; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger. 	<p>There were no matters arising from our work on revenue recognition to bring to your attention.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment valuation</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 for all land and buildings over a five year cycle.</p> <p>The Council employs an internal valuation expert to provide information and there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved.</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 reviewed the scope and terms of the engagement with the Council's valuer and how management used the valuer's report for land and buildings. We also assessed the competence, skills and experience of the Council's valuer, considered the valuation methodology in relation to industry practice, the requirements of the CIPFA Code, and the accounting policies.</p> <p>We reviewed the approach for ensuring ensure all assets are revalued over a 5 year cycle. We considered the robustness of that approach in light of the valuation information reported by the Council's in-house valuer.</p> <p>We considered the arrangements in place to ensure the accuracy of the valuers work, including the extent of the liaison between the valuer and the finance team.</p> <p>For assets revalued during 2019/20, we reviewed the methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve (consulting valuers engaged by the National Audit Office), to obtain assurance that the valuations are in line with market expectations. We considered movement in market indices in order to determine whether these indicated that fair values moved materially.</p> <p>We considered the potential impact of the Covid-19 pandemic on asset valuations and the adequacy of the disclosures, specifically those relating to the material uncertainty.</p> <p>We also engaged our own valuer to obtain assurance that the value of Allerton Waste Recycling Park was materially accurate.</p>	<p>Our work did not identify any material errors or uncertainties in the financial statements but it we did make a control recommendation in regard to management's arrangement to review, challenge and document the output of management's valuation experts.</p> <p>In note 4 of the financial statements the Council disclosed that the valuation of the Council's property assets was subject to 'material valuation uncertainty' as a result of COVID-19. We therefore included an 'emphasis of matter' paragraph in our auditor's report.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation</p> <p>The net pension liability represents a material element of the Council's balance sheet. The valuation of the fund relies on a number of assumptions, most notably around the actuarial methodology which results in the overall valuation. There are financial and demographic assumptions used in estimating the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should reflect the employee profile and be based on appropriate data. There is a risk that the assumptions and methodology used are not reasonable or appropriate for the Council's circumstances. This could have a material impact on the net pension liability in 2019/20.</p>	<p>We reviewed the controls in place over the information sent to the actuary, including the Council's processes and controls with respect to the assumptions used in the valuation.</p> <p>We evaluated the competency, objectivity and independence of the scheme actuary, AON Hewitt.</p> <p>We reviewed the appropriateness of the methodology applied, and the key assumptions included within the valuation, by comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office.</p> <p>We considered the potential impact of the McCloud judgment and Goodwin case on the pension liability valuation, and what the Council has done in response. Management confirmed that a report using data to 31 March 2020 was obtained from the actuary to mitigate any potential impact on the valuation from the Covid-19 pandemic.</p>	<p>Our work has not highlighted any indication of material estimation error in respect of the defined benefit liability valuation.</p> <p>A material valuation uncertainty was disclosed for the Pension Fund's property investment assets as a result of COVID-19. As the Council's share of those assets in the net Pension Liability in its own balance sheet is material, the Council disclosed this in Note 4 of the financial statements and we have reflected this in the 'emphasis of matter' paragraph in our auditor's report.</p>



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 the following two deficiencies in internal control as part of our audit.

Description of deficiency	While our work to date has not found any material errors in this area, we recommend that the Council improves its arrangement to review, challenge and document the output of management's valuation experts relied upon in the production of its financial statements.
Potential effects	Without sufficient challenge, information relied upon in preparing the accounts could result in a material misstatement.
Recommendation	We recommend that management's review and challenge of the valuer's work should be formalised. We suggest that management formally documents how it gains its own assurance over the data, calculations and assumptions in valuer's reports.
Management response	Arrangements are in place to review and challenge the output of our valuation experts who themselves use their professional judgement to work in accordance with Royal Institution of Chartered Surveyors (RICS) guidelines. Regular meetings are held throughout the year to share information and key assumptions on the valuation basis being used and revaluation cycle. Once valuations are received these are reviewed and any significant movements or category changes are challenged, and where necessary amendments to valuations are made. Evidence of this process has been provided during 2019/20.
Description of deficiency	Our work on the Members' allowances the scheme and approved rates published on the Council's website relates to previous policy. The review of the scheme and approved rates (December 2019) should be published on the Members' allowances section of the Council website.
Potential effects	The public are not informed of the latest decisions of the Independent Remuneration Panel, relating to Members' allowances.
Recommendation	The Council should ensure the published Members' scheme of allowances and approved rates is the most up to date version.
Management response	Arrangements are now in place to urgently correct this oversight and the Report of the Independent Remuneration Panel from December 2019, will be placed on the Council's website. However the recommendations contained within that report have been enacted and these are reflected in the individual councillor details on the website.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Qualified – except for

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, outlined our qualified conclusion on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>While the Council has a Constitution and Code of Conduct, the effectiveness in providing an effective framework for decision making is under review.</p> <p>The senior management structure (including the Corporate Management Team and Corporate Leadership Group) has been updated to respond to the Council’s challenges.</p> <p>The Council has adopted 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. The quarterly financial and performance monitoring reports and associated outturn reports support decision making.</p> <p>The Council approved its Council Plan (2019 -2023) which sets out the Council’s long term priorities and objectives. Delivery of the plan and Council performance is monitored through Directorate Management Teams, Corporate Leadership Group and Corporate Management Team with reporting to the Executive and full Council.</p>	Decision making arrangements and processes relating to the Chief Executive’s severance agreement provide evidence of weaknesses in arrangements.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Qualified – except for

Sub-criteria	Commentary	Arrangements in place?
Informed decision making (continued)	<p>The Audit and Governance Committee provides oversight of the Council's governance framework.</p> <p>The Council's internal audit 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 2019/20 the annual head of internal audit opinion again provided 'substantial assurance'.</p> <p>In response to the Covid-19 pandemic, the Council amended its Standing Orders to facilitate remote Council meetings.</p> <p>The findings of our audit work on the severance agreement in respect of the former Chief Executive have not yet finalised but we have identified the following significant issues:</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 support an informed decision; • decision notes 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>The evidence we have seen in connection with this decision means we are not satisfied that we have seen evidence that the Council has arrangements in place for acting in the public interest, through demonstrating and applying the principles and values of sound governance. The matters we have identified are evidence of weaknesses in proper arrangements for taking informed decisions.</p>	



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Qualified – except for

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Council has been able to manage budgets and deliver its Medium Term Financial Plan (MTFP).</p> <p>In 2019/20, the Council recorded a £0.128 million underspend, against a net general fund budget of £123.0 million. In common with other local authorities, additional costs were incurred in children’s and adult social care services. As in previous years, reductions in expenditure in other directorates and the use of earmarked reserves (£1.4 million) mitigated these pressures.</p> <p>In February 2020, the Council issued its financial strategy (2020/21 to 2024/25), including a balanced budget for 2020/21. For 2020/21 the Council planned a balanced net budget of £127.2 million, which was based on a 3.99% Council Tax increase (including social care precept), a £4 million savings plan, and maintaining its general fund reserve balance of £6.4 million (consistent with 2019/20).</p> <p>As at quarter 3 (2020/21), the Council is projecting a budget gap of £3.7 million (after mitigations) on its net budget of £127 million. This projection includes the impact of Covid-19, which equates to an additional pressure of £18 million, in both additional costs and lost income. We are informed that the Council is to receive an additional £16 million of financial support.</p> <p>If necessary the Council plans to utilise its General Fund reserves (£7.4 million) to balance the budget in 2020/21, recognising these will need to be replenished in future budgets.</p> <p>The Council continues to monitor the impact of the pandemic on its financial strategy and updated it with projections for 2021/22 to 2025/26. The financial strategy includes a balanced budget (net £131.4 million) in 2021/22, saving plans of £7.9m, and no plans to utilise General Fund reserves.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Qualified – except for

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 a 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>The Council is a member of the York and North Yorkshire Local Enterprise Partnership (LEP) and a non-constituent member of the West Yorkshire Combined Authority. The Council is currently consulting with key partners including North Yorkshire County Council and the North Yorkshire district councils to agree the formation of the York and North Yorkshire devolution proposal, which is intended to create a new Combined Authority for York and North Yorkshire.</p> <p>In terms of arrangements to support effective procurement, the Council has an up to date 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 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 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 Strategy Memorandum, we reported that we had identified a significant audit risk relating to financial sustainability. The work we carried out in relation to this significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Financial sustainability</p> <p>The medium term financial plan (MTFP) sets out the financial challenges the Council faces. The mid-year financial position for 2019/20 indicates that the Council is forecasting delivery of a balanced budget for the year. There are, however, financial pressures within adult social Care and children's services such that delivering a balanced budget is likely to require the use of contingencies and non-recurrent income. While this is consistent with the MTFP, this use of one-off resources to support service delivery is indicative financial pressure.</p> <p>The continuing challenges are not new and are not unique to the City of York Council. The challenges do, 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 over the medium term.</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 consider whether 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 2019/20 and the related savings plans. 	<p>Our work provided sufficient assurance and we have no matters to report.</p> <p>The impact of the Covid-19 pandemic means the Council will need to revisit the MTFP, including assumptions and future budget gaps.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	Matters to report
Completion of group audit reporting requirements	Consistent
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 issued a Public Interest Report on 19 April 2021 setting out why we are not satisfied about the regularity and propriety of the decision to approve the early termination of the Chief Executive's employment contract.

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 received an objection from an elector which challenged components of the Chief executive's severance package. As we had initiated our own enquiries into this matter, this did not lead to any further action by us.

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 29 April 2021.

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 Audit and Governance Committee in March 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice.	£78,237	£78,237
Additional work in respect of IAS 19 valuations, including the impact of material valuation uncertainty and legal cases.	-	£2,482
Additional work in respect of valuations, including consideration of the impact of material valuation uncertainty and additional regulatory focus.	-	£8,505
Specific work of the valuation of Allerton Waste Recycling Plant and also the Council's Heritage assets.	-	£8,280
Additional work on VFM, including consideration of the impact of our wider reporting duties and of COVID-19 on the financial sustainability of the Council.	-	£4,535
Other areas, including the wider impact of COVID-19 on the control environment and audit risk assessment.	-	£3,616
Consideration of information provided by the public.	-	£1,939
Consideration of the statutory objection.	-	£2,450
Significant additional work in respect of severance payments.	-	£23,467
Total NAO Code of Practice work	£78,237	£133,511
Certification of Housing Benefit Subsidy Claim (excluding VAT)	£11,800	£11,800
Certification of Teachers' Pension return (excluding VAT)	£5,900	£5,900
Total	£95,937	£151,211

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are, however, significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

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

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit and Governance Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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