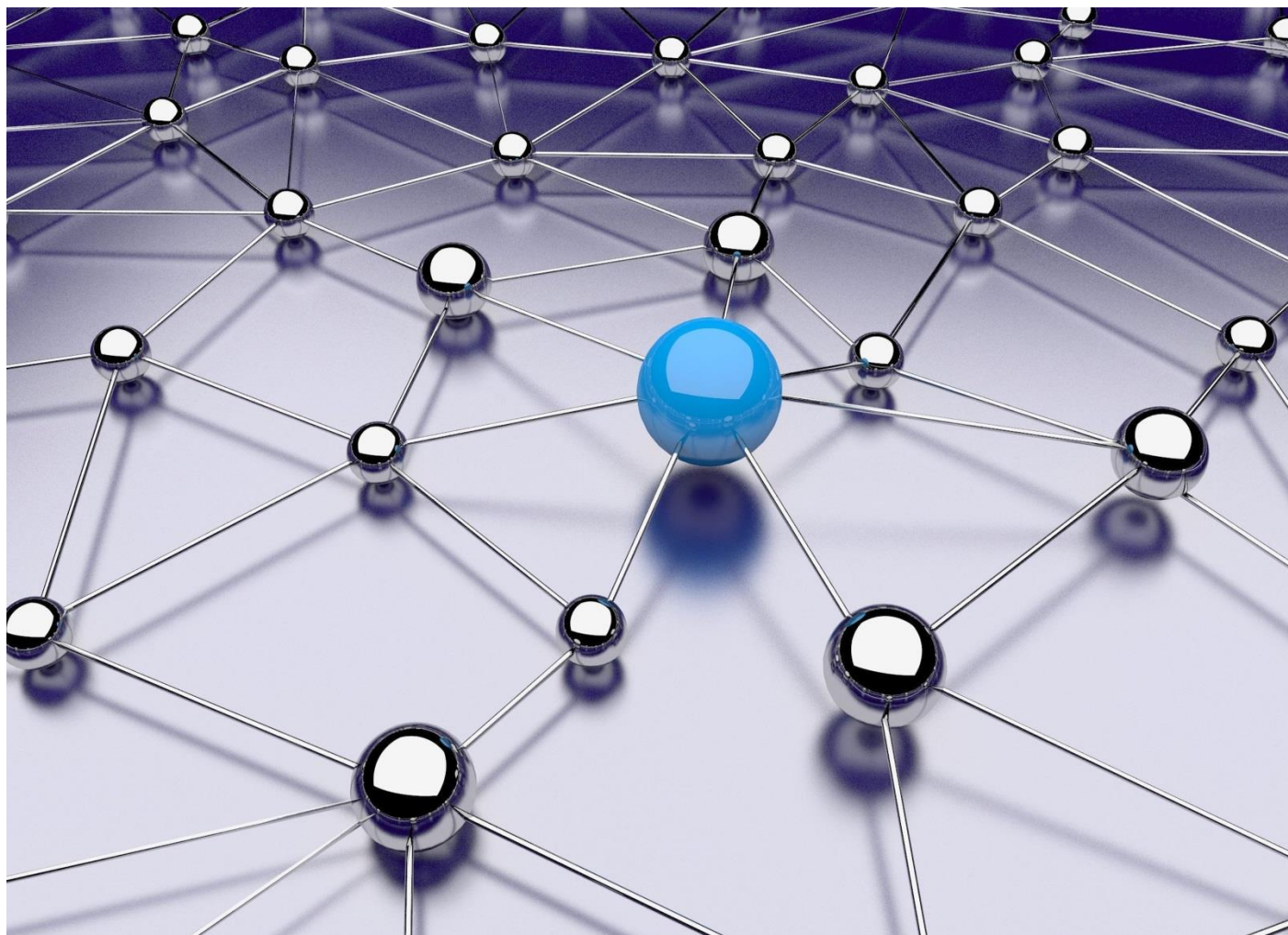


City of York Council Audit Progress Report

December 2015



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to City of York Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit and Governance Committee of City of York Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

02 Summary of audit progress

Position on the 2014/15 audit

When we presented our Audit Completion Report for the 2014/15 audit to the Audit and Governance Committee on 23 September 2015, we indicated that we expected to issue an unqualified opinion, Value for Money (VFM) conclusion and audit certificate on 30 September 2015.

Between this meeting and our planned sign off date we were made aware of payments by City of York Trading Ltd to two of the company's executive directors who were also officers of the Council.

On 30 September 2015, we issued an unqualified audit opinion and an unqualified VFM conclusion, but we did not issue a certificate to close the 2014/15 audit. We explained why we had not formally concluded the 2014/15 audit in our audit report which is included in the statement of accounts on the Council's website.

"The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention shortly before the date of this audit report. We are satisfied that these matters do not have a material effect on the financial statements."

The matters we needed to consider were the governance arrangements relevant to our audit of the Council covering the payments by City of York Trading Ltd to two of the company's executive directors who were also officers of the Council.

We have concluded our review of the relevant issues and drafted our report. We are now going through a process of consultation with those who could be affected by our conclusions and recommendations and those whose comments we have referred to in our report. The deadline for comments in response to this consultation is 10 December 2015 and we shall then complete whatever work is necessary in the light of the comments received and issue our report as soon as practicably possible.

We reported to the National Audit Office (NAO) on 2 October 2015 that the Council's 2014/15 Whole of Government Accounts consolidation pack was consistent with the audited financial statements.

We discussed our annual audit letter with senior management and it was finalised by the deadline of 30 October 2015. This summarises our work and findings for the 2014/15 audit as well as outlining future challenges. We will be presenting the letter to the Audit and Governance Committee as a separate agenda item.

Certification of claims and returns

Work on the 2014/15 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014. There were no reporting issues or amendments to the claim arising from our work.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission.

Additional schemes outside the national arrangements

The Council is required by funding bodies to arrange independent certification of certain grant claims and returns that are now outside the PSAA regime.

As reported in the annual audit letter, we made arrangements for the certification of the Teachers' Pension Return for 2014/15, for an agreed fee of £2,750 plus VAT.

The work on the Teachers' Pensions return has now been completed and reported ahead of the deadline of 30 November 2015. There were no issues arising from this work.

As reported in the annual audit letter, there were two further areas of non-audit work where we had been asked to carry out work, but at that point the fees had not yet been agreed. We can now confirm that the fees for this work have been formally agreed:

- the pooling of housing capital receipts return for 2014/15, agreed fee £1,800 + VAT; and
- work in relation to a Housing and Communities Agency (HCA) grant, agreed fee £1,800 + VAT.

The work on these two returns has been completed.

At the time of writing, we have been unable to submit the audited pooling of housing capital receipts return because of a national issue with the LOGASNET website established by the Department for Communities and Local Government (DCLG) for this purpose. We will submit this as soon as DCLG inform us that the technical problems have been resolved. There were no issues arising from this work that required reporting.

We have reported to the HCA on relatively minor matters in relation to its grant. This was the first time the Council has submitted to us an HCA claim for audit, and the supporting evidence was well presented and in good order.

This work will be recorded as non-audit work as part of the 2014/15 audit.

2015/16 planning

This is our first progress report in respect of the 2015/16 audit year; in the coming quarter we will:

- carry out our initial planning in respect of 2015/16, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthrough the key financial systems;
- liaise with your internal auditors to both share common knowledge and ensure no duplication;
- maintain on-going liaison with senior officers and consideration of key agendas and papers; and
- plan and carry out any interim substantive testing.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Audit and Governance Committee meeting on 13 April 2016.

03 National publications and other updates

This section contains updates on the following:

1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**
2. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
3. **Whistleblowing e-learning for the public sector**
4. **Consultation on regulation of auditors, Financial Reporting Council, May 2015**
5. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**
6. **Consultation on 2016/17 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015**
7. **Extension of existing external audit contracts by one year**
8. **A Practical Guide for Local Authorities on Income Generation, 2015 edition CIPFA, November 2015**
9. **Social Value: defining, delivering, reporting CIPFA, November 2015**

1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.

There are two strands to their monitoring:

- audit quality – applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
- regulatory compliance – reporting quarterly on audit firms’ compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment.

The audit quality and regulatory compliance monitoring for 2014/15 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm’s audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions and Whole of Government Accounts (WGA).
- an assessment as to whether they could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council’s (FRC) published report on the results of its inspection of firm audits in the private sector;
- the results of inspection of each firm by the FRC’s Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm’s compliance with 17 key indicators relating to Terms of Appointment requirements;

- a review of each firms' systems to ensure they comply with regulatory requirements; and
- a review of each firm's client satisfaction surveys for 2013/14 work.

The report summarising the results of our monitoring work for Mazars LLP is available on the PSAA website. <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The firm is meeting standards for overall audit quality and regulatory compliance requirements. The red, amber, green (RAG) indicator for overall audit quality and regulatory compliance was calculated using the principles detailed in Appendices 1 and 2 to the report. For 2014/15, Mazars' combined audit quality and regulatory compliance rating was **green** (the highest available).

2015 Comparative performance for audit quality and regulatory compliance

BDO	Deloitte	EY	GT	KPMG	Mazars	PwC
Amber	Amber	Green	Amber	Amber	Green	Amber

The firm has maintained its performance against the regulatory compliance indicators since last year, with all of the 2014/15 indicators scored as green. The satisfaction survey results show that audited bodies are satisfied with the performance of Mazars as their auditor.

2. Regulatory Compliance and Quality Report, Quarter 1 2015-16

This report summarises the performance of Mazars LLP (Mazars) against key quarterly performance indicators for the first quarter of 2015/16 and is available on the PSAA website <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars is rated **green** in all areas. The all firm comparison is also provided.

3. Whistleblowing e-learning for the public sector

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify 'grey areas' around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what whistleblowing is and is not
- the arrangements you have in place
- how best to blow the whistle/raise concerns
- where staff can blow the whistle/raise concerns
- what staff can expect and how their organisation will support them
- rights and options for support
- why whistleblowing is so important.

4. Consultation on regulation of auditors, Financial Reporting Council, May 2015

In July 2014, the Financial Reporting Council (FRC) issued a consultation document seeking views on the way in which it should give effect to three specific responsibilities delegated to it under the Local Audit and Accountability Act 2014, that is:

- guidance on the recognition of individuals as key audit partners;
- regulations for the keeping of the Register of Local Auditors;
- regulations for local audit firms on the requirement to publish transparency reports.

The FRC has now published a feedback statement to this consultation together with the Guidance and Regulations as per the link below.

<https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/May/FRC-publishes-feedback-statement-on-the-Regulation.aspx>

The areas consulted on included:

- transparency report requirements;
- register of local auditor requirements; and
- approval of engagement leads for local audits.

5. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to 2015/16 audit engagements.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the Code of Audit Practice, now produced by the National Audit Office (NAO). Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;
- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf

Code of Audit Practice applying to 2015/2016 audits

As a reminder, earlier in 2015/16, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

6. Consultation on 2016/17 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees.

There are no planned changes to the overall work programme for 2016/17. It is proposed scale fees are set at the same level as the scale fees applicable for 2015/16 previously set by the Audit Commission. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.

Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies.

The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.

<http://www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

7. Extension of existing external audit contracts by one year

The current local government audit contracts with audit firms end with completion of the audit of the accounts for 2016/17, with an option to extend contracts after this date. The Government has taken a decision to extend local authority contracts by one year to cover the 2017/18 audit, the first year in which the accounts and audit deadline is to be brought forward significantly. From the 2018/19 audit, local authorities, including City of York Council, will be required to make their own auditor appointments. The auditor for 2018/19 must be appointed by 31 December 2017. CIPFA is preparing guidance for local authorities on appointing auditors.

8. A Practical Guide for Local Authorities on Income Generation, 2015 edition CIPFA, November 2015

CIPFA has published its latest practical guide on income generation. Income from fees and charges is a key financial area for local authorities, and much has happened since CIPFA published the last edition of this guide in 2013. In 2015 local authorities will look at income in its widest sense as a key factor in their funding equation. Financial uncertainties continue to motivate local authorities to evaluate every possible funding source.

9. Social Value: defining, delivering, reporting CIPFA, November 2015

This CIPFA publication looks at social value and its practical application and assessment. It covers:

- the legislation and related guidance;
- how this links to guidance on best value;
- the range of definitions of social value;
- how social value relates to outcomes commissioning;
- examples of how social value is being interpreted by local authorities; and
- approaches to measuring social value.

04 Contact details

Please let us know if you would like further information on any items in this report.

www.mazars.co.uk

Gareth Davies
Partner
0191 383 6300

gareth.davies@mazars.co.uk

Gavin Barker
Senior Manager
0191 383 6300

gavin.barker@mazars.co.uk

Address: Rivergreen Centre,
Aykley Heads,
Durham,
DH1 5TS.