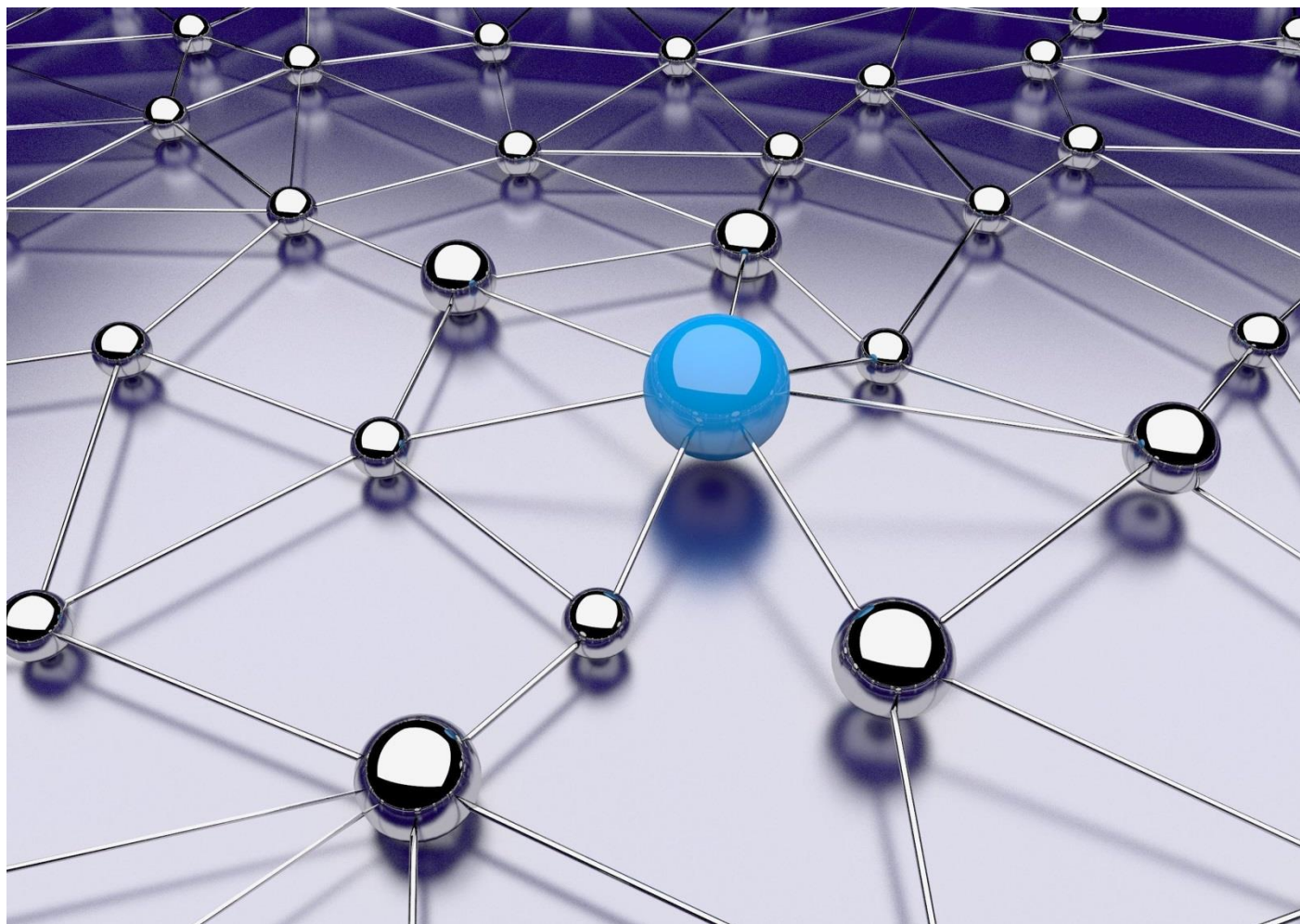


Annual Audit Letter 2014/15

City of York Council



CITY OF
YORK
COUNCIL

October 2015

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30 October 2015

Dear Members

City of York Council - Annual Audit Letter 2015

I am pleased to present our Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2014/15 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2014/2015 has been another challenging year for the Council, requiring further difficult decisions on spending priorities and plans for the future. We reflect on these matters in the value for money and future challenges sections of this letter.

We issued an unqualified opinion on the statement of accounts and an unqualified value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Gareth Davies
Partner
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Members and other interested parties.

In 2014/15 our audit of the Council included the following main elements:

- auditing your financial statements; and
- assessing arrangements for achieving value for money (VFM) in your use of resources.

We reported the detailed findings from our audit work to the Audit and Governance Committee in our Audit Completion Report on 23 September 2015.

The key conclusions for each element are summarised below.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2015.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified VFM conclusion on 30 September 2015.

Whole of Government Accounts

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 2 October 2015.

Delay in the issue of the audit certificate

The 2014/15 audit has not yet been formally concluded as explained in our audit report issued on 30 September 2015 and 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 matter we are reviewing is the governance arrangements relevant to our audit of the Council covering the payments by City of York Trading Limited to two of the company's executive directors who were also officers of the Council.

We expect to report our conclusions in relation to this issue to the Audit and Governance Committee on 9 December 2015.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any valid objections from local electors in relation to your 2014/15 accounts. At the point of preparing this letter, we have not exercised our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit and Governance Committee on 23 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2015.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate the cooperation of management and the patience, courtesy and assistance shown to us in the completion of our work. The working papers supporting the statement of accounts were of good quality and officers were responsive in following up the queries we raised.

Issues arising from the audit of the accounts

We highlight the following key points:

- good quality draft statements and working papers;
- only very few errors requiring adjustment in the financial statements;
- a small number of unadjusted errors that were not material;
- no errors impacting on the Council's general fund balance or earmarked reserves; and
- one issue relating to the bank reconciliation which needs to be addressed in the current financial year.

Follow up in relation to the bank reconciliation

In last year's audit, we reported on the complexity of the Council's bank reconciliation process and identified that the trail between these reconciliations and the actual year end cash position reflected in the statement of accounts could be improved. We recommended that further work be done to achieve this.

Officers have continued to address these issues, which arose from historic matching issues between the bank and the Council's financial ledger and separate bank reconciliation system.

We are pleased to report that the position has improved considerably in relation to the bank reconciliation at 31 March 2015 which is reflected in the 2014/15 financial statements. The work undertaken by officers has significantly reduced the number and value of adjustments required to carry out the year end bank reconciliation and consequently, the trail between the reconciliations and the accounts has been significantly improved.

Although the situation has improved, it is now clearer that there remains a net non-material discrepancy of £219k between the bank account and the financial ledger which cannot be fully explained by officers at present.

Conclusions

Until all of the discrepancies (£715k gross credits and £496k gross debits, making a net difference of a £219k credit) are identified and corrected, there remains a risk that this position could mask further unidentified errors, although they are unlikely to have a significant net impact.

Although the values are not material, we have reported the differences because the bank reconciliation is a fundamental element of the system of internal control.

Recommendation

We recommend that further work is undertaken to resolve the remaining differences in the bank reconciliation, so that a fully balanced position can be reflected in the 2015/16 financial statements.

Management response

The differences set out above relate to mismatches between the internal systems for bank reconciliation and the financial management system. At the time of writing, they have not all been resolved and officers continue to work on them. We expect all the issues to be fully resolved in the current financial year and they have no significant impact on the Council's financial position.

The Council has confidence that the bank reconciliation process and checks continue to provide a robust and transparent control mechanism ensuring that banking transactions are correctly identified, issued raised and matters resolved in a timely manner. Checks and balancing exercises take place on a daily basis with reconciliations taking place typically on a monthly basis following audit completion.

03 VFM conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the guidance on the VFM conclusion for 2014/15.

Our work in this area focused on the two criteria specified by the Audit Commission namely:

Criteria	Focus of the criteria
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review your Annual Governance Statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine to be appropriate.

We are not required to consider, nor have we, all aspects of the Council's arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist.

We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

Focus for this year's work

In the Audit Strategy Memorandum we identified two significant risks relevant to the value for money conclusion. We carried out work to address these risk areas.

One of the significant risks was to follow up last year's qualification of the VFM conclusion. The conclusion for the 2013/14 audit was that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with one exception. The exception to this was that there were weaknesses in budgetary control and financial management in Adult Social Care services.

We took into account the matters disclosed in the Council's annual governance statement in undertaking our work.

There were no reports by other regulatory bodies or inspectorates that are relevant to our work this year. We did note, however, the issues raised in the Local Government Association (LGA) peer review of member behaviour commissioned by the Council and published in December 2014. We also noted the actions that have been taken as a result of this review.

In addition, we identified a need to carry out additional risk-based audit work in relation to programme and project management.

Overall conclusion

On the basis of our work, we were satisfied that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

The Council has addressed the issues we raised last year in relation to adult social care. We recognise that adult social care still represents a huge challenge from the increasing demand from an ageing population, the impact of changes in legislation, and the need to work more closely with partners, particularly in terms of better integrating health and social care. However, we found that the Council has addressed the weaknesses in budgetary control and financial management in Adult Social Care services that we identified last year, has a better grip on the financial position and is consequently better placed to address the challenges that it faces.

We did identify a number of areas for improvement in programme and project management, however, on balance we concluded that the Council did have proper arrangements in place, which recognises that the Council is seeking to deliver innovative and demanding projects and this will not always go smoothly, difficult decisions may be required and there may also be a need at times to change approach. The key issue for our conclusion was that the Council has proper arrangements in place to deal with these issues when they arise, and that risks are managed and mitigated as far as possible.

Financial resilience

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending.

Ongoing pressure on the public finances presents significant challenges for the Council which is planning for further reductions in spending power at a time of increasing demand for services.

The 2014/15 budget included £10.7m of revenue savings. This is on top of the total of £51m savings already achieved in the period 2010/11 to 2013/14.

The following table summarises the 2014/15 financial outturn position.

Area	Budget	Year end position	Underspend for the Year
2014/15 General Fund Net revenue expenditure	£124.2m	£123.5m	(£0.7m)

The Council has delivered £10.7m of savings in 2014/15 and achieved a small underspend overall (£0.7m).

The financial outlook remains extremely challenging, and the 2015/16 budget included £11.9m in revenue savings.

As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services.

It is estimated that a further £35m of savings will be required between 2016 and 2020, representing over 30% of the Council's net budget. If savings cannot be delivered in adult social care, where there are increased demand pressures from an ageing population, the Council's remaining services could face cuts of 50%. Following the local elections in May 2015, there is now a new political administration for the Council. This was followed by a 2015/16 budget amendment in July 2015, identifying an additional £1.5m of new commitments, funded using the £0.7m underspend from 2014/15 and other measures.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances (£8.1m) and for specific earmarked purposes (£49.0m). These secure the Council's immediate financial resilience.

The Council has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot be used to sustain services and the underlying budget reductions identified will need to be delivered.

Securing economy, efficiency and effectiveness

In response to reduced central funding, as well as targeting specific areas for efficiency improvement and savings, the Council has also sought to implement an ambitious transformation programme and is seeking to build resilience within local communities and the voluntary sector. The scope for integration of health and social care provides an opportunity for real improvement in service delivery and outcomes for local people. Economic development builds a stronger City and creates additional capacity and opportunity.

Effective programme and project management is critical to deliver the required changes, manage the associated risks and ensure that the desired outcomes are delivered for the Council, the City and its residents.

The City of York Council has shown ambition and drive. The Council can point to improvements, including successes in project delivery that have brought significant benefits. However, the Council has also experienced considerable difficulties with some projects, including the Lendal Bridge traffic scheme and more recently, with the housing for older people programme.

These impact on the Council's reputation, take considerable officer time to deal with and can have significant costs associated with them.

We were concerned that, if the high profile examples of problems in project delivery were repeated in other areas, this may impact adversely on the Council's delivery of change and transformation, delay much needed improvements and incur unnecessary costs. As a consequence, as part of our audit programme this year, we have focused on programme and project management and governance as a priority topic.

We were separately commissioned by the Council to review the Housing for Older People programme and terminated procurement process to identify the reasons for the issues that arose and the key lessons to be learnt.

In addition, as part of the 2014/15 audit of value for money arrangements, we also carried out additional risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in relation to other key ongoing programmes and projects.

We selected two key areas for our focus:

- the project management of a current high profile outward facing project – we selected the Community Stadium project, to assess how well the risks were being managed and how the lessons

learned from experience on other projects have been reflected in establishing more robust arrangements; and,

- the programme management for the Re-wiring Public Services transformation programme, including an assessment of governance and risk management arrangements. This is a more internally focused change programme, but the improvements are essential to how well the Council will be able to adapt to further funding reductions.

In the following sections we summarise the outcomes of our advisory review of the Housing for Older People programme, our views on the community stadium project and on the Re-wiring Public Services transformation programme.

Advisory review of the housing for older people procurement

The Older People's accommodation project was an ambitious and complex programme of work for the Council involving multiple inter-related work-streams, various stakeholder interests and a high public profile. This required a disciplined business case development, robust governance arrangements and tight programme management to provide assurance on risks and appropriate, timely communication to decision-makers and stakeholders. Although we identified some areas of good practice, there were some weaknesses in the Council's approach and arrangements in these areas and consequent opportunities for improvement and learning on future major projects.

The underlying issue pervading our findings was the lack of a structured, best practice approach to business case development. The impact of this was that information on which to base the economic, financial and commercial cases and the adoption of the preferred solution was presented to Cabinet in a piecemeal way in a series of reports over a protracted period of time and highly caveated. Some of the key challenges involved were considered; but the lack of a more disciplined approach (for example, the Treasury's Five Case Model) meant that it was difficult to evidence in the formal records that the strategic case had been made, all options were properly considered and evaluated, or that financial, commercial and other risks were fully debated and mitigated.

Affordability was the key risk highlighted throughout the process. Financial information was available at the early stages of the project but heavily caveated pending further work. Operational assumptions were not robustly challenged and the Council did not develop a contingency plan in the event of this significant risk materialising. Affordability was repeatedly highlighted as a key area of concern in reports to Cabinet throughout the process. There were therefore alerts at early stages to the need for more rigorous scrutiny of the economic and financial elements of the business case. Robust scrutiny at an earlier stage would have acted as an effective brake and "reality check" on proposals before the launch of a procurement process which was subject to the vagaries of the market during a recession.

Governance arrangements over risk were not appropriate for a project of this scale, although risks were presented in Cabinet papers and progress reporting to the Programme Board. Risks were debated at the Project Board, however, minutes of meetings do not evidence escalation of these risks. A comprehensive risk register was not in place throughout the duration of the project. Mitigations proposed were not sufficient in some cases and significant risks were not routed in a systematic way to Corporate Management Team and Cabinet.

The programme aimed to drive cost improvements whilst at the same time delivering higher quality and transformational change for York residents. A competitive dialogue route was chosen as the procurement route to achieve this. Council officers involved had limited experience in this form of procurement and associated commercial issues. Although the process was well managed in the circumstances, significant problems were encountered by the team in maintaining sufficient interest by the market. In June 2014, the Council was left with a single remaining bidder before the Invitation to Submit Detailed Solution stage. This presented a commercial challenge and although market failure can be difficult to predict, fuller consideration of the commercial implications before commencement of the process may have allowed measures to be put in place to allow better management of this scenario.

Following budget discussions the budget approved in February 2015 confirmed that additional resources would not be allocated to the project. Cabinet then approved termination of the procurement in March 2015 and the pursuit of alternative options.

It is equally important to reflect upon the areas of good practice and successful delivery of elements of the programme:

- A comprehensive and well managed public consultation on the strategic direction and a good mechanism for engagement with external stakeholder representatives through a wider reference group;
- The successful transition of residents and staff following the closure of two homes in March 2012 which was externally scrutinised and confirmed as meeting best practice;
- Elements of sound project management at project team level in terms of disciplined reporting to Programme Board, highlighting/debate of risks and follow up of actions in the face of considerable resourcing and capacity constraints as well as numerous changes in the composition of the project team over the life of the project; and
- The project team demonstrated considerable commitment and diligence in exploring ways to deliver an affordable solution in the face of considerable challenges to realise the programme's ambition, in particular given the duration of the project capacity issues and changes in personnel over that time.

Our separate advisory review report identified a number of areas for improvement. This was considered by the Audit and Governance Committee on 29 July 2015, along with an action plan prepared by officers to address the issues raised.

The Community Stadium project

We carried out a brief review of the arrangements for the delivery of the Community Stadium project. This was undertaken in May and June 2015, and followed up in August 2015. The nature of our review was such that any comments we make are about the arrangements the Council has put in place, and can not be interpreted as giving any assurance in relation to the successful delivery of the project.

The Community Stadium project proposes wide social, economic and community benefits. It aims to deliver an 8,000 seat community stadium, state of the art leisure facilities and a community hub involving a range of partners. Retail, restaurants and a cinema development are also planned on the site. The objective for the Council is to achieve these benefits with the minimal use of Council resources and with maximum leverage of external funding and commercial investment from the private sector.

Following a competitive dialogue process, Greenwich Leisure Ltd was identified in September 2014 as the preferred bidder on a design, build, operation and ongoing maintenance arrangement, covering the community stadium, the new stadium leisure complex and the Council's wider leisure facilities. The current plan is for a £37m development, which will require £8m of capital investment by the Council. The revenue consequences of the investment have been taken into account in the forward planning.

The project involves considerable risk, sensitive negotiations with a number of commercial partners and a need to deliver within the cost envelope that has been estimated. Affordability is a key risk and is continually reviewed by the project team.

Our review of arrangements identified that:

- Project management arrangements were clear and streamlined, with a Programme Director, focused project team and a monthly Project Board with appropriate representation from senior officers;
- The original plans were underpinned by a comprehensive business case, agreed by Cabinet in March 2012. The project expanded in size significantly with the addition of the new leisure facilities, and the report to Cabinet in September 2014 setting out the expansion of the project was comprehensive and appeared to address all relevant issues;
- Our review of risk documentation and other key supporting evidence for the management arrangements for the project indicated a robust and comprehensive approach was being adopted;
- There have been some contentious issues to address and consequent delays in the project to date; these are perhaps not unexpected due to the nature of the project and the complexity of the arrangements. The evidence reviewed suggests that the Council has continued to manage its way through these complexities in a professional manner; and
- A further update to the new Executive Committee in August 2015 sets out the latest position in detail, revealing further uncertainty about the completion date. Members have been provided with appropriate updates on project progress while maintaining the necessary commercial confidentiality.

We do not have any recommendations to make in relation to the arrangements for the community stadium project.

The Transformation programme

We reviewed the project management and governance arrangements for the Re-wiring Public Services transformation programme over the summer of 2015. Our review considered overall programme management and governance arrangements, supplemented by a detailed review of a sample of projects within the programme.

The Re-wiring Public Services Programme was introduced in October 2013 as a major programme of work to redesign services and develop new operating models with full engagement with York residents to ensure client focus whilst managing the major funding challenges faced by the Council. There are three broad principles underpinning the transformation programme:

- Helping residents to be independent and supporting those that need help to have a better quality of life;
- Commissioning outcomes efficiently and focusing resources on the real needs of the community; and
- Understanding communities and businesses and working with partners to enable and commission the outcomes.

The programme consists of several core overarching programmes of work:

- Business efficiency and consolidation
- Place Based Services and Public Realm
- Adult Social Care
- Communication and Resident Engagement
- Children's Services, Education and Skills
- An Organisational Development project supports the transformation programme.

A strategic case setting out the key dimensions of the programme was presented to the Cabinet in February 2014. Cabinet considered further updates in July 2014, October 2014, December 2014 and February 2015.

Skills and capacity issues were cited as key challenges by officers during our review and this was recognised in Corporate Management Team discussions and Cabinet papers as a risk.

Project teams include resources from teams with operational roles. This places pressure on service managers and significant reliance on key individuals to support concurrent programmes of work, for example, in Finance and HR. The corporate transformation team supporting the process is relatively small and their capacity is therefore stretched in supporting the whole programme.

From our review, we noted that:

- Programme briefs have provided a high level summary of each programme. Generally, there is limited articulation of risks, financial and workforce impacts of programmes. However, we note that for Place Based Services a considerably greater level of detail is provided on financial implications;
- Corporate Management Team noted in September 2014 that business cases for all programmes were to be submitted to the Cabinet in October 2015; business cases for projects under Children's Services have been taken to Members, the Executive did receive proposals on the future plans for older people's accommodation in July 2015, and proposals for Place based services are progressing; and
- there has been a significant investment of officer time in the transformation programme; it is important that this is evaluated against the outcomes, improvements and savings that are delivered.

Funding constraints may not allow any additional resourcing to support the programme. However, it would be sensible to take stock and re-assess priorities and timescales. Within this context, we would recommend consideration of a re-phasing of the programme and a thorough review of resources required to support it, in terms of skills and capacity. In our view, the Council should take the opportunity to re-assess, redefine and reprioritise aspects of the programme which otherwise risks failure due to the breadth of scope of the programme and associated governance and project management requirements. This would allow expectations to be managed for all stakeholders in terms of deliverability of core, critical programmes of work to a feasible timescale.

We have produced a detailed findings document for management, and we propose to bring a short report to the next Audit and Governance Committee setting out our recommendations in relation to the transformation programme in more detail.

Follow up of issues raised last year in respect of Adult Social Care

The conclusion for the 2013/14 audit was that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with one exception. The exception to this was that there were weaknesses in budgetary control and financial management in Adult Social Care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced.

The Audit and Governance Committee received a number of update reports which documented the action that had been taken in response to our findings. We have followed up the action taken to address the issues we raised last year in the 2014/15 audit and concluded that all of the action points were satisfactorily addressed.

We found that the Council has addressed the weaknesses in budgetary control and financial management in Adult Social Care services that we identified, has a better grip on the financial position and is consequently better placed to address the challenges that it faces. The best evidence for the improvement was the delivery of an improved outturn position on the adult social care budget. The budget outturn for 2014/15 was an overspend of £193k, which was 0.4% of the £51.2m budget, compared to a previous history of more significant overspends.

We recognise that adult social care still faces a huge challenge from the increasing demand from an ageing population, the impacts of changes in legislation, and the need to work more closely with partners, particularly in terms of better integrating health and social care. Whilst the Council has started to develop plans to address these areas, there is still much work to do, and adult social care remains a significant financial and operational risk for the Council. A new Director of Adult Social Care has been appointed and will begin to take these issues forward when he takes up his post in the autumn.

Significant Value for Money risks

Responding to the financial pressures

Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

There have been some high profile examples of problems with project delivery. Most recently, the Council is considering whether to continue its long-running housing for older people procurement and has begun to consider a new strategy.

Responding to the financial pressures (continued)

How we addressed this risk

We reviewed:

- the budget process and the Medium-Term Financial Strategy;
- the progress made in identifying savings required;
- progress of the Council's Transformation Programme;
- budget monitoring reports and other finance updates;
- delivery of improved outcomes; and
- whether project management practices are robust and lessons are being learned from difficult experiences.

Conclusion

Based on the work completed (and described in the paragraphs above), we are satisfied that the Council has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources.

Risks in relation to adult social care services

Description of the risk

We identified weaknesses in budgetary control and financial management in adult social care services in the 2013/14 audit and this led to an 'except for' qualification of the VFM conclusion. The risk is that the measures taken by the Council to address the issues raised last year are not effective.

How we addressed this risk

We followed up on the work undertaken in adult social care to ensure that previously agreed actions had been implemented. We considered how well the service was responding to a large number of challenges, such as preparing for Care Act implementation, increasing demand (ageing population and high proportion of over 85s in York), reducing resources, and the extent to which it has taken the opportunity to improve overall outcomes through working with partners, such as Vale of York CCG through the Better Care Fund.

Conclusion

Based on the work completed (and described in the paragraphs above), we are satisfied that the Council has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources.

04 Future challenges

Financial challenges

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council has delivered £10.7m of savings in 2014/15 and achieved a small underspend overall (£0.7m).

The financial outlook remains extremely challenging, and the 2015/16 budget included £11.9m in revenue savings.

The Council is not complacent about its financial position and it is estimated that a further £35m of savings will be required between 2016 and 2020, representing over 30% of the Council's net budget.

Other challenges

The wider difficulty of maintaining good service performance levels at the same time as reducing budgets is recognised by the Council, and was one of the drivers for the transformation programme.

The Council faces a number of other challenges in the coming year which include:

- better care funding and associated pooled budgets;
- joint working with health and others; and
- the ongoing impact of the Welfare Reform Act.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- identify and address financial pressures as they emerge;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with care providers and social care commissioners to safeguard quality.

We will focus our 2015/16 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes working with officers as they make preparations for accounting for transport infrastructure on a new basis from 2016/17.

05 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 25 March 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 As previously reported	2014/15 Final Fee
Code audit work ¹	£148,546	£135,476	£143,976
Certification work	£18,304	£15,220	£15,220
Non-audit work ²	£21,000	£2,750	£18,300
Work in relation to the Objection to the 2013/14 accounts ³	£33,381	n/a	n/a
Total	£221,231	£153,446	£177,496

All fees are shown excluding VAT

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim.

¹ There has been an increase in the fee for 2014/15 Code audit work from that reported in the Audit Strategy Memorandum in March 2015 of £8,500 to reflect additional VFM conclusion work in relation to programme and project management; this work was agreed with officers and approved by the regulator, Public Sector Audit Appointments Ltd

² Analysis of non-audit work for 2014/15:

Non-audit services	2014/15 Actual Fee
2013/14 Teachers' Pensions Return (included in 2014/15 fees due to the timing of this work)	£2,750
Advisory review of the housing for older people procurement	£12,750
2014/15 Teachers' Pensions Return	£2,750
Officer attendance at Mazars' accounting workshop relating to Group Accounting	£50
Total fee	£18,300

All fees are shown excluding VAT

There are two further areas of non-audit work where we have been asked to carry out work, but fees have not yet been formally agreed:

- the pooling of housing capital receipts return for 2014/15, current estimated fee £1,800 + VAT; and
- work in relation to a Housing and Communities Agency grant, estimate to be clarified when the scope of the specific work required has been identified

³ These costs relate to dealing with the objection to the 2013/14 accounts in relation to penalty charge notices issued at Lendal Bridge and Coppergate. The cost was £33,381 plus VAT, made up of our fees of £25,666 plus VAT and specialist legal advice of £7,715 plus VAT. The outcome of this work was reported to the Audit and Governance Committee on 23 September 2015.

Fees for additional audit work relating to City of York Trading Limited

The fees in the table do not currently include our audit fees in relation to our review of the governance arrangements surrounding the payments by City of York Trading Limited to two of its executive directors who were also officers of the Council, as at the time of writing this report these have not yet been fully assessed. It is expected that these fees will be part of Code audit work and require approval from our regulator, Public Sector Audit Appointments Ltd. We will report the agreed fees to Members in a future Audit Progress Report.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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