

Audit Completion Report

City of York Council



For the year ended 31 March 2017



Contents

1. Executive summary	3
2. Significant findings.....	6
3. Internal control recommendations	9
4. Value for Money Conclusion	13
Appendix A – Summary of misstatements	20
Appendix B – Draft management representation letter	22
Appendix C – Draft audit report	25
Appendix D – Independence.....	28

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council 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.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of City of York Council ('the Council') for the year ended 31 March 2017, and forms the basis for discussion at the Audit and Governance Committee on 20 September 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £7.392m. We have updated our assessment as part of our continuous planning processes and have set materiality at £7.716m. Our clearly trivial threshold for reporting matters to you has been set at £0.232m.</p> <p>We communicated identified significant risks to you as part of our Audit Strategy Memorandum in April 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.</p>
Identified misstatements	<p>Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p>
Value for Money	<p>At the time of issuing this report, and subject to the satisfactory completion of the remaining work, we anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report is provided in Appendix C.</p>
Whole of Government Accounts (WGA)	<p>We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 29 September 2017. We anticipate reporting that the WGA submission is consistent with the audited financial statements.</p>

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017. At the time of preparing this report the following elements of our work remain outstanding:

Income and expenditure	We are in the process of finishing our audit procedures on the Council's Comprehensive Income and Expenditure Statement. These include the testing of individual items of account as well as disclosure notes associated with the Council's income and expenditure for the year.
Non-current assets	Our work on investment properties, property, plant and equipment, and heritage assets is nearing completion. We are yet to finalise our work on the Council's valuation programme for 2016/17, which includes reviewing the valuation of a sample of property assets.
Debtors	We are awaiting evidence from management in relation a small number of debtor balances that we have sample tested.
Pensions	Our work on the Council's defined benefit liability has identified that a small number (6) of schools that converted to academy status since 1 April 2016 have not been removed from the actuary's IAS 19 valuation report. Further work is required to assess the value of this error by the actuary and the action that management wish to undertake to correct it if required.
Provisions and contingent liabilities	We are in the process of completing our work on reviewing a sample of provisions and contingent liabilities in the statement of accounts.

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

Correspondence received under the provisions of the Local Audit and Accountability Act 2014 ('the 2014 Act')

Within the statutory period for electors to exercise their rights under the 2014 Act, we received a notice of objection from a local elector. The objection referred to two specific items of account in the 2016/17 statement of accounts, raised a number of questions for us as the Council's auditor and provided us with information that we have considered as part of our audit.

The two items of account subject to objection are below our materiality threshold and as such we have concluded that we expect to be able to issue our opinion on the financial statements prior to concluding the objections. However, as we will not have discharged all of our responsibilities under the 2014 Act until we have resolved the objection, we will be unable to certify completion of the audit by 30 September 2017. We have reflected this in our draft auditor's report in Appendix C.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum but we have noted a key area of management judgement that we wish to bring to members' attention. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We carried out a range of audit procedures that included the following:</p> <ul style="list-style-type: none"> • Challenging the reasonableness and appropriateness of accounting estimates used by management in the process of preparing the financial statements; • Identifying and challenging any unusual or significant transactions outside the Council's normal course of business; and • Carrying out a risk-based review of journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to members' attention, in relation to management override of control.</p>
<p>Valuation of the defined benefit pension liability</p> <p>The financial statements contain material entries in a number of primary statements as well as material disclosure notes in relation to the Council's participation in the Local Government Pension Scheme.</p>	<p>We considered the Council's arrangements for making estimates in relation to pension entries within the financial statements. This included considering and challenging the reasonableness of the actuary's valuation through the use of our own expert as commissioned on our behalf by the National Audit Office.</p>	<p>As outlined in section 1 of this report, we have identified an issue with regard to the inclusion of academy schools that converted in the year, within the Council's IAS 19 valuation. This has</p>

<p>These entries arise from complex estimates used by the Council's actuary as well as information provided to the actuary from the Council and North Yorkshire Pension Fund.</p> <p>The valuation of pension liabilities involves significant judgement to be applied involving a number of variables and as a result, there is high degree of estimation uncertainty. We have therefore identified this to be an area of risk.</p>	<p>As the actuary's work is dependent on the quality of data in respect of cash flows and membership, we considered the arrangements that the Council has in place to ensure that the Fund and actuary are kept informed of events that may impact on the valuation of pension liabilities.</p> <p>We also agreed a programme of work to be undertaken on our behalf by the Fund's auditor. This included testing a number of key information flows between the Council, Fund and actuary, as well as undertaking specific testing in relation to the Fund's triennial valuation as at 31 March 2016.</p>	<p>been considered more fully in section 3 in relation to control recommendations.</p> <p>At the time of preparing this report, our work on this significant risk has not been completed.</p>
--	---	---

Key area of management judgement	Summary of work undertaken	Audit conclusion
<p>Valuation of non-current property assets</p> <p>The financial statements contain material entries in relation to property, plant and equipment (PPE) and investment properties. The majority of these assets are held at valuation and are subject to periodic revaluation as part of the Council's rolling programme.</p> <p>Management, including the internal valuers, make a number of judgements that have implications for the valuation of property assets. Although we have not identified this as an area of high estimation uncertainty, and thus a significant risk, we have carried out a number of procedures in order to obtain sufficient appropriate evidence that the value of the Council's property portfolio is materially fairly stated.</p>	<p>We considered the Council's arrangements for ensuring property valuations are materially accurate and undertook a range of procedures, that included:</p> <ul style="list-style-type: none"> • Reviewing and challenging the valuation of a sample of properties; • Assessing the competence, skills and experience of the Council's valuer; • Assessing the data sources used by the valuer in forming the valuations; • Physically verifying a sample of assets to obtain assurance that there were no unidentified material impairment events that had not been taken into account by the valuer; and • Considering the value of the Council's property portfolio against valuation trends provided to us by our own valuation expert, as commissioned by the National Audit Office. 	<p>As outlined in section 1 of this report, we have not yet fully completed our work in this area, although our work is substantially complete.</p> <p>The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to members' attention, in relation to the valuation of the Council's property portfolio</p>

Qualitative aspects of the Council's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Council's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	<p>As explained more fully in Appendix A, as part of our review of the Council's existing PFI scheme relating to three schools, we noted that the Council's accounting treatment in relation to the scheme's liabilities is not in line with the requirements of the Code of Practice of Local Authority Accounting ('the Code'). We have obtained sufficient evidence that the value of the liabilities are not materially misstated, but the Council should review its accounting policies for this scheme for future years to ensure that treatment aligns with the requirements of the Code.</p> <p>We have reviewed the Council's accounting policies and disclosures and, other than in relation to the schools' PFI scheme and investment property revaluation, found these to be in line with the requirements of the Code.</p> <p>In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.</p>
Quality of the draft financial statements	<p>We received draft financial statements from management on 30 June 2017. The overall quality of the draft statements was good, subject to a number of minor presentational errors.</p>
Quality of supporting working papers	<p>Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. We will work with management to identify a suite of working papers that we will require in order to complete the audit of the 2017/18 financial statements as the deadlines for their preparation and audit coming forward to 31 May and 31 July respectively.</p>

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full cooperation of management. We have identified areas where the audit process can be improved from both the Council's and our perspective, in 2017/18. We will work with management to ensure that we put an audit protocol in place that will seek to ensure that audit queries and requests for evidence are actioned as quickly as possible and that we can complete a greater proportion of our substantive testing during our interim visit prior to the year end.

3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

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

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

- **Priority 1 (high)**
There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.
- **Priority 2 (medium)**
There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.
- **Priority 3 (low)**
Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Other deficiencies in internal control – Priority 2

<p>Description of deficiency</p>	<p>Accounting for PFI liabilities</p> <p>The Council is party to a PFI scheme for the design, build and operation of three schools. The scheme commenced in the 2006/07 financial year and the accounting policies adopted at that time for the scheme, were those required by UK GAAP as adapted by CIPFA's Statement of Recommended Practice.</p> <p>On transition to the IFRS-based Code, the Council undertook work to revise the accounting treatment for the scheme which was considered and subsequently amended by the Council's auditor at the time, the Audit Commission. We have reviewed this accounting treatment in 2016/17 on the basis that it is a number of years since a detailed review has been carried out due to the scheme's liabilities being non-material. Our work identified that, in our view, the Council's accounting treatment in respect of elements of the scheme is not in line with the underlying requirements of the Code.</p> <p>Because of the passage of time since the scheme was brought onto the Council's Balance Sheet in 2008/09, there is nobody in the Council that has a detailed knowledge of the accounting treatment being applied, which is based on a model produced by an external advisor.</p>
<p>Potential effects</p>	<p>As a result of the lack of retained knowledge in relation to the accounting treatment being applied to the PFI scheme, there is a risk that:</p> <ul style="list-style-type: none"> • The statement of accounts may be misstated; and • The Council may not always be able to respond fully to auditor queries relating to the accounting treatment.
<p>Recommendation</p>	<p>We recommend that the Council:</p> <ul style="list-style-type: none"> • Reviews its accounting treatment for the scheme as part of its preparation of the 2017/18 financial statements; • Puts in place arrangements to ensure that detailed knowledge of the accounting treatment does not rest with a single individual; and • Discusses and agrees any required revision to its treatment with us as early as possible.
<p>Management response</p>	<p>This is a highly specialised area of accounting and, as such, it is not possible to retain all the knowledge and expertise in house. As a result, the Council relied on external expertise to ensure compliance with the Code and have continued to maintain this detailed model having not been made aware of any inconsistencies with Code compliance by each subsequent Audit since 2010. The Council clearly recognises that the current accounting treatment needs to be amended and has committed to review this. We will continue to use external specialist advice where we consider it appropriate to do so. We also agree that the issue has not been examined by the external auditor since 2010 as the scheme's liabilities are non-material.</p>

Description of deficiency	<p>Related party disclosures</p> <p>As part of our audit procedures on related party disclosures, we noted a small number of omissions that management has corrected in the final financial statements. We noted:</p> <ul style="list-style-type: none"> • One instance of a Councillor failing to declare an interest as a Director of City of York Trading Ltd; and • One instance of a Director failing to declare an interest as a Director of a company with which the Council traded in 2016/17, although the relationship with this company ended in August 2016 <p>The Council has made amendments to its financial statements to correct the related party disclosure note.</p> <p>We have not identified any indications that these omissions are indicative of fraud.</p>
Potential effects	<p>Failure to properly declare and disclose interests in related parties can give rise to an erosion of public trust in circumstances where failures are widespread or systemic.</p>
Recommendation	<p>We recommend that the Council:</p> <ul style="list-style-type: none"> • Reminds relevant officers and members of the need to make appropriate declarations in line with its internal policies; and • Considers whether any checks can be carried out in the preparation of the financial statements to identify potential missing declarations (for example, checks of Companies House records).
Management response	<p>The Council recognises there were some minor omissions from the related parties note. We will review the process to ensure that some checks are carried out prior to the completion of the financial statements.</p>

Description of deficiency	<p>Impact of converting academies on the valuation of the Council's pension liabilities</p> <p>As part of our audit procedures on the valuation of the Council's pension liabilities arising from its involvement in the local government pension scheme, we have noted that the arrangements in place to ensure that the actuary is informed of any schools that convert to academies did not result in the actuary removing these schools from the Council's valuation. In 2016/17, there were 6 maintained schools that moved to academy status that the actuary incorrectly included as part of the Council's IAS 19 valuation.</p>
Potential effects	<p>Failure to ensure the actuary removes transferring academies may lead to a material overstatement of the Council's pension liabilities.</p>

Recommendation	<p>We recommend that the Council puts in place procedures to:</p> <ul style="list-style-type: none"> • Ensure the process whereby the actuary is notified of any schools transferring to academy status is adhered to ; and • Ensure that the actuary has correctly removed transferred schools for the Council's IAS 19 valuation.
Management response	<p>The Council has discussed this issue with NYPF. They have raised this issue with the actuary to ensure that, in future, the actuary removes from the Council's IAS19 valuation those schools converting to academy status during the year. The actuary has stated that it is not their standard practice to explicitly allow for any academy conversions occurring between 1 April 2016 and 31 March 2017 under the "roll forward" approach used. The impact of the academy conversions over the period from the 2013 actuarial valuation to the 2016 actuarial valuation is included in the actuarial gains/losses due to liability experience item on the balance sheet (along with other experience items allowed for as part of the 2016 actuarial valuation).</p>

Follow-up of previous internal control deficiencies and recommendations

Description of deficiency	<p>Valuation of Council dwellings</p> <p>As part of our Audit Completion Report for the 2015/16 audit, we recommended that the Council reviewed its approach to interim valuations of its housing stock so that material movements are reflected in the carrying value of the assets between the 5-yearly full valuations.</p>
Conclusion in 2016/17	<p>We have carried out work on the Council's valuation of its housing stock in the year and have not noted any matters arising that indicate the deficiencies outlined last year have continued into 2016/17.</p>

4. Value for Money Conclusion

Our approach to Value for Money

We are required to form a conclusion as to 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
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p> <p>The Council has put in place a significant management restructure over the last few years and has seen changes in a number of senior posts, including the Chief Executive, over that time. 2016/17 has been a period of relative stability in this respect.</p> <p>The Audit and Governance Committee is the body that we determine to be 'those charged with governance' as defined by International Auditing Standards. The committee is responsible for the oversight of the Council's governance framework which includes considering reports from internal and external audit providers, and approving the financial statements. The Committee had a busy agenda in 2016/17 and addressed some significant risk issues including internal and external audit reports on procurement. .</p>	<p>Yes</p>

The Council's internal audit function is provided by Veritau, who carried out an annual review of the effectiveness of the system of internal control in place at the Council. For 2016/17, Veritau gave a substantial assurance opinion.

Using appropriate and reliable financial and performance information to support informed decision making and performance management

As part of our on-going work in assessing risk and updating our understanding of the Council, we review minutes for Executive, Council and committee meetings, as well as meeting regularly with senior officers such as the Chief Executive and s151 Officer. We have not identified any evidence of material decisions being taken that are not supported by reports that outline appropriate option appraisal, suitably supported recommendations and all other relevant considerations.

Reliable and timely financial reporting that supports the delivery of strategic priorities

The Council's financial performance appears well-controlled and is reported appropriately to members on a quarterly basis. Any significant financial consequences of options presented to members for decision appear to be supported by an appropriate level of financial commentary to allow proper decision making.

The financial outturn for 2016/17 was positive resulting in an underspend of around £0.5m together with an unspent contingency of a similar amount.

Managing risks effectively and maintaining a sound system of internal control

As noted above, the Council's internal audit provider provided a substantial assurance opinion in relation to the system of internal control for 2016/17. The results of our work have not identified any matters that would cause us to challenge this opinion.

Regular reporting of corporate risk is undertaken with periodic reports being presented to the Audit and Governance Committee for consideration and discussion. We have noted changes in the presentation of the reports in 2016/17 as a result of suggestions from members.

**Sustainable resource
deployment**

Planning finances to support the sustainable delivery of strategic priorities and maintain statutory functions

The Council continues to make good progress in meeting the challenges that it faces as a result of reductions in central government funding. As noted above, the 2016/17 outturn position was positive which follows a number of years of relatively strong performance in terms of delivery to budget.

We have carried out work in relation to the Council's arrangements to deliver its programme of savings for the period up to 2019/20, in response to the significant risk we identified in our Audit Strategy Memorandum, and have concluded that arrangements are in place for the 2016/17 financial year.

Managing and utilising assets effectively to support the delivery of strategic priorities

A number of the individual savings programmes that form part of the Council's overall savings plans for the period to 2019/20, involve driving efficiencies and revenue maximisation from the use of both operational and commercial property holdings. Progress on these programmes has been good to date, and the Council will need to continue this positive start if it is to meet all of its targets in this area, particularly in the 2018/19 and 2019/20 financial years.

Planning, organising and developing the workforce to deliver strategic priorities

The Executive approved a revised approach to workforce development, the People Plan, in Q1 of 2016/17. Since that time, we have noticed a range of initiatives that have been introduced under the Plan that have brought about potential increases in staff engagement. Progress on delivery of the Plan has been reported to the Executive as part of the quarterly finance and performance update reports.

Yes

Working with partners and other third parties

Working with third parties effectively to deliver strategic priorities

As part of our Audit Completion Report in 2015/16, we reported that one of the Council's most important partnerships in terms of meeting strategic priorities, was that with the Vale of York Clinical Commissioning Group ('the CCG').

The Council and the CCG work together in a range of areas but the most significant of these is the operation of the Better Care Fund, which seeks to reduce emergency admissions to hospital and provide as much support as possible in a social care setting.

There has been a challenging relationship between the Council and CCG in recent years. The financial position of the CCG has led to difficulties in the operation of the Better Care Fund since its introduction.

Arrangements to deliver the 2016/17 Better Care Fund from a budget standpoint appear to have been in place and we are not aware of a repeat of the potential issues that arose in 2015/16 where there was a concern that the CCG may withhold funding from the Fund, and thus the Council.

Following the delayed receipt of detailed technical guidance from NHS England, a plan for the operation of the Better Care Fund for the period 2017-2019 has been developed. This sees the proposed future contributions from the CCG and Council increasing to an overall £15.3m in 2017/18. The Council's overall share of contributions will increase in 2017/18.

Performance against the Fund's objectives is developing but arrangements to date have not been successful in delivering priorities. This is a picture that is seen in many parts of the England and is not necessarily isolated to York, and there are clear challenges that the partners need to address in order to meet both national and local priorities.

Commissioning services effectively to support the delivery of strategic priorities

We have considered the information in VFM profiles published by PSAA, in relation to commissioning activity. These provide data that compares the Council's performance against a range of metrics with those of its statistical nearest neighbours or other comparative groups.

Although there are variations in the costs within and between services, overall, the Council's performance against relevant metrics indicates that arrangements are in place to efficiently commission services when compared to its comparator group.

Yes

Procuring supplies and services effectively to support the delivery of strategic priorities

We have considered the Council's arrangements for procuring supplies and services as part of work on a significant risk to our Value for Money conclusion as previously reported in our Audit Strategy Memorandum.

A number of concerns were raised about the Council's arrangements following an objection to the 2015/16 statement of accounts. This led to specific reports on the issue from us and the Council's internal auditors.

Since this time, the Council has responded to the recommendations made by internal audit which we have considered as part of our work on the significant risk.

Significant Value for Money risks

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

Value for Money conclusion risk	Work undertaken	Conclusion
<p>Responding to financial pressures</p> <p>The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. The Council also has some significant programmes and projects to deliver. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.</p>	<p><u>Overall arrangements for budget monitoring and reporting</u></p> <p>We have reviewed the Council's arrangements for monitoring progress against budget and reporting that progress to members. We have noted the strong outturn position for 2016/17 and the corrective actions taken in the second half of the year to turn around a forecast deficit of around £0.48m at Q2 to a forecast surplus of £0.16m in Q3 and the eventual outturn surplus of £0.54m.</p> <p>Reporting to members appears robust, with sufficient detail to allow for proper oversight of the financial position and performance of the Council on a quarterly basis.</p> <p><u>Review of arrangements for delivering savings programmes</u></p> <p>As part of the 2016/17 budget setting process, the Council outlined an ambitious but realistic programme of savings in the region of £21m to the end of 2019/20. We have considered the arrangements in</p>	<p>We have concluded that there are no indications that a modification to our Value for Money conclusion is required as a result of the Council failing to respond to financial pressures.</p> <p>The Council will need to ensure that the positive start that it has made to its new savings programme in 2016/17 is continued.</p>

	<p>place to monitor achievement of these individual programmes by reviewing relevant document, reports to members and through meetings with key officers.</p> <p>We have reviewed a number of individual savings programmes to assess whether the current RAG rating given to these appears appropriate both for 2016/17 and future years' delivery.</p> <p><u>Consideration of the Council's financial position</u></p> <p>As well as considering the financial performance of the Council and its delivery to budget, outlined above, we have also considered the Balance Sheet position to assess its financial position. We have done this through review of a number of key financial ratios and comparison to other local authorities.</p> <p><u>Review performance reports</u></p> <p>Managing the budget and delivering savings is just one aspect of responding to financial pressures. This needs to be balanced with continuing to meet the needs of service users and delivering sound statutory services. We have considered the quarterly performance reports presented to the Executive, as well as a number of other reports that provide an assessment of the Council's performance. We have also considered the work of inspectorates and regulators relevant to our conclusion (such as OFSTED and the Care Quality Commission), and information available to us from PSAA's value for money profiles.</p>	
<p>Responding to prior year procurement issues</p> <p>In response to an objection to the accounts in the 2015/16 audit, a number of breaches of financial regulations were identified by Veritau in relation to procurement of a local consultant.</p> <p>Although this related to a specific instance where a senior manager had apparently not followed procedures and was no longer an employee of the Council, the need to strengthen procedures was identified and management developed an action plan.</p>	<p><u>Review of progress against the action plan</u></p> <p>We have considered management's response to the action plan agreed as part of the initial response to internal audit's findings. This has been considered through discussions with relevant officers and the gathering of information and evidence to support the current position.</p> <p>From our review of relevant documentation, we are not aware of any substantial elements of the action plan that remain outstanding and have been pleased to note that there has been a marked increase in attempts to raise awareness of procurement policies and procedures to relevant directorate groups.</p>	<p>We have concluded that there are no indications that a modification to our Value for Money conclusion is required as a result of the Council failing to respond to previous year procurement issues.</p> <p>The Council should consider the recommendations made by the peer review team and continue to seek continuous improvement in its procurement function.</p>

If the action plan is not addressed, the Council might not be able to demonstrate that it achieves best value from its procurement.

Peer review

As part of management's response to the findings, an independent peer review of its procurement function was commissioned from the Local Government Association. The peer review team concluded that 'the Council has a good corporate procurement function and that the compliance issues are being addressed'.

Our 'reality check'

Having gathered evidence of the Council's arrangements for each of the sub-criteria and responded to the identified significant risks, we have also conducted a reality check that builds on our existing knowledge of the Council and considers whether or not there are any other indications that arrangements are not in place to meet the overall criterion. In doing so, we have considered the following:

- All relevant minutes and minutes from our discussions with senior management;
- Correspondence from electors and other parties that may be relevant to our conclusion;
- The work of inspectorates and regulators; and
- Information from other local authorities that we audit and the National Audit Office's Value for Money Technical Network, to ensure common issues are being dealt with on a consistent basis.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix C states that we intend to issue an unqualified Value for Money conclusion for the 2016/17 financial year.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £232,000, are set out below.

In line with our reporting in previous years, we report misstatements on the following basis:

- Material adjusted misstatements are reported in full
- Non-material misstatements or uncertainties that management has not amended are reported in full
- Non-material misstatements or uncertainties that management has amended are discussed with management and reported on a summary basis.

Material adjusted misstatements

At the time of preparing this report, we have not identified any material misstatements that require amendment.

Non-material misstatements or uncertainties that management has not amended

Non-material uncertainty – Accounting for schools' PFI liabilities

As noted in section 3 of this report, the Council has been unable to respond to a number of questions relating to the accounting treatment adopted for its schools PFI scheme. We have done sufficient work to gain assurance that the accounting treatment adopted does not materially misstate the Council's PFI liabilities, but we believe it is highly likely that the PFI liabilities recognised on the Council's Balance Sheet are misstated as a result of adopting an accounting policy that appears contrary to proper accounting practices as outlined in the Code of Practice on Local Authority Accounting.

Management has committed to reviewing its accounting treatment for the 2017/18 financial statements.

Non-material uncertainty – Local Government Pension Scheme

As noted in section 3 of this report, the Council's actuary, despite being informed of the transfer of six schools to academy status during the 2016/17 financial year did not reflect this in the Council's IAS19 valuation. . As a result, the net defined benefit liabilities as recognised on the Council's Balance Sheet are misstated. We have done sufficient work to gain assurance that the impact of this error is not material in respect of the value of the Council's Local Government Pension Scheme liabilities and associated entries in the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, and associated notes.

Non-material misstatements that management has amended

We have identified a number of misstatements that fall below our materiality threshold that management has agreed to amend in the final financial statements. These include amendments to:

- Note 1 – Accounting policies
- Note 12 – Property, plant and equipment
- Note 16 – Financial instruments
- Note 19 – Debtors
- Note 23 – Creditors
- Note 24 – Provisions
- Note 27 – Cash Flow Statement (operating activities)
- Note 38 – External audit costs
- Note 41 – Related party transactions
- HRA note 8 – Vacant possession value of council dwellings

We have also agreed a number of minor presentational changes to the accounts.

Appendix B – Draft management representation letter

[Client address]

[Date]

Dear [name]

City of York Council - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for City of York Council ('the Council') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code').

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

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

Fraud and error

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements and uncertainties as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

s151 officer

Date.....

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF YORK COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of City of York Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of City of York Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of City of York Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Director of Customer and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities, the Director of Customer and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the City of York Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are 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 ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our work on an objection raised in relation to the Authority's financial statements for the year ended 31 March 2017. We are satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

Gareth Davies

For and on behalf of Mazars LLP

Salvus House, Aykley Heads, Durham, DH1 5TS

29 September 2017

Appendix D – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.