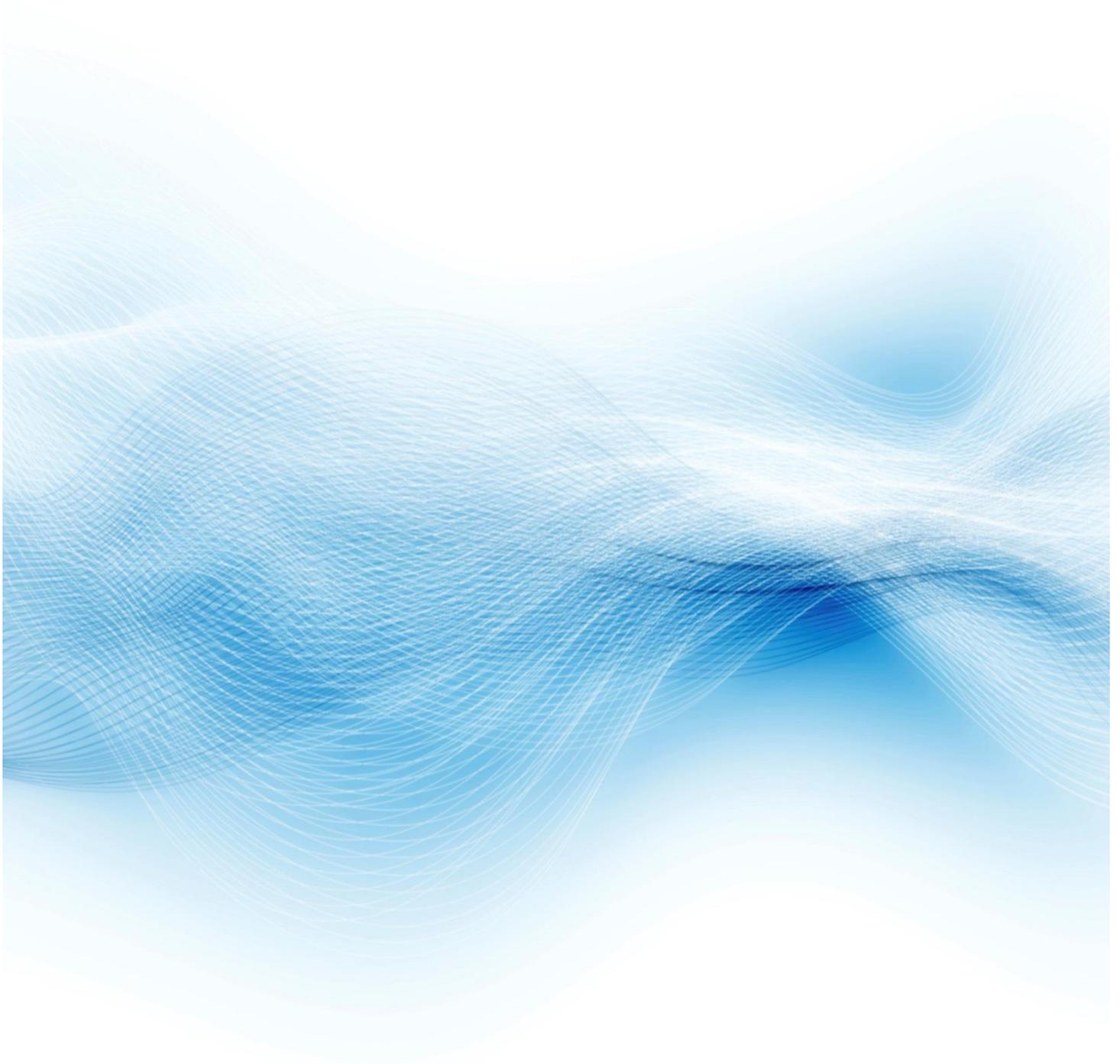
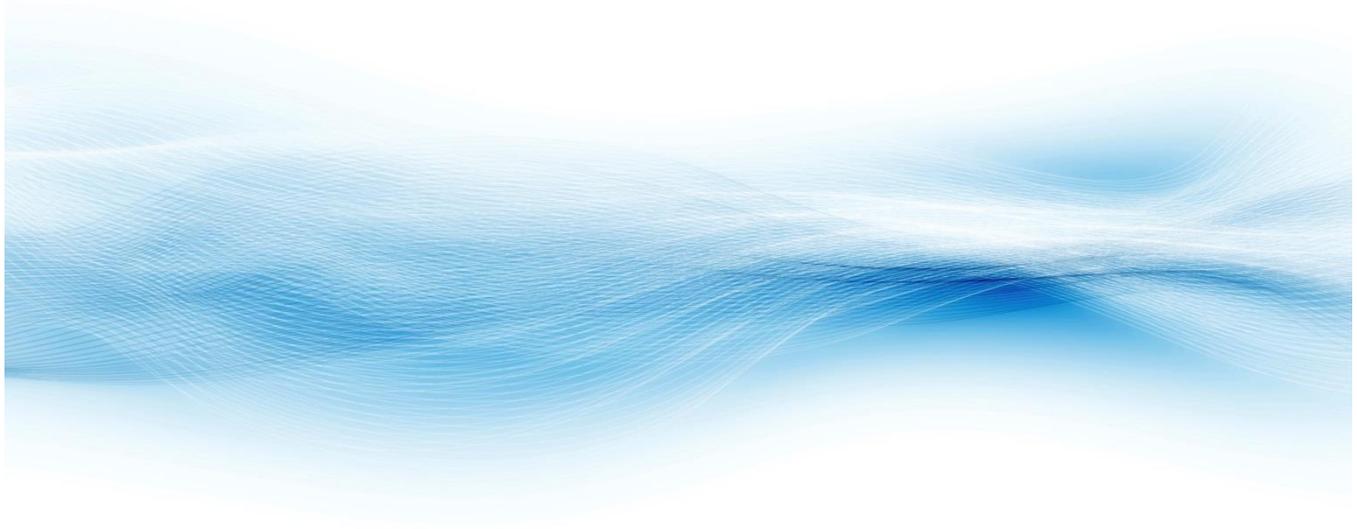


# Audit Completion Report

## City of York Council

Year ending 31 March 2020





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Appendix C – Independence

Our reports are prepared in the context of the ‘Statement of Responsibilities of auditors and audited bodies’ and the ‘Appointing Person 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.

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March 2021

Dear Members

### **Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented February 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of Covid-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks remain appropriate.

We would like you to note that is an updated Audit Completion Report which communicates the conclusion and progress of matters that were marked as outstanding within our Audit Completion Report presented November 2020.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0113 387 88250.

Yours faithfully

Signed: {{\_es\_:signer1:signature }}

Mark Kirkham  
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VAT number: 839 8356 73



# 1. Executive Summary

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of City of York Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Governance Committee meeting on 10 March 2021.

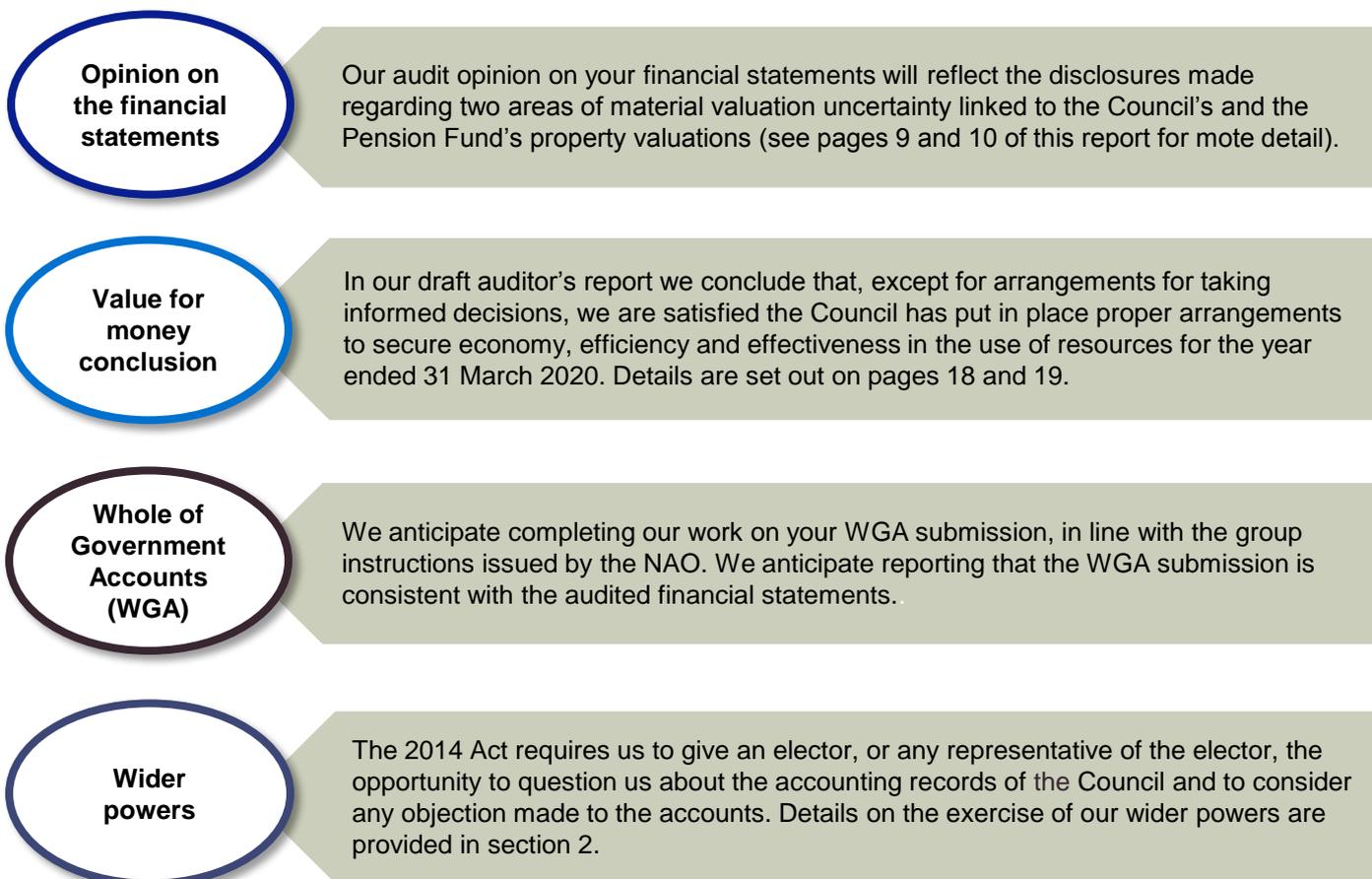
The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which are:

- management override of control;
- revenue recognition;
- property, plant and equipment valuations; and
- defined benefit pension liability.

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:



# 1. Executive summary

## Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Whole of government accounts procedures	●	Completion of whole of government accounts procedures will be finalised upon completion of the financial statements audit.
IT General Controls	●	We have requested information relating to our work on IT controls but as this information is still outstanding.
Post balance sheet events	●	Review of post balance sheet events up to the point at which we sign our audit report.
Review and closure procedures	●	Completion of audit closure procedures, including final review of the Annual Governance Statement.

### Status

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



## 2. Executive summary (continued)

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

### Materiality

We set materiality at the planning stage of the audit at £8.125m using a benchmark of 2% of the prior year's Gross Operating Expenditure. Our final assessment of materiality, based on the 2019/20 final financial statements and qualitative factors, is £8.701m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee), at £0.261m based on 3% of overall materiality.

We also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements.

Following our initial audit risk assessment we set specific materiality for the following items of account or disclosures:

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

### Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.



## 2. Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our auditor's report.

### 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 intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

#### Management override of controls

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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk by carrying out audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

There are no matters arising from our work on management override of controls to bring to your attention.



## 2. Significant findings (continued)

### Significant risk

#### Revenue recognition

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2019/20. We have identified income from 'customer and client receipts' and 'other operating income' as the key areas for audit testing.

This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

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#### How we addressed this risk

We addressed this risk by completing the following procedures:

- testing revenue items recorded around year end to ensure they have been recognised in the appropriate year;
- reviewing and testing revenue recognition policies, relating to 'customer and client receipts' and 'other operating income';
- testing year end receivables; and
- obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.

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#### Audit conclusion

There are no matters arising from our work on revenue recognition to bring to your attention.

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## 2. Significant findings (continued)

### Significant risk

#### Property, plant and equipment valuation

The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model for all land and buildings over a five year cycle.

The Council employs an internal valuation expert to provide information and there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved.

In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.

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#### How we addressed this risk

We reviewed the scope and terms of the engagement with the Council's valuer and how management used the valuer's report for land and buildings in the financial statements. We also assessed the competence, skills and experience of the Council's valuer.

We considered the valuation methodology in relation to industry practice, the requirements of the CIPFA Code of Practice, and the Council's accounting policies.

We reviewed the approach for ensuring ensure all assets are revalued over a 5 year cycle and addressing the risk that assets not subject to valuation in 2019/20 are materially misstated. We considered the robustness of that approach in light of the valuation information reported by the Council's in-house valuer.

In addition, we considered the arrangements that management had put in place to ensure the accuracy of the valuers work, including the extent of the liaison between the valuer and the finance team.

In relation to the assets revalued during 2019/20, we reviewed the methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve (consulting valuers engaged by the National Audit Office), to obtain assurance that the valuations are in line with market expectations. We considered movement in market indices between revaluation dates and the year end in order to determine whether these indicated that fair values have moved materially over that time.

We considered the potential impact of the Covid-19 pandemic on asset valuations and the adequacy of the disclosures in your financial statements, specifically those relating to the material uncertainty.

We also engaged our own valuer to obtain assurance that the value of Allerton Waste Recycling Park was materially accurate. This was necessary as the facility itself has a material value and had not been formally valued since it was brought onto the balance sheet in 2017/18.

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#### Audit conclusion

Our work has not identified any material errors or uncertainties in the financial statements and has led to a control recommendation outlined on page 14 of this report (continued next page).

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Executive summary

Significant findings

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## 2. Significant findings (continued)

### Significant risk

#### Audit conclusion (continued)

The Council has considered RICS guidance and disclosed that, as a consequence of the impact of Covid-19 on the property market, there is a potential material uncertainty in respect of the valuation of land and buildings and investment properties at the balance sheet date. This is has been referenced in note 4 (assumptions made about the future and other major sources of estimation uncertainty) of the financial statements.

In note 4 of the financial statements the Council has disclosed that the valuation of the Council's property assets was subject to 'material valuation uncertainty' as a result of COVID-19. We have therefore included an 'emphasis of matter' paragraph in our auditor's report. A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from COVID-19, less certainty can be attached to the valuation.



## 2. Significant findings (continued)

### Significant risk

#### Defined benefit liability valuation

The net pension liability represents a material element of the Council's balance sheet. The valuation of the fund relies on a number of assumptions, most notably around the actuarial methodology which results in the overall valuation.

There are financial and demographic assumptions used in estimating the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should reflect the employee profile and be based on appropriate data.

There is a risk that the assumptions and methodology used are not reasonable or appropriate for the Council's circumstances. This could have a material impact on the net pension liability in 2019/20.

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#### How we addressed this risk

We reviewed the controls in place over the information sent to the actuary, including the Council's processes and controls with respect to the assumptions used in the valuation.

We evaluated the competency, objectivity and independence of the scheme actuary, AON Hewitt.

We reviewed the appropriateness of the methodology applied, and the key assumptions included within the valuation, by comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office.

We considered the potential impact of the McCloud judgment and Goodwin case on the pension liability valuation, and what the Council has done in response. Management confirmed that a report using data to 31 March 2020 was obtained from the actuary to mitigate any potential impact on the valuation from the Covid-19 pandemic.

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#### Audit conclusion

Our work has not highlighted any indication of material estimation error in respect of the defined benefit liability valuation.

In July 2019, MHCLG consulted on the proposed remedy for the McCloud and Sargeant cases. This indicated that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020. A further legal case (the Goodwin case) emerged in 2019/20.

A material valuation uncertainty was disclosed for the Pension Fund's property investment assets as a result of COVID-19. As the Council's share of those assets in the net Pension Liability in its own balance sheet is material, the Council has disclosed this in Note 4 of the financial statements and we have reflected this in the 'emphasis of matter' paragraph in our auditor's report.

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## 2. Significant findings (continued)

### Qualitative aspects of the Council's accounting practices

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

Draft accounts were received from the Council on 30 June 2020 and were of a good quality.

### Significant matters discussed with management

Significant matters discussed with management during our audit and which had implications for our audit testing and reporting included:

- Following our initial audit enquiries and in conjunction with North Yorkshire County Council, the Council commissioned a valuation but Covid-19 restrictions meant the process was not completed. We obtained our own assurance that the value of Allerton Waste Recycling Park was materially accurate in 2019/20. We have also discussed future arrangements for the Council to liaise with the County Council to put arrangements in place to obtain a full valuation for 2020/21.
- We considered the Chief Executive's remuneration and exit package disclosures. While we have concerns about the regularity of the some components of the exit package, we have concluded that the sums involved do not present a risk of material misstatement.
- We have made enquiries of management following the £52m upward revaluation of the Art Gallery's heritage assets and arrangements to ensure this value is materially accurate. We have made a control recommendation in respect of the arrangements to review, challenge and document the output of valuation experts.
- The Council has considered RICS guidance on the impact of Covid-19 on the Council's business and as expected the accounts concludes that there is material uncertainty about the valuation of land and buildings at the balance sheet date. This has been disclosed in the note 4 of the Financial Statements.
- The Council's response to sector wide legal cases which impact on the valuation of certain pension liabilities and the proposed remedy for the McCloud case (which emerged initially in 2018/19 and was reported on in our previous Audit Completion Report).
- Work required by our regulators and other risks emerging during the year led us increase the level of work on the pension fund liability and the valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the fee required to complete the audit and we will discuss a fee variation with management on completion of our audit work and update the Committee accordingly. All fee variation requests are subject to approval from PSAA.

### Significant difficulties during the audit

Our routine audit enquiries did not encounter any significant difficulties and we have had the full co-operation of management. The outbreak of the Covid-19 pandemic affected the operation of Council services and the audit process with officers and the audit team working remotely. We held regular discussions with management to understand the implications and consider the impact on our risk assessment. We identified no changes in key financial processes that affected our audit approach but our usual methods of communication and engagement were revised and the circumstances involved some time lags in resolving audit queries. Overall, the finance team responded well.



## 2. Significant findings (continued)

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

We received an objection from an elector which challenged components of the Chief executive's severance package and we have not yet determined that matter.

### Modifications required to our auditor's report

As stated in our responses to the significant risks (pages 9 and 10) we have highlighted proposed modifications to our audit opinion, relating to emphasis of matter paragraphs disclosed in your accounts relating to Council's and Pension Fund's property valuations. The inclusion of an emphasis of matter paragraph is not a qualification of our audit opinion.

Our value for money conclusion has been modified based on the findings from our enquiries into the Chief Executive's exit package which have led to our intention to include an except for conclusion as explained on page 18.

### Delay in audit certificate

The issue of the audit certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally closed. The certificate would normally be published in our auditor's report on the Statement of Accounts alongside the opinion and value for money conclusion.

At the time of writing, we have not yet determined the elector's objection and have not yet concluded our work on the WGA submission, in line with the group instructions issued by the NAO. When we have completed these procedures we will then issue the audit certificate as soon as we are able to do so.



### 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 relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

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

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

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	[zero]
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	[zero]
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	[two]



### 3. Internal control recommendations (continued)

#### Deficiencies in internal control – Level 3

##### 1 - Description of deficiency

While our work to date has not found any material errors in this area, we recommend that the Council improves its arrangement to review, challenge and document the output of management's valuation experts relied upon in the production of its financial statements.

##### Potential effects

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

##### Recommendation

We recommend that management's review and challenge of the valuer's work should be formalised. We suggest that management formally documents how it gains its own assurance over the data, calculations and assumptions in valuer's reports.

##### Management response

Arrangements are in place to review and challenge the output of our valuation experts who themselves use their professional judgement to work in accordance with Royal Institution of Chartered Surveyors (RICS) guidelines. Regular meetings are held throughout the year to share information and key assumptions on the valuation basis being used and revaluation cycle. Once valuations are received these are reviewed and any significant movements or category changes are challenged, and where necessary amendments to valuations are made. Evidence of this process has been provided during 2019/20.

##### 2 - Description of deficiency

Our work on the Members' allowances the scheme and approved rates published on the Council's website relates to previous policy. The review of the scheme and approved rates (December 2019) should be published on the Members' allowances section of the Council website.

##### Potential effects

The public are not informed of the latest decisions of the Independent Remuneration Panel, relating to Members' allowances.

##### Recommendation

The Council should ensure the published Members' scheme of allowances and approved rates is the most up to date version.

##### Management response

Arrangements are now in place to urgently correct this oversight and the Report of the Independent Remuneration Panel from December 2019, will be placed on the Council's website. However the recommendations contained within that report have been enacted and these are reflected in the individual councillor details on the website.



### 3. Internal control recommendations (continued)

#### Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

#### Description of deficiency

The Council's password policy does not comply with current best practice in the following instances:

- password complexity: characters and numbers, 8 positions;
- user account blocked after failed attempts;
- initial password is randomly generated (not always the same trivial password); and
- password history (a previous password cannot be used again).

Further, password parameters set within the Council's systems (Active Directory, Civica and iTrent) do not align with the Council's password policy.

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#### Potential effects

Passwords are not sufficiently complex to mitigate the risk of inappropriate access to critical business systems.

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#### Recommendation

The Council should review its password policy to ensure it is in line with best practice and addresses the deficiencies highlighted above.

The Council should ensure that the password parameters for the critical business systems highlighted above reflect the Council's password policy.

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#### 2019/20 update

Our IT General Controls work in this area has not noted any issues in 2019/20.

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## 4. Summary of misstatements

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.261 million.

The table below outlines the misstatement that was identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

### Unadjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr:	1,018			1,018
Cr:				

This relates to a 2018/19 invoice totalling £27,915 that was incorrectly recorded in 2019/20. No other errors of this type were found in our testing, therefore we extrapolated the error to gain assurance that any potential impact was below materiality.

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<b>Total unadjusted misstatements</b>	<b>1.018</b>	<b>1,018</b>
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## 4. Summary of misstatements (continued)

### Adjusted misstatements 2019/20

There are no adjusted misstatements.

### Disclosure amendments

As a result of our work, a number of disclosure amendments have been made to the other statements, notes and disclosures within the financial statements, and the most significant of these are as follows:

- Note 7 (adjustments between accounting basis and funding basis under regulations). Revenue expenditure funded from capital under statute (total £6.736m) was incorrectly included on the 'prior year reversal' line, and has been correctly moved to current year.
- Note 7 (adjustments between accounting basis and funding basis under regulations). We noted the following inconsistencies relating to the pension reserve and note 26 (pension reserve - unusual reserves):
  - reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services was disclosed as £42.169m and has been corrected to £29.856m; and
  - employer's pensions contributions and direct payments to pensioners payable in the year, were disclosed as £56.041m and have been corrected to £15.984m.
- Note 10 (financing and investment income and expenditure) does not include the net gain or loss on fair value (total £70k) included in note 14 (investment properties). This error has not been corrected.
- Note 24 (provisions). Narrative included a reference to the Lendal Bridge and Coppergate provision, this is a nil provision and the narrative has been removed.
- Note 26 (unusable reserves). The prior year total has been corrected from £528.882m to £523.322m.
- Note 38 (external audit costs). Fees payable in respect of 'other services provided by Mazars LLP' disclosed in the financial statements are £19k; per our fee letters they total is £21k. While this amounts is trivial has not been adjusted, due to the nature of the disclosure we have included it in this section of the report.

In addition to the above, a number of minor amendments have been made to the financial statements to correct rounding errors, ensure internal consistency and to correct typographical and formatting errors.



## 5. Value for money conclusion

### Our audit approach

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  (commentary has been updated since the ACR issued in November)	<p>While the Council has a Constitution and Code of Conduct, the effectiveness in providing an effective framework for decision making is under review.</p> <p>The senior management structure (including the Corporate Management Team and Corporate Leadership Group) has been updated to respond to the Council's challenges.</p> <p>The Council has adopted a formal system of risk management and maintains both corporate and directorate risk registers which identify actions required to mitigate the identified risks.</p> <p>The Council uses corporate and directorate service level performance measures to report and manage service delivery. The quarterly financial and performance monitoring reports and associated outturn reports support decision making.</p> <p>The Council approved its Council Plan (2019 -2023) which sets out the Council's long term priorities and objectives. Delivery of the plan and Council performance is monitored through Directorate Management Teams, Corporate Leadership Group and Corporate Management Team with reporting to the Executive and full Council.</p> <p>The Audit and Governance Committee provides oversight of the Council's governance framework.</p> <p>The Council's internal audit carries out an independent review of the effectiveness of the system of internal control including governance, risk management and the wider control environment operating within the Council. In 2019/20 the annual head of internal audit opinion again provided 'substantial assurance'.</p> <p>In response to the Covid-19 pandemic, the Council amended its Standing Orders to facilitate remote Council meetings.</p> <p>Continued next page.....</p>	Decision making arrangements and processes relating to the Chief Executive's severance agreement provide evidence of weaknesses in arrangements.



## 5. Value for money conclusion

Sub-criteria	Commentary	Arrangements in place?
<p>Informed decision making (continued)</p> <p>(commentary has been updated since the ACR issued in November)</p>	<p>The findings of our audit work on the severance agreement in respect of the former Chief Executive have not yet finalised but we have identified the following significant issues:</p> <ul style="list-style-type: none"> <li>elements of the exit package, described in both the business case considered by Members and in the financial statements as contractual, were paid at the discretion of the Council and were not contractual entitlements;</li> <li>the business case considered by Members did not include sufficient facts, both in terms of financial analysis and background information, to support an informed decision;</li> <li>decision records that document the use of public funds under the scheme of delegation were not maintained; and</li> <li>safeguards to prevent conflicts of interest and demonstrate the Council applies the principles and values of sound governance were not applied.</li> </ul> <p>The evidence we have seen in connection with this decision means we are not satisfied that we have seen evidence that the Council has arrangements in place for acting in the public interest, through demonstrating and applying the principles and values of sound governance. The matters we have identified are evidence of weaknesses in proper arrangements for taking informed decisions.</p>	



## 5. Value for money conclusion

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



## 5. Value for money conclusion

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council continues to work with partners and other third parties to explore scope for alternative delivery models with some already in place and others being considered.</p> <p>The Council is a member of a number of strategic delivery partnerships. Through the Health and Wellbeing Board, for example, the Council is working with local partners to create a strategic health and care economy that supports people to be healthy, well and independent. This includes a Joint Health and Wellbeing Strategy and a Mental Health Strategy.</p> <p>The Council has a Better Care Fund arrangement in place with the Vale of York Clinical Commissioning Group. This promotes the integration of health and social care and the development of transformational projects through the use of pooled budgets and integrated spending plans.</p> <p>The Council is a member of the York and North Yorkshire Local Enterprise Partnership (LEP) and a non-constituent member of the West Yorkshire Combined Authority. The Council is currently consulting with key partners including North Yorkshire County Council and the North Yorkshire district councils to agree the formation of the York and North Yorkshire devolution proposal, which is intended to create a new Combined Authority for York and North Yorkshire.</p> <p>In terms of arrangements to support effective procurement, the Council has an up to date strategy and procurement procedures in place. The Council maintains a contracts register and seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. The Council has a corporate procurement team to oversee procurement and along with other authorities in the area, the Council makes use of the Yortender system for the management of key procurements.</p>	Yes



## 5. Value for money conclusion (continued)

### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our 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 one significant audit risk and the follow-up work we carried out is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Financial sustainability</b></p> <p>The Council's medium term financial plan (MTFP) sets out the financial challenges the Council faces in the medium term. The mid-year financial position for 2019/20 indicates that the Council is forecasting delivery of a balanced budget for the year. There are, however, financial pressures within adult social Care and children's services such that delivering a balanced budget is likely to require the use of contingencies and non-recurrent income. While this is consistent with the MTFP, this use of one-off resources to support service delivery is indicative of the financial pressures faced by the Council.</p> <p>The continuing challenges are not new and are not unique to the City of York Council. The challenges do, however, present a significant audit risk for our consideration of the arrangements in place to manage demand in your key service areas and deliver financial sustainability over the medium term.</p>	<p>Building on our work in previous years, we reviewed the arrangements the Council has in place for ensuring financial resilience. Specifically, our work included reviewing:</p> <ul style="list-style-type: none"> <li>the Council's MTFP to consider whether it takes into consideration factors such as the latest income projections, funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors; and</li> <li>the arrangements in place to monitor progress in delivering a balanced budget for 2019/20 and the related savings plans.</li> </ul>	<p>Our work has provided sufficient assurance and we have no matters to report.</p> <p>The impact of the Covid-19 pandemic means the Council will need to revisit the MTFP, including assumptions and future budget gaps.</p> <p>Our conclusion considers arrangements in the 2019/20 financial year and recognises that the impact of Covid-19 started in March 2020. When setting the MTFP to 2023/25, arrangements were in place to set a financial plan which reflected the circumstances at that time.</p>



# Appendix A

## Draft Management Representation letter

Mr M Kirkham  
5<sup>th</sup> Floor  
3 Wellington Place  
Leeds  
LS1 4AP

DD/MM/YY

Dear Mark

### City of York Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of City of York Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

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

#### My responsibility for the financial statements and accounting information

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

#### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as 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 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.



# Appendix A

## Draft Management Representation letter

### 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 current or 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 the Code and applicable law.

### Laws and regulations

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

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

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

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

### Related party transactions

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

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

### Charges on assets

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

### 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.



# Appendix A

## Draft Management Representation letter

### 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 and applicable law, require adjustment or disclosure have been adjusted or disclosed.

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

### Other matters

I can confirm in relation to the following matters that:

- Brexit -we have assessed the potential impact of the United Kingdom leaving the European Union and that the disclosure in the Narrative Report and note 3 to the Statement of Accounts fairly reflects that assessment.
- Covid-19 -we have assessed the potential impact of the Covid-19 Virus pandemic on the Council and the Statement of Accounts, including the impact of mitigation measures and uncertainties, and are satisfied that the Statement of Accounts and supporting notes fairly reflect that assessment.

### Going concern

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

### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please add an appendix is attached to the letter and not cross-referenced to the appendix in the ACR.*

Yours faithfully

Chief Finance Officer

Date: .....



# Appendix B

## Draft Auditor's Report

### Independent auditor's report to the Members of City of York Council Report on the financial statements

#### Opinion

We have audited the financial statements of the City of York Council for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Housing Revenue Account, Collection Fund and notes to the financial statements, including a summary of significant accounting policies. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31<sup>st</sup> March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of property, plant and equipment and investment properties and pension fund property assets

We draw attention to note 4 (assumptions made about the future and other major sources of estimation uncertainty of the financial statements), which describes the effects of the Covid-19 pandemic on the valuation of the Council's property, plant and equipment and investment assets and the valuation of the Council's share of North Yorkshire Pension Fund's property assets. As disclosed in note 4 of the financial statements, the Council and the Pension Fund included 'material valuation uncertainty' declarations within their reports as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Corporate Finance and Procurement (interim Section 151 officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Corporate Finance and Procurement (interim Section 151 officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Head of Corporate Finance and Procurement (interim Section 151 officer) is responsible for the other information. The other information comprises of the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



# Appendix B

## Draft Auditor's Report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of the Head of Corporate Finance and Procurement (interim Section151 officer) for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Corporate Finance and Procurement (interim Section151 officer) 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 2019/20, and for being satisfied that they give a true and fair view. The Head of Corporate Finance and Procurement (interim Section151 officer) is also responsible for such internal control as the Head of Corporate Finance and Procurement (interim Section151 officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Corporate Finance and Procurement (interim Section151 officer) is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Head of Corporate Finance and Procurement (interim Section151 officer) is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- 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 sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



# Appendix B

## Draft Auditor's Report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of the Head of Corporate Finance and Procurement (interim Section151 officer) for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Corporate Finance and Procurement (interim Section151 officer) 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 2019/20, and for being satisfied that they give a true and fair view. The Head of Corporate Finance and Procurement (interim Section151 officer) is also responsible for such internal control as the Head of Corporate Finance and Procurement (interim Section151 officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Corporate Finance and Procurement (interim Section151 officer) is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Head of Corporate Finance and Procurement (interim Section151 officer) is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- 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 sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.



# Appendix B

## Draft Auditor's Report

### Qualified Conclusion on City of York Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Qualified conclusion – except for

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, with the exception of the matters described in the 'Basis for qualified conclusion' paragraph below, we are satisfied that, in all significant respects, City of York Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for qualified conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We considered the severance agreement paid to the former Chief Executive of the Council and our work highlighted the following:

- elements of the exit package, described in both the business case considered by Members and in the financial statements as contractual, were paid at the discretion of the Council and were not contractual entitlements;
- the business case considered by Members did not include sufficient facts, both in terms of financial analysis and background information, to make an informed decision;
- decision records that document the use of public funds under the scheme of delegation were not maintained; and
- safeguards to prevent conflicts of interest and demonstrate the Council applies the principles and values of sound governance were not applied.

These matters are evidence of weaknesses in proper arrangements for taking informed decisions.

#### Responsibilities of the Council

The Council 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.

#### Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



# Appendix B

## Draft Auditor's Report

### Use of the audit report

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 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### 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 Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 Council's financial statements for the year ended 31 March 2020. We are satisfied that these matters do not have a material effect on the financial statements or on our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

[Signature]



# Appendix C

## Independence

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

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



## CONTACT

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

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