

Auditor's Annual Report

City of York Council – year ended 31
March 2021

March 2022



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for City of York Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 10 February 2022. Our opinion included exceptions in respect of the Council's value for money arrangements.



Value for money (VFM) arrangements

In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.



Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 10 February gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report (ACR) 2020/21, presented to the Governance and Audit Committee on the 2 February 2022, provides further details of the findings of our audit of the Council's financial statements. We also issued an ACR follow-up letter, 10 February 2022. These documents include our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. There are no matters raised in our Audit Completion Report 2020/21 that we need to repeat in this report.

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Section 03:

Commentary on VFM arrangements

3. Value for money (VFM) arrangements – Overall summary

Approach to value for money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council

has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We outline the risks that we have identified and the work we have done to address those risks on page 9.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. We outline the identified significant weaknesses and our associated recommendations on page 15.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	10	No	No
Governance	12	Yes – see risk on page 9	Yes – see recommendation on page 15
Improving economy, efficiency and effectiveness	14	Yes – see risk on page 9	Yes – see recommendation on page 15

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3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1 We issued a Public Interest Report on 19 April 2021 including recommendations to address the significant weaknesses we identified in the Council's arrangements in respect of the severance of the former Chief Executive:</p> <ul style="list-style-type: none"> elements of the exit package, described in both the business case considered by Members and in the financial statements as contractual, were paid at the discretion of the Council and were not contractual entitlements; the business case considered by Members did not include sufficient facts, both in terms of financial analysis and background information, to 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. 	<p>Work undertaken We continue to work with management to monitor progress addressing the recommendations in the Public Interest report. A key part of management's response is an update to the Council's Constitution, which management plan to take to Council in March 2022.</p> <p>The Council has engaged the Local Governance Association (LGA), who have been commissioned to complete a review of management's action plan which was adopted to address the issues highlighted in the Public Interest Report.</p> <p>Results of our work As stated above, this work is still underway and expected to be concluded in 2022.</p>

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

In February 2021, the Financial Strategy 2021/22 to 2025/26 (MTFS) was approved. The strategy includes financial projections, analysis and context to support the delivery of the Council's key priorities as set out in the Council Plan (2019-23) and emerging priorities as a result of the pandemic.

The Financial Strategy is refreshed annually to ensure decisions are based on the latest information. The February 2021 update considered the impact of the Government's local government finance settlement, the impact of Covid-19 and changes to local taxation retention. This refresh also took into account the impact of the Council's 2021/22 budget and changes to the Council's key priorities as a consequence of the pandemic. Currently the MTFS is predicated by detailed assumptions up to 2023/24 and as more information becomes available management intends to update its assumptions for the remaining years.

The Council's capital investment plan (2021/22 to 2025/26) sets out the long-term capital programme and is underpinned by the Council's annual capital financing investment strategy (2021/22) and treasury management strategy (2021/22 to 2025/26).

Quarterly budget position statements are considered by the Executive and are underpinned by budget monitoring arrangements at service level which are reported to the Council Management Team. These reports provide a clear summary of the projected outcome and the actuals, along with supporting narrative to explain significant changes and pressures. Implications of overspends and non-delivery of planned savings and efficiencies are set out in each report.

Savings and efficiency requirements are identified as part of the annual budget and MTFS setting process. In 2020/21 a saving requirement of £4.3m was identified, which built on existing saving plans already included in the MTFS. The plans predominantly related to Health, Housing and Adult Social Care where savings targets amount to £2.1m.

The Council has a good track record of delivering its budget. In 2020/21 the Council reported an overspend of £1.2m against its £127m net revenue budget but this was bridged by a planned use of reserves. In its latest budget position statement (quarter 3, 2021/22), management is projecting a £10.0m overspend against its net revenue budget of £127m. Consistent with previous years, adult and children's social care continue to be risk areas. The Council plans to bridge this gap by identifying additional savings and by use of earmarked reserves to break even at 31 March 2022.

We have seen evidence of effective financial management arrangements despite the continued financial pressures, including the on-going Covid-19 pandemic, and issues relating to adults and children's social care.

How the Council plans to bridge funding gaps and identifies achievable savings

The overarching MTFS includes the identification of savings and efficiencies up to 2025/26 after taking into account estimated funding. The MTFS highlights a potential budget gap of £19.5m over the life of the MTFS, which the Council plans to mitigate by identifying additional savings, increasing income or the use of reserves. Management has, however, confirmed that the size of the gap will be revisited as more financial information becomes available.

The annual budget savings cycle is a continuous approach with budget developments brought to the Executive for consideration throughout the year so that resources allocation decisions can be monitored.

The 2020/21 budget included savings of approximately £4.3 million (building on savings already included in the MTFS), of which approximately £2.9m (67.4%) was achieved. In the context of the net budget, this is not a significant amount. The 2021/22 budget, approved in February 2021, included a savings total of £7.9m, of which £4.2m related to the People Directorate (which includes several saving plans for adult and children's social care). At the time of writing this report, the Council is forecasting that £1.8m of this saving target will be achieved, however Covid-19 funding has been allocated to off-set this pressure.

In February 2022 the Council updated its Minimum Revenue Provision (MRP) policy following a consultation with Link Group. Link's review recommended the Council change its MRP calculation for both funded and unfunded borrowing, resulting in a reduction in MRP charges of circa £10m over the next 5 years..

While the Council faces significant pressures to deliver its savings plans, our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's MTFS provides a framework to achieve a sustainable financial position over the medium-term, aligned to the Council Plan. The key principles within the MTFS are designed to:

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

- ensure resources are allocated to statutory and front-line services and protecting key priority services, focused on need rather than want; and
- managing demand by implementing strategies and policies that deliver the Council's plans.

How the Council ensures that its financial plan is consistent with other plans

The Council's MTFS sets out the financial context for the Council's resource allocation process and budget setting and underpins decision-making arrangements.

As part of ensuring the consistency of the MTFP and annual budget with other plans, significant consultation is undertaken on the budget, both with internal and external stakeholders.

How the Council identifies and manages risks to financial resilience

As part of the annual budget setting process, the Council's s151 officer sets out an assessment of the adequacy of reserves and the robustness of budget estimates. Risk factors are considered as part of this assessment, including the level of reserves, prudential and treasury indicators and the reliability of inflation estimates. This is underpinned by the review of reserves set out in the annual update of the Council's MTFS, which includes an estimate of projected earmarked reserves.

Earmarked reserves as at 31 March 2021 were £88.5m (including a general fund balance of £11.2m), compared to £31.6m the prior year. Much of the significant increase was due to additional the Section 31 Business Rates Grants and the Covid-19 funding reserves totalling £43.0m (£0m in 2019/20) received in year. These reserves are forecast to be used in 2021/22 to support the Collection Fund deficit arising from the pandemic and to support services impacted by Covid. Earmarked reserves (including the general fund balance) are regularly reviewed and are projected to reduce over the life of the MTFS.

Our work did not identify a significant weakness in the Council's arrangements in relation to the financial sustainability reporting criteria.

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion

How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council's Annual Governance Statement sets out how the Council has complied with this Code during the year. The Statement also includes an update on the Council's consideration of the Public Interest Report.

The corporate risk register is considered by the Corporate Management Team and Audit and Governance Committee, setting out strategic and corporate risks, along with sources of assurance, both internal and external. There is evidence of challenge by Committee Members of this summary, which provides a useful overview of the many sources of evidence and various assurance activities.

The Audit and Governance Committee received regular updates on the Internal Audit Plan. Internal Audit reviews highlight weaknesses and recommends to strengthen processes or procedures. These are regularly reported to the Audit and Governance Committee which actively monitors actions in response to recommendations. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control which was reported to the Audit and Governance Committee in June 2021. The overall opinion was substantial assurance for 2021.

How the Council approaches and carries out its annual budget setting process

The Council's MTFS arrangement includes the identification and evaluation of risks to the Council's finances. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

Our review of the budget setting arrangements did not identify evidence of a significant weakness in arrangements.

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

We have reviewed Council reports and minutes throughout year and have not identified any evidence of

weaknesses in arrangements not already outlined in this report.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

The Council has several scrutiny committees which provide an opportunity to challenge decisions. A Scrutiny Committee Structure and Operational Task Group is in place to oversee and coordinate the work.

The Council successfully implemented measures to ensure that services could continue despite the restrictions arising during the Covid-19 pandemic. The arrangements included live streaming to allow the public to observe Council meetings.

How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is currently being reviewed as part of the Council's response to the Public Interest Report issued in April 2021. The Constitution sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people.

The Constitution is supported by Codes of Conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared, with no significant issues arising.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

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3. VFM arrangements – governance

Overall commentary on the governance reporting criterion - continued

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a weakness in arrangements.

The Joint Standards Committee is responsible for promoting, maintaining and advising on high standards of conduct by councillors and co-opted members.

As highlighted on pages 9 and 15, we reported significant weaknesses in arrangements in our Public Interest Report issued on 19 April 2021 together with recommendations to address the deficiencies.

No other weaknesses have been identified.



3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion

How financial and performance information has been used to assess performance to identify areas for improvement

Arrangements are in place to measure the quality of services, to ensure they are delivered in line with the Council’s objectives and priorities, and for ensuring that they provide value for money. Performance management arrangements include regular reporting to the Executive.

Performance is monitored by the Executive, including scrutiny of the full-year Performance Report. As highlighted in the Financial Resilience section of this report, the Council’s MTFs is used to assist the Council deliver key Corporate objectives and strategies, which is regularly reviewed by Members.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

Alongside the performance framework, the Council also considers the output from regulators to evaluate performance and identify areas for improvement. The output from regulators feeds into the Council’s overall corporate risk register, which is reported to the Governance and Audit and Committee.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council Plan 2019-23 sets out the long-term ambitions and priorities for the Council across its service areas. While the plan makes reference to partnership working, it does not explicitly confirm how these arrangements will work but our wider knowledge of the Council provides assurance that these arrangements are in place.

Along with North Yorkshire County Council, the Council is a member of York and North Yorkshire Local Enterprise Partnership. The partnership oversees and makes decisions about the region’s strategic economic plan.

The Council is also a non-constituent member of West Yorkshire Combined Authority which, in conjunction with

other councils across the city region, is responsible for economic development, regeneration and transport decisions in an area.

The Council is leading member the York Health and Wellbeing Board, which brings together leaders from across the district including the Council, the NHS, the Police, Fire and Rescue, social housing and the Voluntary and Community sector, to provide strategic leadership across a wide range of health and wellbeing outcomes across local area and the wider North Yorkshire region.

The Council works in partnership with Humber, Coast and Vale Health and Care Partnership, the local Integrated Care System, which brings together NHS organisations, councils, charities and the community and the social enterprise sector to improve health and wellbeing.

When the budget has been approved the Council produces an annual plan for all procurements of works, goods or services to be undertaken in the forthcoming financial year. Individual procurement plans are approved by the Chief Financial Officer before they are included in the procurement plan, which is published on the Council’s website.

As highlighted on pages 9 and 15, we reported significant weaknesses in arrangements in our Public Interest Report issued on 19 April 2021 together with recommendations to address the deficiencies.

No other weaknesses have been identified.

3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
<p>1 We issued a Public Interest Report on 19 April 2021 including recommendations to address the significant weaknesses we identified in the Council’s arrangements in respect of the severance of the former Chief Executive:</p> <ul style="list-style-type: none"> elements of the exit package, described in both the business case considered by Members and in the financial statements as contractual, were paid at the discretion of the Council and were not contractual entitlements; the business case considered by Members did not include sufficient facts, both in terms of financial analysis and background information, to 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. 	○	●	●	<ul style="list-style-type: none"> The Council should adopt and apply appropriate standards for business case preparation in relation to exit and pension discretions to improve information supporting decisions. Decision notes should be maintained that document the factors that explain the case for the use of public funds under the scheme of delegation such as where payments exceed contractual entitlements. The Council should review the design of its governance policies and procedures to manage conflicts of interest (including self-interest threats). This should include updating the Council’s constitution and scheme of delegation. The Council should ensure all Members fully understand the requirements of the Code of Conduct in relation to declaration of interests. The Council should review its policies and procedures to reflect Government guidance in the use of non-disclosure agreements.

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Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

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 did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data.

At the time of preparing this report we have not yet received instructions from the NAO on what procedures are required. As such this work is outstanding.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in June 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice.	£78,237	£78,237
Additional testing on pension valuations and property valuations.	£22,883	£21,837
Additional work relating to electors' rights and severance payments.	£27,856	£0
Additional work relating to technical accounting issues.	£0	£5,583
Additional work on VFM, including consideration of the impact of our wider reporting duties and of COVID-19 on the financial sustainability of the Council.	£4,535	£0
Additional fees in respect of the new VFM approach and identified significant weaknesses in arrangements.	£0	£20,045
Additional fees in respect of the additional requirements of ISA (UK) 540 (Revised) – auditing accounting estimates and related disclosures.	£0	£4,450
Total fees	£133,511	£130,152

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4. Other reporting responsibilities and our fees

Fees for other work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out below:

Area of work	2019/20 fees	2020/21 fees
Other services - Housing Benefits Subsidy Assurance	£11,800	£11,800
Certification of Teachers' Pension return	£5,900	£6,000
Total fees	£17,700	£17,800

Fees exclude VAT and our Housing Benefits work is currently underway.

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