

# Annual Audit Letter 2013/14

City of York Council



October 2014

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17 October 2014

Dear Members

### **Annual Audit Letter 2014**

We are pleased to present to you the Council's Annual Audit Letter setting out the results of our 2013/14 audit.

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

2013/14 has been another challenging year for the Council which, like most other local authorities, has faced difficult decisions on its spending priorities and plans for the future. We were pleased to be able to give an unqualified opinion on the statement of accounts. In relation to value for money, we concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the arrangements for financial management in adult social care. We reflect on this further in the value for money part of this letter.

In addition, we are currently considering an objection by a local elector in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. We are unable to formally certify completion of the audit until we have determined the objection.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or [gareth.davies@mazars.co.uk](mailto:gareth.davies@mazars.co.uk).

Yours faithfully

Gareth Davies  
Mazars LLP

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# 01 The results of our audit

## Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit for Members and other interested parties.

In addition to the summary provided in this letter, our Audit Completion Report (presented to the Council's Audit and Governance Committee on 24 September 2014) gives a more detailed analysis of the work we have undertaken as the Council's external auditor in 2013/14.

## Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts on 30 September 2014.

The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate their cooperation in making it possible for us to complete our work by the deadline.

We have identified scope for further improvement in the working papers supporting the financial statements and in the joint arrangements underpinning our shared Audit Protocol and Project Plan. We will work closely with officers to make the required improvements over the next year.

Our main findings from the audit were:

- The overall quality of the final statement of accounts was good;
- There were a number of agreed amendments to the financial statements;
- There were a small number of unadjusted misstatements where errors were not material;
- We identified the need to strengthen the arrangements for the bank reconciliation, to review the accounting treatment of assets under construction and to carry out a further review of leases.

## Outstanding objection to the accounts

On 12 September 2014 we were notified by a local elector of an objection to the Council's accounts in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. The local elector asks that we apply to the Courts to seek a declaration that an item of account (ie. the penalty charge income) is contrary to law, and that we make a report in the public interest on this matter.

The income relating to the penalty charge notices was £1.8m, which is below the level of materiality for our opinion on the financial statements. Because of this, we were able to issue an unqualified opinion on the financial statements, but we will be unable to certify completion of the audit until the objection has been determined.

We are currently considering the issues raised in the objection and the Council's response to those issues.

## Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance for 2013/14. Our work in this area focused on the two criteria specified by the Audit Commission, and considered whether the Council had proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

## Our conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

The exception to this is that there were weaknesses in budgetary control and financial management in Adult Social Care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced. The Council has since taken action to address the issues identified in 2013/14 and has a clearer understanding of the performance of the service and the scope for future efficiency savings.

It is important to understand the context of our overall conclusion and the Council's response to the issues in relation to adult social care, and this is set out below.

## The Council's overall arrangements

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

The Council has delivered £9m of savings in 2013/14 and achieved a small underspend overall (£0.3m), even after absorbing overspends in adult social care and other services.

This is on top of significant savings of £41.9m being delivered in the last 3 years:

- 2010/11 savings £10.2m;
- 2011/12 savings £21.0m;
- 2012/13 savings £10.7m.

The Council expects to have to make a total of £23m further savings during 2014/15 and 2015/16. The prospects are for further reductions to follow in future years.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances (£7m) and for specific earmarked purposes (£49.4m). These secure the Council's immediate financial resilience.

As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services. Last summer, the Council participated in a Local Government Association (LGA) corporate peer challenge review, which recognised the Council's ambition, but also warned of stretched officer capacity and the need to be clear about priorities and also about non-priorities. In the context of the savings that had been delivered to date and those that will have to be delivered going forward, there was a recognition that difficult choices needed to be made about what to stop doing as well as what to continue doing or do differently.

Part of the response to the peer review process has been a recognition of the need for a council-wide approach to change and transformation, and the Council launched its transformation programme, 'Re-wiring Public Services', in February 2014.

The Council has used VFM profiles and other data, to help identify the service areas to focus on that provide the greatest potential for savings and improved outcomes. Based on our analysis of VFM profiles, most services are relatively low cost in terms of spend per head when compared to similar councils in the CIPFA nearest neighbours grouping. However, the Council recognises that further real savings still need to be delivered and it believes that there is still potential to make improvements and make further savings even where spend per head is relatively low to start with.

The action plans arising from the transformation programme are still developing and the Council sees community engagement as a fundamental part of the process.

The measures that are being taken are the right ones to address the future challenges that the Council faces. The task now is to implement these plans, deliver the savings that are needed, and make improvements in service delivery and outcomes for the citizens of York.

### **Context to our conclusion in relation to adult social care**

Like most councils, City of York Council faces budget pressures arising from an increasing demand from an ageing population. In addition, the Better Care Fund and the Care Act provide both a challenge and an opportunity to work with health colleagues and providers, to develop more integrated and innovative service solutions.

The aim is to help people to live more independent and fulfilled lives where they can, enabling people to take more control of their own care whilst dealing with the reality of decreasing resources.

The Council has recognised these challenges. The Chief Executive and Corporate Management Team sought our assistance in assessing the adult social care service's ability to manage the financial pressures. In addition, the service was identified as a key part of the Council's transformation programme to deliver better services with reduced resources.

We recognise that these are difficult challenges to face, and that the Council has a dedicated workforce that is committed to doing the right things for those requiring adult social care services in the City of York.

However, the view we formed was that the service was not responding quickly enough or effectively enough to the challenges it faced. In particular, we found that there was an urgent need to:

- improve financial management and develop a much better understanding and ownership of budgets within adult social care services;
- improve performance information obtained from the care management system, to make it easier to link activity and costs and manage the service more effectively;
- work jointly with health colleagues to address poor performance on delayed discharge from hospital, with the common objective of ensuring that services are flexible and provide the range of preventative interventions that minimise the need for adult social care support; and
- secure efficiencies and increased flexibility by encouraging user choice through wider use of direct payments. Currently, take up of these options is in the lowest quartile compared to other authorities, although we note that there are high levels of satisfaction amongst users with the services they receive.

### **The Council's response to our conclusion in relation to adult social care**

We are pleased to report that the Chief Executive has recognised that insufficient progress had been made and has instituted an accelerated recovery and improvement process, working closely with the Director of Health and Well-Being and others.

An action plan has been developed in response to our findings, which we believe addresses the areas requiring improvement.

New management has been brought in to help with the improvement process. The new managers recognise that there is scope for improved management and working practices in a number of areas. However, they have compared contract prices against benchmarking data for other authorities, and this indicates that the Council has been getting good value for money from the services it has commissioned. An important focus is for the Council to work closely with its health partners, including NHS Vale of York Clinical Commissioning Group (CCG), to ensure that the overall health and social care economy makes best use of its combined resources to meet the needs of the City and its citizens.

We will continue to assess the Council's progress in improving financial management in adult social care as part of future value for money conclusion work.

### **Whole of Government Accounts (WGA)**

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's WGA consolidation pack with the audited statement of accounts. We reported that the Council's consolidation pack was consistent with the audited statement of accounts on 3 October 2014.

### **Our other responsibilities**

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions and objections on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. As noted earlier, we are considering an objection raised by a local elector and we are unable to certify completion of the 2013/14 audit until the objection has been determined.

# 02 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 16 April 2014, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

Element of work	As previously reported	Final Fee
Code audit work <sup>1</sup>	£134,406	£148,546
Certification work <sup>2</sup>	£15,981	£18,304
Non-audit work <sup>3</sup>	£21,000	£21,000
<b>Total</b>	<b>£171,387</b>	<b>£187,850</b>

All fees exclude VAT

<sup>1</sup> There has been an increase in fees for Code audit work since we reported to you in our Audit Strategy Memorandum in April 2014. The increase in fee of £14,140 is explained as follows:

- £10,600 – additional value for money conclusion work in relation to adult social care, this work was carried out from April to September 2014 and followed up on the findings from our previous advisory review (reported under non-audit work below); this additional fee was agreed by officers and approved by the Audit Commission;
- £3,000 – additional work responding to the high volume of issues raised by members of the public; this additional fee was agreed by officers and is awaiting approval by the Audit Commission; and
- £540 - this increase in fee has arisen because the Audit Commission no longer makes certification arrangements for the NNDR 3 return and, as a result we have had to undertake additional audit testing to obtain suitable assurance over relevant entries in the Council's accounts. This assurance would have previously been obtained from work to certify the NNDR 3 return. The Audit Commission advised all audit suppliers of the expected additional fees arising from this additional work and I can confirm that the additional fee we have charged is in line with that prescribed by the Audit Commission.

In addition, the fee reported here does not include any additional charges for our work responding to the objection to the accounts. In accordance with the Audit Commission Act 1998 and the annual letter on fees published by the Audit Commission, the cost of deciding the objection (comprising the firm's time and the cost of any specialist advice) falls on the Council and is in addition to the normal audit fee. We will, of course, seek to keep such costs to a minimum consistent with the proper discharge of our statutory responsibilities. We are unable at present to estimate what the final cost might be.

<sup>2</sup> The previously reported fee is the fee reported to the Audit Committee in June 2014. This reduced from the original estimate of £19,000 reported in the Audit Strategy Memorandum, due to the removal of council tax benefits and teachers pensions from the scope of this work. The final fee of £18,304 outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. The increase of £2,323 from the previously reported figure relates to a request for us to carry out work on an additional claim, the Local Transport Plan – Major Projects (TRA11); this additional fee is still subject to Audit Commission approval. We will confirm the final fee charged for certification work when we issue our Annual Certification Report.



<sup>3</sup> The non-audit work relates to the initial advisory work on budget management in adult social care. This is the original review work that was carried out in the summer of 2013 and which was reported to management in July 2013.

There are two additional areas of possible work, which are not yet reflected in the fee table:

- The certification of the Teachers Pensions Return – the arrangements for this have changed and these are still being clarified with officers and with the Teachers Pensions Agency; and
- s256 agreements with the CCG and / or NHS England – we have not yet been asked to carry out any work on these returns.

## 03 Future challenges

The main challenge facing the Council, along with other local authorities and the wider public sector, is the continued pressure on the public purse and the need to plan for further reductions in funding and fewer overall resources, coupled with increased demand for services.

In our comments earlier in this report, we summarised how the Council has dealt with these challenges so far, its existing financial resilience and its plans for the future, including its transformation programme.

It is important that the Council continues to closely monitor the progress of its key projects and initiatives to ensure that options are identified, decisions are based on sound evidence and the benefits envisaged from the decisions that are taken are delivered for the Council and its residents.

We will focus our 2014/15 audit on the risks that these challenges present to the Council's financial statements and its arrangements for securing value for money.

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

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