



# External Audit ISA260 Report 2017/18

**North Yorkshire  
County Council  
North Yorkshire  
Pension Fund**

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July 2018



# Summary for Audit Committee

**This document summarises the key findings in relation to our 2017-18 external audit at North Yorkshire County Council ('the Council') and North Yorkshire Pension Fund ('the Pension Fund').**

**This report covers both our on-site work which was completed in June and July 2018 on the Council's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.**

## Organisational and IT control environment

Our work on the Council's control environment, including its IT controls, did not identify any significant matters. Non-material matters were reported to management relating to IT administrator passwords.

## Controls over key financial systems

Our testing of key controls in financial systems did not identify any significant matters to report to the Council. We have recommended two improvements to the controls operating over the bank reconciliation and payroll reconciliation processes. Recommendations are included in Appendix 1.

## Accounts production

The Council successfully met the challenges of the earlier deadlines for accounts production in 2017/18. The draft financial statements were available on 30 May 2018.

## Financial statements

**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Council's financial statements before the deadline of 31 July 2018.**

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see pages 10-13):

- Valuation of PPE;
- Pensions Liabilities;
- Faster Close of Financial Statements.

We have identified 3 audit adjustments with a total value of £68.1 million. See page 16 for details. These adjustments result in a net increase of £16.8 million in the reported deficit on provision of services but no change in the general fund balance.

Based on our work, we have raised 2 recommendations. Details of our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit. The following work is still to be completed:

- Receipt of final signed financial statements and management representation letter.

# Summary for Audit Committee (cont.)

## Pension Fund financial statements

### **We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.**

Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we did not identify any significant risks (excluding those mandated by International Standards on Auditing).

Our audit work on the Pension Fund identified 1 adjustment which has increased the Net Assets of the Fund by £25.4m.

The following work is still to be completed:

- Review of the Pension Fund Annual Report;
- Receipt of final signed financial statements; and
- Receipt of management representation letter.

## Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Council has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **We therefore anticipate issuing an unqualified value for money opinion.**

See further details on pages 21-23.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their help with our audit work this year which is our final year of providing the Council and Pension Fund external audit.

**Section one**

# Control Environment



# Organisational and IT control environment

We have identified no significant issues with the Council's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

We have noted an area for improvement relating to the password controls for staff with administrator access to the Council's network and IT systems.

## Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Council relies on information technology ('IT') to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

## Key findings

We consider that your organisational and IT controls are effective overall, but our testing identified one area for further improvement:

- Our testing of password controls identified that staff with administrator access to the Council's network and systems were able to set their passwords without complying to the Council's password complexity policies. The Council was unaware of this circumvention which appears to have been an oversight in the set up of the IT policies. The Council corrected the weakness promptly after we identified it, and we have confirmed that the 'administrators' now have to apply the Council's password complexity policies. As this issue has been rectified during 2018/19 we have not raised a recommendation.

Aspect of controls	Assessment	Key
Organisational controls:		
Management's philosophy and operating style	3	1 Significant gaps in the control environment.
Culture of honesty and ethical behaviour	3	2 Deficiencies in respect of individual controls
Oversight by those charged with governance	3	3 Generally sound control environment.
Risk assessment process	3	
Communications	3	
Monitoring of controls	3	
IT controls:		
Access to systems and data	2	
System changes and maintenance	3	
Development of new systems and applications	3	
Computer operations and end-user computing	3	

# Controls over key financial systems

Our testing of key financial systems did not identify any material weaknesses and we obtained the assurance we planned for regarding the design and operation of the key controls.

We have reported to management two areas for improvement relating to the bank reconciliation process and the payroll reconciliation process.

## Work completed

We review the outcome of internal audit’s work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy. Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final visit. Our assessment of a system will not always be in line with your internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially correct figures for inclusion in the financial statements.

## Key findings

Based on our work we have determined that the controls over the key financial systems are designed and operated to prevent and detect material mis-statements in the financial statements. We noted two areas for improvement relating to the bank reconciliation and payroll reconciliation processes:

- The Council does not retain the evidence that it has reconciled the payroll system to the general ledger for more than 3-4 months after the reconciliation has been completed. In testing the June 2017 reconciliation during our interim audit in March 2018 we were not able to confirm that the Council had reconciled the two systems. We were able to re-perform the reconciliation to confirm that the two systems did reconcile, but it is important for the Council to retain the evidence for the full year.
- The Council did not complete the bank reconciliation process in June and July 2017. The reconciliation in August 2017 reconciled June and July as well as August and therefore any irregularities would have been identified through that later reconciliation. However not promptly completing the reconciliation process after the end of a month increases the risk that irregularities are not promptly identified and corrected.

We have included recommendations in Appendix 1.

Key financial system		Assessment	Key	
Council			1	Significant gaps in the control environment
	Property, Plant and Equipment	3	2	Non-significant gaps in individual controls
	Cash and Cash Equivalents	2	3	Generally sound control environment
	Pension Assets and Liabilities	3		
	Non pay expenditure	3		
	Payroll	2		
Pension Fund				
	Pension Fund contributions	3		
	Pension Fund benefits payable	3		
	Pension Fund investments and cash	3		



An overhead photograph of four business professionals (three women and one man) seated around a white conference table. They are dressed in business attire (white shirts, light blue shirts, and a grey top). The table has two laptops and a black folder. The scene is brightly lit with natural light from windows on the right, creating strong shadows. A blue horizontal band is overlaid across the middle of the image, containing the text.

## Section two

# Financial Statements

# Accounts production and audit process

**Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Council's accounting practices and financial reporting.**

**We also assessed the Council's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.**

**The Council's overall process for the preparation of the financial statements is adequate.**

**The Council has implemented the recommendation in our 2016/17 ISA260 External Audit report.**

## Accounts practices and production process

The Council incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Council recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

Despite the Council having to manage a number of staff changes in 2017/18, they produced draft financial statements by 30 May 2018 and provided most of the required supporting working papers within the first two weeks of June 2018.

The findings from our audit work indicate that the Council has appropriate overall processes for preparing its financial statements.

We also consider that the Council's accounting practices are appropriate.

## Going concern

The financial statements of both the Council and the Pension Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Council or the Pension Fund to continue as a going concern.

## Implementation of recommendations

We raised one medium priority recommendation in our 2016/17 ISA 260 External Audit Report. The Council has implemented the recommendation relating to the financial statements in line with the timescales of the action plan.

## Completeness of draft accounts

We received a complete set of draft accounts on 30 May 2018 which was in before the statutory deadline.

## Quality of supporting working papers

We issued our Accounts Audit Protocol to the Council and Pension Fund on 4 April 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide to support our audit work. This helps the Council and the Pension Fund to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.



# Accounts production and audit process (cont.)

## Response to audit queries

We are pleased to report that officers took a proactive approach to assisting our audit and dealt with our queries and requests for further information in a prompt manner which did not cause any delays to the audit process.

## Group audit

The Council produces group accounts, incorporating its interests in its significant subsidiary companies:

- NYnet Limited (turnover of £4.1m and net liabilities of £7.3m); and
- Yorwaste Limited (turnover of £40.3m and net assets of £10.5m).

To provide our audit opinion on the Council's consolidated financial statements we carry out work on the consolidation process and substantively test elements of the group financial statements. We do not seek assurance from the subsidiary's component auditors, this is consistent with previous years, and reflects our efficient approach to obtaining group accounts audit evidence.

There are no specific matters to report pertaining to the group audit. We are also pleased to report that there were no issues to note in relation to the consolidation process.

## Pension Fund audit

The audit of the Pension Fund was completed in the first couple of weeks of June 2018, in advance of the main Council audit. The audit progressed smoothly and the audit work was largely completed by 15 June 2018. Pension Fund officers took a proactive approach to the audit, answering our queries promptly and providing all request information without delay. This enabled us to complete the majority of our audit work before starting the Council audit work.

# Specific audit areas

**We anticipate issuing an unqualified audit opinion on the Council's 2017-18 financial statements and those of the Pension Fund by 31 July 2018. We will also report that your Annual Governance Statement is not misleading and is consistent with other information we are aware of from our audit of the financial statements.**

**For the year ending 31 March 2018, the Council has reported a deficit on the provision of services of £65.3m. After accounting for the statutory adjustments, the Council's General Fund & Earmarked Usable Reserves decreased by £3.3m to £213.7m. Within this total the General Fund has remained at £27.3m.**

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

## 01

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

## 02

### Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Council and Pension Fund's financial statements.



# Specific audit areas

Significant Audit Risks – Council

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Council.

<b>Risk:</b>	<b>Valuation of PPE</b> <p>The 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 which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
<b>Our assessment and work undertaken:</b>	<p>We reviewed the approach that the Council adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>As a result of this work we determined that the valuation of Council land &amp; buildings are in line with the requirements of the Code and are materially correct. Other than some disclosure and presentational adjustments to the notes to the accounts, we have not identified any issues to report from our work.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant &amp; Equipment at page 14.</p>

# Specific audit areas (cont.)

Significant Audit Risks – Council (cont.)

<b>Risk:</b>	<p><b>Pension Liabilities</b></p> <p>The net pension liability represents a material element of the Council’s balance sheet. The Council is an admitted body of North Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<b>Our assessment and work undertaken:</b>	<p>As part of our work we reviewed the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council’s process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Aon Hewitt.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Aon Hewitt.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We obtained assurance from our KPMG Actuaries on the method of allocating the Pension Fund Assets to the Council.</p> <p>Our work has also considered the accounting treatment that the Council has adopted for the lump sum payment of £25.2m it made in April 2017 to pay the pension deficit as assessed by the Actuary in their 2016 triennial valuation to the Pension Fund.</p> <p>As a result of our work we concluded that adjustments were needed to the accounts to correctly account for the lump sum pension deficit payment. These have the effect of reducing the Short Term Debtors in the Council balance sheet, increasing the Pension Asset (and hence reducing the Net Pension Liability, and increasing the negative Pension Reserve. This also impacts on entries in the other main statements as set out on page 16 and Appendix 3. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15, noting that overall the actuarial assumptions are in line with our expectations.</p>



# Specific audit areas (cont.)

Significant Audit Risks – Council (cont.)

<b>Risk:</b>	<p><b>Faster Close</b></p> <p>In prior years, the Council has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>During 2016/17, the Council started to prepare for these revised deadlines and advanced its own accounts production timetable. Whilst this was an advancement on the timetable applied in preceding years, further work was still required in order to ensure that the statutory deadlines for 2017/18 were met.</p> <p>In order to meet the revised deadlines, the Council may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;</li><li>— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Council’s Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<b>Our assessment and work undertaken:</b>	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Council was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements before the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p>

# Specific audit areas (cont.)

Significant Audit Risks – Council (cont.)

<b>Risk:</b>	<p><b>Accounting treatment of the Allerton Waste Recovery asset</b></p> <p>The 2017/18 financial statements will be the first to include the asset relating to the Allerton Waste Recovery Public Private Partnership (PPP) contract which was entered into by the Council in 2014.</p> <p>This contract has complex terms which are different to other contracts to which the Council is party. The Council will need to determine the appropriate accounting treatment, as well as a fair value valuation of any assets and liabilities, an appropriate recognition of income and expenditure, and required disclosures.</p>
<b>Our assessment and work undertaken:</b>	<p>We reviewed the Council’s accounting treatment in advance of our main audit visits. This enabled us to confirm that the proposed treatment was in line with accounting standards and the CIPFA Code before the accounts preparation phase commenced.</p> <p>We gained an understanding of how the financial and accounting model relating to the project has been produced by considering the key assumptions as well as the terms included in the project agreement.</p> <p>We reviewed the valuation of the PFI asset and liability in the balance sheet and we reviewed the disclosures with regards to the PFI scheme in the financial statements.</p> <p>As a result of our work we concluded that adjustments were needed to the accounts to correctly reflect the Council’s share of the value of the asset and related liability. The Council had included £49m relating to the value of income which the operator would receive from third parties, should the Council and City of York Council not use the full capacity of the waste recovery facility. In our view, including this income within the calculation of the value of the asset and related liability is not consistent with the requirements of the Code guidance notes, which reflect the current view on the treatment of third party income when accounting for PFI assets. The Council have adjusted the value of the asset and related liability to remove the £49m.</p>



# Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence						
0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	
	Acceptable Range					Audit Difference

Subjective area	2017-18	2016-17	Commentary
Provisions (Council)	3	3	Our testing of Provisions has not identified any matters to report. The basis on which provisions have been calculated is consistent with previous periods. We believe this basis to be balanced and reasonable.
Accruals (Council)	3	3	Our testing of the Council's approach to estimating its year end accruals has not identified any matters to report. The Council has made judgements regarding its accruals policies to enable it to achieve the earlier closedown deadlines. We have not identified any issues with the approaches adopted in 2017/18.
Property Plant & Equipment (Council)	3	3	As reported on page 10 the Council's valuation of its Land & Buildings was a significant risk for our audit. The Council's valuer, Align Property Partners Ltd, has carried out detailed valuation calculations and our work has concluded that the valuer has taken a balanced and reasonable approach to valuing the assets.  We consider that the Council's judgements on the useful lives of its assets has led to balanced and reasonable lives which leads to reasonable depreciation charges.
Valuation of pension assets and liabilities (Council)	3	3	The Council continues to use Aon Hewitt to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% change in the discount rate would change the gross pension obligation liability by £32 million.  Continued overleaf

# Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary																																
Valuation of pension assets and liabilities (Council)	3	3	<p>The actual assumptions adopted by the actuary fell within our expected ranges as set out below:</p> <table><tr><th>Assumption</th><th>Actuary Value</th><th>KPMG Range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.60%</td><td>2.35-2.65%</td><td>2</td></tr><tr><td>CPI inflation</td><td>2.10%</td><td>1.91-2.41%</td><td>2</td></tr><tr><td>Net discount rate</td><td>0.5%</td><td>-0.06-0.74%</td><td>2</td></tr><tr><td>Salary Growth</td><td>3.35%</td><td>2.10-4.10%</td><td>3</td></tr><tr><td>Life expectancy</td><td></td><td></td><td></td></tr><tr><td>    Current male / female</td><td>22.9/26.4</td><td>22.1/23.9</td><td>4</td></tr><tr><td>    Future male/female</td><td>25.1/28.7</td><td>23.5/25.4</td><td></td></tr></table>	Assumption	Actuary Value	KPMG Range	Assessment	Discount rate	2.60%	2.35-2.65%	2	CPI inflation	2.10%	1.91-2.41%	2	Net discount rate	0.5%	-0.06-0.74%	2	Salary Growth	3.35%	2.10-4.10%	3	Life expectancy				Current male / female	22.9/26.4	22.1/23.9	4	Future male/female	25.1/28.7	23.5/25.4	
Assumption	Actuary Value	KPMG Range	Assessment																																
Discount rate	2.60%	2.35-2.65%	2																																
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Salary Growth	3.35%	2.10-4.10%	3																																
Life expectancy																																			
Current male / female	22.9/26.4	22.1/23.9	4																																
Future male/female	25.1/28.7	23.5/25.4																																	
Unquoted investments (Pension Fund)	3	3	<p>Our testing has found an effective control environment in place with regards to investments, including the fund managers and custodian engaged by the fund. We consider there to be robust review of unquoted investment valuations within these relationships.</p>																																



# Proposed opinion and audit differences - Council

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Council's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 26 July 2018.**

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality for the audit of the Council financial statements for this year's audit was set at £15million (see Appendix 4). Audit differences below £0.75million are not considered significant.

Our audit identified a total of 3 significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables below illustrate the total impact of audit differences on the Council's movements on the General Fund for the year and balance sheet as at 31 March 2018. The tables show that there has been no impact on the General Fund, and that Net Assets have decreased by £14 million as at 31 March 2018. This is mainly the result of the following amendments:

- Reduction in the value of the asset and liability related to the Allerton Waste Treatment Plant; and
- Adjustments related to the accounting treatment of the lump sum pension deficit payment.

In addition, we identified some non significant and presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We have set out details of any significant presentational adjustments in Appendix 3. We understand that the Council has addressed these in the final financial statements.

Movement on the General Fund 2017-18			
£m	Pre-Audit	Post-Audit	Ref <sup>1</sup>
Deficit on the provision of services	(65.2)	(82.1)	1
Adjustments between accounting basis and funding basis under regulations	61.9	78.8	1
Transfers from earmarked reserves	3.3	3.3	
<b>Increase in General Fund</b>	<b>0</b>	<b>0</b>	

Balance Sheet as at 31 March 2018			
£m	Pre-Audit	Post-Audit	Ref <sup>1</sup>
Property, Plant & Equipment	1,718	1,671	2 & 3
Other long term assets	79	79	
Current assets	406	390	1
Current liabilities	(195)	(195)	
Long term liabilities	(959)	(910)	2
<b>Net Assets</b>	<b>1,049</b>	<b>1,035</b>	
General Fund	27	27	
Other useable reserves	213	213	
Unusable reserves	809	795	1, 2 & 3
<b>Total Reserves</b>	<b>1,049</b>	<b>1,035</b>	

<sup>1</sup> See referenced adjustments in Appendix 3.

# Proposed opinion and audit differences – Council (cont.)

## **Annual governance statement**

We have reviewed the Council's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

## **Narrative report**

We have reviewed the Council's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Council.





# Proposed opinion and audit differences - Pension Fund

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 26 July 2018.**

## Pension Fund audit

Our audit of the Pension Fund identified one material audit adjustment relating to the accounting for the lump sum pension deficit contributions paid by scheduled bodies.

The final materiality for the audit of the Council financial statements for this year's audit was set at £25 million (see Appendix 4). Audit differences below £1.25 million are not considered significant.

We have set out the significant audit difference in Appendix 3 and it is our understanding that this will be adjusted in the final version of the financial statements.

In addition as in 2015/16 and 2016/17, the Pension Fund has accounted for benefits payable on a cash basis rather than accruing benefit liabilities which are due at the year end but not yet paid. This issue was reported in the previous years and we have not included any specific recommendations or actions for the Fund as a result.

The benefits paid after 31st March 2018 which should have been accrued into 2017/18 were £1,150,000. The corresponding figure for 2016/17 was £925,000, meaning that the unadjusted difference this year is £225,000. This amount is below our significant differences threshold, and we have not reported this in Appendix 3, nor have we required the amount to be corrected in the accounts.

Fund account as at 31 March 2018			
£m	Pre-Audit	Post-Audit	Ref <sup>1</sup>
Opening net assets of the scheme	3,036	3,036	
Contributions received	139	164	1
Benefits paid	(115)	(115)	
Management expenses	(2)	(2)	
Return on investments	245	245	
<b>Closing net assets of the scheme</b>	<b>3,303</b>	<b>3,328</b>	

Net assets as at 31 March 2018			
£m	Pre-Audit	Post-Audit	Ref <sup>1</sup>
Net investments	3,311	3,311	
Net current assets/(liabilities)	(8)	17	1
<b>Net assets of the scheme</b>	<b>3,303</b>	<b>3,328</b>	

<sup>1</sup> See referenced adjustments in Appendix 3.

## Annual report

We have not yet reviewed the Pension Fund Annual Report. When we receive a copy we will review it to be able to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

Once this review is complete we will issue our opinion on the Pension Fund Annual Report. We anticipate this will be after the Pension Fund Committee in September, and hence will be after we have issued the opinion on the Pension Fund financial statements.

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's 2016/17 financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and North Yorkshire County Council and North Yorkshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Corporate Director – Strategic Resources for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have not identified any matters over which we are seeking specific management representations.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2017-18 financial statements.

## Section three

# Value for Money Arrangements



# Specific value for money risk areas

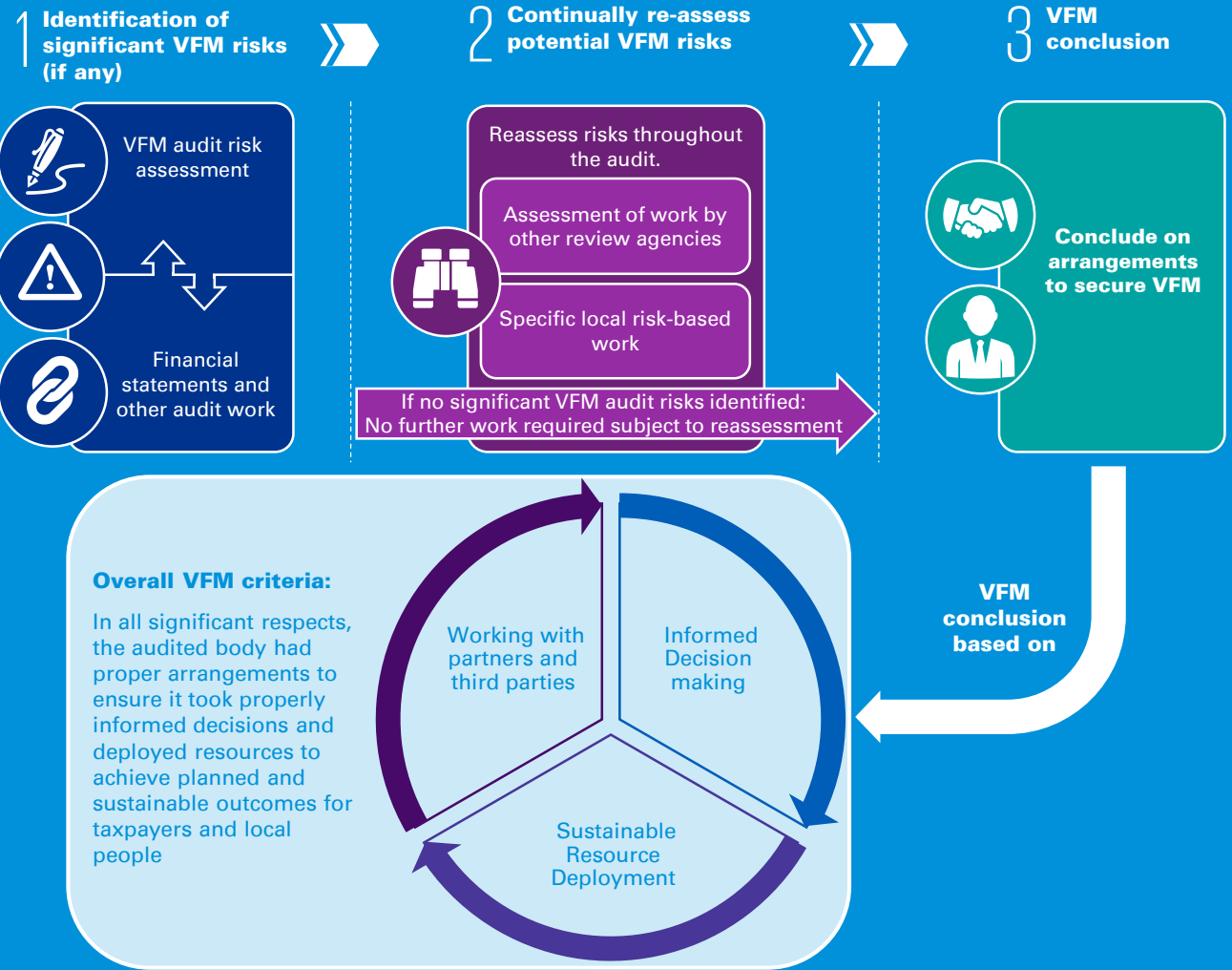
Our 2017-18 VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

We follow a risk based approach to target audit effort on the areas of greatest audit risk.





# Specific value for money risk areas (cont.)

The table below summarises our assessment of the Council’s overall VFM arrangements.

Overall VFM conclusion	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Overall arrangements	✓	✓	✓

In line with the risk-based approach set out on the previous page, and in our External Audit Plan we have:

- Assessed the Council’s key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Council, inspectorates and review agencies in relation to these risk areas.

## Key findings

Having completed our detailed planning work, we did not identify any significant risks to our VFM conclusion.

In concluding this, we particularly considered the following key elements:

- The Council’s approach to medium term financial planning. The 2020 North Yorkshire Council Plan sets out the Council’s strategy for delivering against the significant financial challenges. The Council has a clear strategy for delivering against the significant financial challenges. These challenges are reported and monitored in the corporate risk register and the Council is clearly devoting significant resources to putting in place mitigating arrangements to manage those risks. The challenges and risks are significant for the medium term, but from our review we are satisfied that the Council has arrangements in place to respond to these challenges, and we have no issues to report. At the end of 2017/18 the Council’s General Fund balance was £27.3m and usable reserves earmarked for specific purposes were £186.4m. The Council’s 2018/19 financial plan assumes the use of £3.7m of reserves to balance the budget, and includes a savings requirement of £15.5m. Over the medium term period 2018/19 to 2021/22 the Council’s financial plan is based on delivering £44m of savings. In the 2018/19 budget the Council reported that £10.7m of this £44m was yet to be identified and was a savings gap.
- The Council’s approach to partnership working. This year has been a challenging year with regards to working with local NHS organisations, but the Council has adequate arrangements to deliver services and apply the ‘improved Better Care Fund’ in working with local partner organisations. The Council is aware of the significant challenges and risks with this closer integration, and we are satisfied that the Council’s arrangements to manage these challenges are appropriate and adequate.
- Governance arrangements. The Council continues to deliver change programmes designed to address the financial and operational challenges in the medium term. In addition it continues to be innovative in considering the opportunities to strengthen its financial position, for example in identifying potential significant revenue savings from paying its employer pension contributions in advance. From our review of the arrangements in place, we are satisfied that the Council has continued to have in place appropriate governance arrangements to support effective decision making.

We have also considered the Council’s recent focused Ofsted inspection, which is due to be reported in July 2018.

# Specific value for money risk areas (cont.)

## **Overall conclusion**

In consideration of the above, we have concluded that in 2017-18, the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

# Appendices



# Key issues and recommendations

Our audit work on the Council’s 2017-18 financial statements has two low priority issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Council should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	<b>Priority One:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	<b>Priority Two:</b> Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	<b>Priority Three:</b> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
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No.	Risk	Issue & Recommendation	Management Response
1	3	<b>Retention of payroll reconciliation evidence</b> <i>Risk</i> Our testing identified that the Council only retains evidence that it has reconciled the payroll system to the general ledger system for 3-4 months. Not retaining evidence that key reconciliations have been carried out increases the risk that the Council cannot assure itself that the controls have operated throughout the year. <i>Recommendation</i> Retain evidence that the reconciliation of the payroll system to the general ledger system has been carried out for the full financial year.	The County Council agrees to retain evidence that the payroll system has been reconciled to the general ledger system for the full financial year. <i>Responsible Officer</i> Senior Accountant Statutory Accounts <i>Implementation Deadline</i> July 2018
2	3	<b>Timely completion of bank reconciliations</b> <i>Risk</i> Our testing identified that the June & July 2017 bank reconciliations were not completed. The August 2017 reconciliation covered all three months. Not promptly completing the bank reconciliations increases the risk that irregularities are not identified and corrected swiftly. <i>Recommendation</i> Ensure that bank reconciliations are completed promptly after the month end.	The County Council agree to ensure that bank reconciliations are completed promptly after the month end. <i>Responsible Officer</i> Senior Accountant Statutory Accounts <i>Implementation Deadline</i> July 2018



# Follow-up of prior year recommendations

The Council has implemented the recommendation raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our External Audit *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were

Included in the original report	1
Implemented in year or superseded	1
Outstanding at the time of our interim audit	0

No	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	2	<p><b>Fixed asset register</b></p> <p>As part of the year-end closedown processes the Council's Fixed Asset Register, which generates the Property, Plant &amp; Equipment accounting entries contained a number of errors, including:</p> <ul style="list-style-type: none"><li>• Duplicate assets, for example where schools had merged, had not been removed;</li><li>• De-commissioned assets had not been revalued and recategorised as Surplus Assets;</li><li>• The valuation of assets subject to a 'desktop' revaluation in year had not been calculated using the correct formula; and</li><li>• Accumulated depreciation relating to assets disposed of in year had not been correctly removed.</li></ul> <p><b>Recommendation</b></p> <p>Ensure that the quality assurance of the financial statements includes a review of the fixed asset register to ensure that all errors and omissions are identified during the closedown period.</p>	<p><b>Management Response</b></p> <p>Accepted</p> <p>The methodology by which the desktop revaluations are applied to fixed assets has been corrected. Additional measures will be implemented, as part of the closedown preparatory process and actual closedown timetable, to ensure fixed assets which have been de-commissioned, merged or re-categorise are fully identified with assistance from the Property Team and their accounting treatment amended accordingly.</p> <p><b>Responsible Officer</b></p> <p>Senior Accountant – Capital &amp; Treasury Management</p> <p><b>Implementation Deadline</b></p> <p>31 May 2018</p>	<p>Our testing of the Council's Fixed asset register in 2017/18 did not identify any of the issues identified in 2016/17 and we have concluded that the recommendation has been implemented.</p>

# Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements.

## Adjusted audit differences – Council

The following table sets out the significant audit differences identified by our audit of North Yorkshire County Council’s financial statements for the year ended 31 March 2018. These have been adjusted by the Council.

Table 1: Adjusted audit differences – Council (£’000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Cost of Services Expenditure £16,798	Cr Adjustments between accounting and funding basis (£16,798)	Cr Short Term Debtors (£16,798)		Dr Pension Reserve £16,798	Pension deficit lump sum payment corrections, removing the prepayment from Current Assets and increasing the (negative) Pension Reserve
2			Cr Property, Plant & Equipment (£49,096)	Dr PFI Liability £49,096		Removing the operator third party income from the value of the PFI Waste Treatment Plant asset and related liability
3			Dr Property, Plant & Equipment £2,666		Cr Revaluation Reserve (£2,666)	Including the revaluation of two Council buildings which had been omitted from the Fixed Asset Register
	£16,798	(£16,798)	(£63,228)	£49,096	£14,132	Total impact of adjustments

## Unadjusted audit differences

There were no significant audit differences which were not adjusted by the Council.

Appendix 3:

# Audit differences (cont.)

Adjusted audit differences – Pension Fund

The following table sets out the significant audit differences identified by our audit of North Yorkshire Pension Fund’s financial statements for the year ended 31 March 2018.

Table 3: Adjusted audit differences – Pension Fund (£’000)

No.	Fund Account	Assets	Liabilities	Reserves	Basis of audit difference
1	Cr Contributions – Deficit (£25,375)		Dr Non Investment Creditors £25,375		Deficit payments made by Scheduled bodies in the year should be accounted for as Contributions and not included as a ‘receipt in advance’.
2	Dr Returns on Investments £55	Cr Investment Assets (£55)			The private equity institution has been wound up, the Council’s investment has been revalued from £55k to Nil.
	£25,430	(£55)	£25,375		Total impact of adjustments

Unadjusted audit differences

There were no significant audit differences which were not adjusted by the Pension Fund.

# Audit differences (cont.)

## Presentational adjustments - Council

We identified a number of presentational adjustments required to ensure that the Council’s financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (‘the Code’).

Whilst the majority of these adjustments were not significant, we identified a some adjustments of a more significant nature and details of these are provided in the following table.

Table 5: Presentational adjustments – Council

No.	Basis of audit difference
1	The Council has amended the entries in the Cash Flow Statement to reflect the actions agreed in 2015/16 relating to the treatment of capital creditors and debtors in the Statement.
2	The Council has disclosed an additional Post Balance Sheet Event (Note 37) relating to the impact of the fire at Sherburn High School.
3	The Audit Fees (Note 11) has been amended to more accurately reflect the elements of the fee paid by the Council and the rebate received from Public Sector Audit Appointments.

## Presentational adjustments – Pension Fund

We also identified a number of presentational adjustments required to ensure that Pension Fund’s financial statements for the year ending 31 March 2018 are fully compliant with the Code.

The following table sets out those presentation adjustments relating to the Pension Fund’s financial statements that are considered to be significant.

Table 6: Presentational adjustments – Pension Fund

No.	Basis of audit difference
1	Financial instruments disclosure of the Hierarchy of Investment Assets (Note 16a) has been amended to more accurately reflect the assets at Levels 1, 2 and 3.
2	The Pension Fund have included a Post Balance Sheet Event (Note 6) disclosure to reflect its participation in the Border to Coast pension pooling arrangement from 2018/19.



# Materiality and reporting of audit differences

**The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.**

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in March 2018.

Materiality for the Council's accounts was set at £15 million which equates to around 1.4 percent of gross expenditure. Materiality for the Pension Fund accounts was set at £25 million, which equates to around 0.7 percent of Net Assets. We design our procedures to detect errors in specific accounts at a lower level of precision.

## **Reporting to the Audit Committee**

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Council and Pension Fund, an individual difference is considered to be clearly trivial if it is less than £0.75 million for the Council and £1.25 million for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Appendix 5:

# Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	<p>We have identified 3 adjusted audit differences with a total value of £68.1 million. See Appendix 3 for details. These adjustments result in a net increase of £16.8 million in the reported deficit on provision of services. See page 16 for further details.</p> <p>Our audit of the Pension Fund identified 1 adjusted audit difference with a total value of £25.4 million. See Appendix 3 for details. These adjustments result in a net increase of £25.4 million in the reported Net Assets of the fund. See page 18 for details.</p>
Unadjusted audit differences	There are no unadjusted audit differences.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<p>We have set out our assessment of the Council's internal control environment, including confirmation that there were no significant deficiencies identified, in Section One of this report (see pages 4 and 5).</p> <p>We have reported two deficiencies in internal control of a lesser magnitude than significant deficiencies in Section One of this report.</p>
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Council's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

# Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



# Declaration of independence

## **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTH YORKSHIRE COUNTY COUNCIL AND NORTH YORKSHIRE PENSION FUND**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to the audit of North Yorkshire Pension Fund and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is an Audit Director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

# Declaration of independence (cont.)

## Independence and objectivity considerations relating to the provision of non-audit services

### Summary of fees

We have considered the fees charged by us to the Council and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Council	94,490	94,490
Audit of the Pension Fund	24,943	24,943
Additional work for IAS19 assurance to other scheduled bodies	4,996 (a)	4,996
Audit of controlled entities		
– Align Property Partners Ltd	7,250	8,500
– Brierley Homes Ltd	3,500	0
<b>Total audit services</b>	<b>135,179</b>	<b>132,929</b>
Allowable non-audit services		
– Withholding tax claims by the Pension Fund	750	17,750
Audit related assurance services		
– Teachers' Pension Return assurance report	3,500	3,500
<b>Total Non Audit Services</b>	<b>4,250</b>	<b>21,250</b>

- (a) The additional fee for IAS19 assurance to other scheduled bodies in the East Riding Pension Fund is undertaken under the Public Sector Audit Appointments (PSAA) approach. The fees for 2017/18 are still subject to approval by PSAA.
- (b) The fee for the certification work on the Housing Benefit Grant Claim is indicative based on the fees set by Public Sector Audit Appointments. This work will complete by the end of November 2018.

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Council under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.03:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.



# Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Withholding tax claims filed by the Pension Fund	<p>KPMG carry out tax services in relation to EU Law based withholding tax reclaims, by filing the claims for the Pension Fund. While this work is no longer permitted under the extant ethical standards, under the 'grand-fathering' provisions of the current standards, work already underway and contractually committed was permitted to be completed. This work has been underway for a number of years and the fees in 2017/18 reflect the work carried out through the engagement.</p> <p>The work is being carried out by KPMG's tax department, operating under a different managerial structure than the external audit. No members of the audit team have been involved in any of the tax work, and vice versa. We have assessed the self review, management threat, familiarity, advocacy and intimidation threats to this work and its impact on our external audit. We are satisfied that this work does not impact on our auditor independence and the internal safeguards are appropriate.</p>	Fixed Fee	750	0
Audit-related assurance services				
Teachers Pensions Return assurance report	<p>Self-interest: This engagement is separate from the audit through a separate contract. Fee rates are low and they are not contingent on any outcomes from the assurance work.</p> <p>Self-review: The work provides an independent assurance report to the external body. This does not impact on our audit responsibilities and there is no threat of our work being reviewed through our audit.</p> <p>Management threat: This work provides a separate assurance report and does not impact on any management decisions.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work.</p> <p>Advocacy: We will not act as advocates for the Council in any aspect of this work.</p> <p>Intimidation: not applicable to these areas of work</p>	Fixed Fee	0	3,500

# Declaration of independence (cont.)

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

## **Independence and objectivity considerations relating to other matters**

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

## **Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

**KPMG LLP**

# Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit of the Council is £94,490 plus VAT and £24,943 plus VAT for the audit of the Pension Fund. These fees are the same as the previous year.

We will again be requesting an additional fee of £4,996 (2016/17: £4,996 relating to the additional work we carry out as the auditor of the Pension to respond to requests for assurance from the auditors of other scheduled bodies to the Pension Fund. This is subject to PSAA’s determination and approval.

Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £3,500 plus VAT (£3,500 in 2016/17), see further details below.

Component of the audit	2017-18 Actual Fee £	2016-17 Actual Fee £
<b>Accounts opinion and value for money work</b>		
PSAA Scale fee (North Yorkshire County Council)	94,490	94,490
PSAA Scale fee (North Yorkshire Pension Fund)	24,943	24,943
Additional fee in relation to providing IAS19 assurance to other scheduled bodies in the Pension Fund	4,996 (a)	4,996
<b>Total audit services</b>	<b>124,429</b>	<b>124,429</b>
<b>Allowable non-audit services</b>		
Pension Fund Tax withholding work	750	17,750
<b>Total allowable non-audit services</b>	<b>750</b>	<b>17,750</b>
<b>Audit-related assurance services</b>		
Teachers’ Pension Return (work planned for September 2018)	3,500	3,500
<b>Total audit-related assurance services</b>	<b>3,500</b>	<b>3,500</b>
<b>Total non-audit services</b>	<b>4,250</b>	<b>21,250</b>
<b>Grand total fees for the Council</b>	<b>128,679</b>	<b>145,679</b>

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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