ITEM 12

Deloitte.

North Yorkshire County Council

Planning report to the Audit Committee for the year ending 31 March 2019

26 February 2019

Contents

Partner introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee for the 2019 audit. I would like to draw your attention to the key messages of this paper:

Audit Plan	• We have completed our handover with KPMG, including review of their prior year file. • We are developing our understanding of the Council through discussion with management and review of relevant documentation from across the Council. • Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk. • The audit plan for the North Yorkshire Pension Fund will be provided separately.
Key risks	• We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.
Regulatory change	• Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.

Paul Thomson
Lead audit partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy.

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.
- Consider annually whether the scope of the internal audit programme is adequate.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters and prepared our risk assessment for the audit and we will continue to keep this under review throughout the audit process.

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

More detail is given on page 6.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Determine materiality

We have determined a preliminary materiality for the Group and Council only of £20.2m and £19.9m respectively. This is based on 2% of gross expenditure. We will report to you any misstatements above £1m. We will report to you misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

We have identified significant audit risks in relation to the Council. More detail is given on pages 11 to 16.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of North Yorkshire County Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the remuneration report and annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.
To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

We then provide a conclusion on these arrangements as part of our final reporting to you.

Group audit

We are undertaking our scoping of the components for the Group audit and will communicate directly with component auditors in relation to any work that we require them to carry out to support our audit opinion on the group accounts. In the prior year the auditors considered the following to be the significant subsidiary companies in the context of the group audit:

- Nynet Limited; and
- Yorwaste Limited.

We will notify the committee of any changes once we have completed our scoping and will reassess the significance of the subsidiaries throughout our audit.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures (including consideration of the recent CIPFA publication on streamlining local government accounts), as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim	Year end fieldwork	Reporting activities
Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. Develop an understanding of key business cycles and changes to financial reporting. Review of key Council documents including Cabinet, Council and Audit Committee minutes.	Document design and implementation of key controls and update understanding of key business cycles. Substantive testing of limited areas including fixed asset additions, expenditure, payroll, certain areas of income. Update on value for money responsibilities. Scoping of components for the group audit.	Substantive testing of all areas. Finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks.	Year-end closing meetings. Reporting of significant control deficiencies. Signing audit reports in respect of Financial Statements. Whole of Government Accounts reporting. Issuing Annual Audit Letter.
Verbal update to the Audit Committee	2018/19 Audit Plan	Final report to the Audit Committee	Any additional reporting as required
December 2018	**February-March 2019**	**June-July 2019**	**July-August 2019**

Ongoing communication and feedback

Materiality

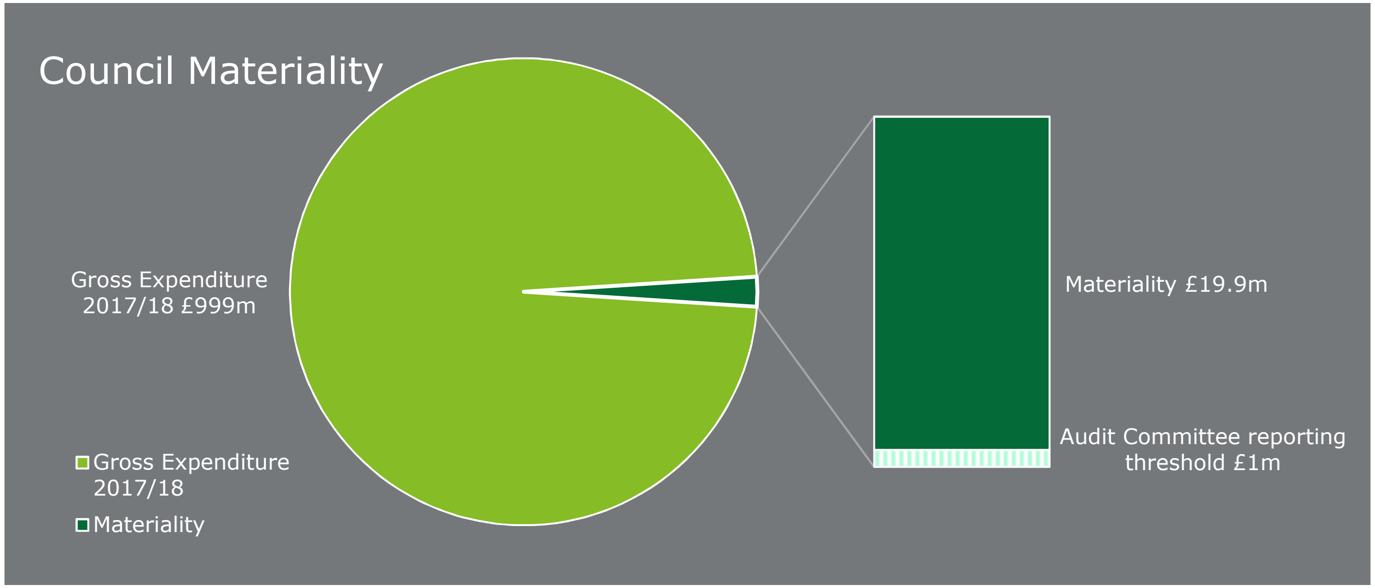
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined preliminary materiality for the Group as £20.2m and the Council as £19.9m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements. We will communicate the other component materialities to the committee once we have completed our group assessment.
- We have used 2% of gross expenditure based on the 2017/18 audited accounts as the benchmark for determining our preliminary materiality.
- We will re-visit the determined materiality based on the actual reported year end position.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £1m.
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the Audit Committee in their previous Audit Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Principal risk and uncertainties

- Implementation of 2020 North Yorkshire Change Programme
- Resource management
- Information governance
- Devolution
- Ability to secure commercial opportunities
- Underachievement of savings
- Health & Safety

IAS 1 Critical accounting estimates

- Future funding levels
- Property valuations
- Recognition of schools fixed assets
- Pension liabilities
- Valuation of investments
- Provisions and contingencies
- Accounting for grant income
- Classification of leases

Changes in your business and environment

- Continued overspends in Children & Young People's Services;
- Increasing income generation from more commercial activities;
- Purchase of a range of investment assets; and
- Brexit.

NAO – Auditor Guidance Note 06

The National Audit Office has identified going concern, new accounting standards (IFRS15 and IFRS 9) and the guaranteed minimum pension as key issues for 2018-19. Whilst we do not consider these to represent significant risks we will carefully review the approach being taken by the Council to address these issues.

The next page summarises the significant risks that we will focus on during our audit. Of the significant risks identified in the prior year by KPMG we consider all the risks to be relevant in the current year except for their risks in relation to faster close and the accounting treatment of the Allerton Waste Recovery asset as they related to matters specific to the prior year rather than ongoing issues. We have also included expenditure as a new significant risk.

Significant risks

Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
Completeness and Cut off of expenditure	✓	✓	D+I	⚠	✓	12
Property Valuations	✓	✗	D+I	⚠	✓	13
Pension Liabilities	✓	✗	D+I	⚠	✓	14
Management Override of Controls	✓	✓	D+I	⚠	✗	15

At the planning stage we have not identified any significant Value for Money risks.

D+I: Assessing the design and implementation of key controls

⚠ Low level of management judgement ⚠ Moderate level of management judgement ⚠ High level of management judgement

Significant risks

Risk 1 – Completeness and cut-off of expenditure

Risk identified	Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that a fraud risk lies with the completeness and cut-off of expenditure (as well as management override of controls as detailed on page 15). We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed. There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position.
Our response	Our work in this area will include the following: • We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed); • We will perform focused testing in relation to the completeness and cut-off of expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and, • We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded expenditure.

Significant risks

Risk 2 – Property Valuations

Risk identified	The Council held £864m of property assets at 31 March 2017 which increased to £1,009m as at 31 March 2018. The increase was in part due to additions of £171m offset by £82m of disposals, and upwards revaluations of £56m as a result of the Council undertaking a valuation exercise during 2017/18. 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. Furthermore the Council will complete the valuation as at the 1 April 2018 and any changes to factors used in the valuation process could materially affect the value of the Council's assets as at year end. There is therefore a risk that that the value of property assets materially differ from the year end fair value.
Our response	Our work in this area will include the following: • We will test the design and implementation of key controls in place around the valuation of property; • We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis, by suitably qualified individuals, using appropriate inputs and that appropriate consideration and adjustment has been made to ensure that the valuation as at the valuation date is valid at the year end; • We will review the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated; • We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values between April 2018 and Year end; and • We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Significant risks
Risk 3 – Pension Liabilities

Risk identified	The net pension liability is a material element of the Council’s balance sheet. The council is an admitted body of the North Yorkshire Pension Fund. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council’s overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council’s valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council’s employees, and should be based on appropriate data. 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 the net pension liability accounted for in the financial statements.
Our response	Our work in this area will include the following: • We will obtain an understanding of the design and implementation of the key controls in place in relation to review of the assumptions by the Council and over information sent to the Scheme actuary; • We will evaluate the competency, objectivity and independence of the actuarial specialist; • We will review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assesment of the variables used; • We will engage with the Deloitte Pension Fund audit team to gain further assurance over the completeness and accuracy of pension data provided to the Pension Fund; • We will review the pension related disclosures in the financial accounts; and, • We will consider the valuation of pension assets.

Significant risks

Risk 4 – Management override of controls

Risk identified	In accordance with ISA 240 (UK) management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of expenditure, Pension valuations and the Council’s property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will test the design and implementation of key controls in place around journal entries and key management estimates; • We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on characteristics which we consider to be of increased interest; • We will review accounting estimates on both an individual and cumulative level for biases that could result in material misstatements due to fraud; and, • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Value for Money

Risk assessment

We are required to be satisfied the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Under the guidance issued by the National Audit Office, we are required to perform a risk assessment to identify any potential areas of significant risk to value for money that require further substantive work to be performed. Whilst we have not identified any significant risks at this time our assessment remains ongoing and, in particular, we will consider the Council's delivery against its savings targets:

Financial Sustainability

The Council expects that it will be required to deliver £40.3m of savings between 2019/20 and 2021/22, while currently proposals for £26.3m have been identified, there is an additional £14m which will need to be covered. Achievement of savings will play an important role in the Council's ability to meet its plan.

We will monitor the Council's financial performance throughout the year and achievement of savings, as well as the governance structures that are in place to support delivery of savings.

In addition to monitoring the above key area our continuous risk assessment will cover the areas noted below.

Our response

Our work in this area will include:

- Interviews with Director of Finance, and senior operational staff as required;
- Review of the Council's draft Annual Report, Annual Governance Statement and Council papers and minutes;
- Consideration of issues identified in our financial statements audit work;
- Consideration of the Council's financial results, including delivery of savings, and the Council's plan; and
- Review of any reports from regulators e.g. Ofsted, issued in the year.

We have not currently identified any significant VfM risks.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our audit plan, includes our consideration of key audit judgements and our planned scope.

Use of this report

This report has been prepared for the Audit Committee on behalf of the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Leeds | 26 February 2019

Appendices

Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as key audit risks for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
Fees	There are no non-audit fees for 2018/19.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	72,757
Total audit	**72,757**
Audit related assurance services	-
Total assurance services	**-**
Total fees	**72,757**

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.

North Yorkshire Pension Fund

External audit plan 2019

26 February 2019

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Partner introduction
The key messages in this report:

I have pleasure in presenting our inaugural Planning Report to the Audit Committee for the 2019 audit of the North Yorkshire Pension Fund ("the Fund"). I would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

Key developments

As part of our audit planning procedures we have held planning meetings with key members of management. Additionally, we have reviewed the prior year audit files held by KPMG and will use this as part of our opening balances audit procedures. Key developments have been:

- The transfer of assets to 3 new unit linked investment mandates with Leadenhall totaling c. £160m. We will test the valuation of these at the year end as well as reviewing the key controls around valuation within any available controls report released by Leadenhall.
- The investment of a further c.£160m in cash (disinvested from equities) held with the North Yorkshire County Council Treasury Management.
- The full disinvestment, c.£170m, from the Standard Life GARS mandate.

We are also aware of the ongoing discussions around the transfer of Fund assets to the Border to Coast Pension Partnership pension pool. We will factor this into our audit if this takes place prior to the year end.

Significant audit risks

As we continue to accumulate knowledge of the Fund we have created our risk assessment so that our plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

Our significant audit risk will be management override of controls.

Auditing Standards require us to assume that management override and revenue recognition are significant risks for all our audits.

We have rebutted the risk of revenue recognition within the Fund as we consider that there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud.

Please refer to page 12 for full details.

Partner introduction
The key messages in this report (continued)

Our response to the audit quality objectives in respect of the Fund are detailed below:

Our audit quality is managed by using dedicated pension scheme audit specialists. This is supplemented by appropriate specialists such as IT. This structure allows us to challenge key judgements taken in the preparation of the financial statements.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management.

Other audit focus areas	Although they have not been assessed as significant risks, our other main focus areas during the audit will be: 1. completeness and accuracy of contributions; and 2. completeness and valuation of investments. Please refer to pages 14-15 for full details.

Paul Thomson
Audit Partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of audit committees has significantly expanded. We set out here a summary of the core areas of audit committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee ('Committee') in fulfilling its remit.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness and consistency of disclosures.

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Fund

Identify changes in your entity and environment

Following our planning meetings with, we have highlighted key developments on page 3. Our audit approach to key account balances is discussed on pages 11 to 15.

Scoping

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement and leads to the identification of our significant audit risk highlighted on page 3.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Determine materiality

For the 2019 audit we estimate financial statement materiality of £33m. These figures are based on the 31 March 2018 signed financial statements. See page 9 for further details on how we established our materiality.

Significant risks assessment

Based upon our interaction with management and knowledge of the Fund and the industry, we have identified our significant audit risk for the 2019 audit and highlighted this on pages 3. This is discussed in more detail in this report on page 12.

Quality and Independence

We confirm we are independent of North Yorkshire Pension Fund. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the interim and final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.

Planning	**Visits prior to year end fieldwork**	**Year end fieldwork**	**Post reporting activities**
• Planning discussions • Discussion of fraud risk assessment • Audit team presents planning report to the Committee	• Document design and implementation of key controls and update understanding of key business cycles • Substantive testing of limited areas including benefits, contributions and expenditure	• Audit of Financial Statements • Year-end audit field work visit to NYPF • Year-end closing meetings with management • Completion of testing on significant audit risks	• Presentation of report and attendance at Committee meeting • Audit of Annual Report • Audit de-brief on the 2019 audit • Reporting of significant control deficiencies • Signing audit reports in respect of Financial Statements • Planning considerations for 2019 audit
2019 Audit Plan	Verbal update	Final report to the AC	Any additional reporting as required
October 2018 – February 2019	**February –March 2019**	**May – June 2019**	**July - September 2019**

Ongoing communication and fortnightly calls during the year end fieldwork phase

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Committee's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

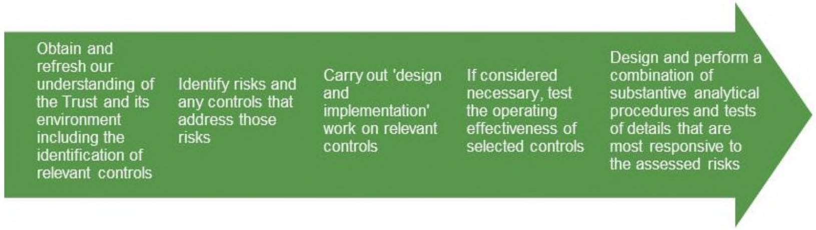
We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Fund's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.



Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Fund completes the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Materiality

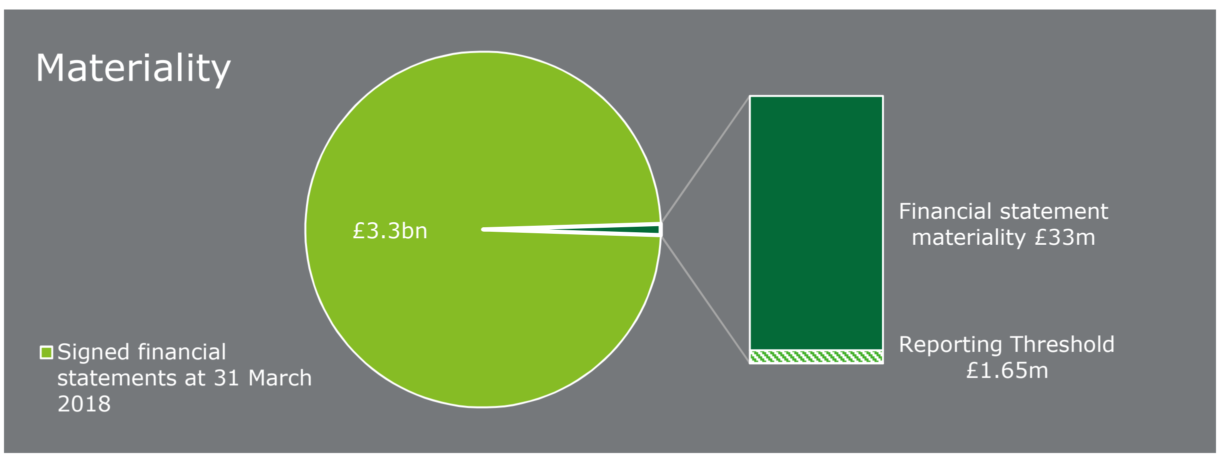
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has estimated financial statement materiality as £33m based on professional judgement, the requirement of auditing standards and the net assets of the Fund.
- We have used 1% of Fund net assets as at 31 March 2018 as the benchmark for determining our materiality levels.
- Note, as a result of any lower materiality that may be required for the provision of IAS 19 assurance letters. Our final materiality may be capped below the benchmark in this slide.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of financial statement materiality. We will report to you misstatements below this threshold if we consider them to be material by nature.
- We will determine materiality figures for the 31 March 2019 audit, and report them to those charged with governance on receipt of the draft 2019 financial statements.



Although materiality is the judgement of the audit partner, the Audit Committee members must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scoping
Risk dashboard

Risk	Material /pervasive	Fraud risk	Planned approach to controls	Level of management judgement	Use of Specialist?	Slide no.
Management override of controls	✓	✓	D+I	⚠	✓	12
Completeness and valuation of investments	✓	✗	D+I	⚠	✗	14
Completeness and accuracy of contributions	✓	✗	D+I	⚠	✗	15

Risks identified as significant are bold in the table above.

⚠ Low levels of management judgement/involvement

⚠ Medium levels of management judgement/involvement

⚠ High degree of management judgement/involvement

D+I: Assessing the design and implementation of key controls
OE: Testing of the operating effectiveness of key controls

Significant audit risks

Significant risk
Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte response management override of controls risk identified

In order to address the significant risk our audit procedures will consist of the following:

- Using Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Performing a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Testing the design and implementation of controls around the journals process and investment and disinvestment of cash during the year;
- Reviewing of related party transactions and balances to identify if any inappropriate transactions have taken place; and
- Reviewing the accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.

Audit focus areas

Audit focus areas

Completeness and valuation of investments

Risk identified

The Fund holds a large and highly material portfolio of investments and due to the ongoing changes and numerous transactions within this portfolio, there is considered an increased risk of material misstatement.

Additionally, within this portfolio is a range of alternative investments, including c.£160m invested with Leadenhall during the Fund year. These funds do not have publicly available prices and are often infrequently priced increasing the risk of stale pricing.

As a result of this we consider the completeness and valuation of these to be an area of audit focus.

Response of those charged with governance

The Fund appoints various investment managers and BNYM as custodian for these investments. These parties have strong control environments in place.

Deloitte response to the risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agree the year end valuations as reported in the financial statements to the reports received directly from the investment managers;
- Agree the year end holdings as reported in the financial statements to the reports received directly from the custodian;
- Agree registered funds and directly held investments to publicly available prices;
- Perform independent valuation testing for a sample of year end alternative investment holdings by rolling forward the valuation as per the latest audited account using cashflows and an appropriate index as a benchmark;
- Ensure appropriate stale price adjustments have been posted to the financial statements;
- Test the completeness of investments by agreeing a sample of sales and purchases transactions to the investment manager confirmations and to the bank statements; and
- Perform a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year, (i.e. sales, purchases, change in market value).

Audit focus areas

Completeness and accuracy of contributions

Risk identified

There is some complexity surrounding the accuracy and completeness of employee and employer contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay, this can vary month to month and the Fund has no oversight of the individual employer payrolls.

As a result of this we would expect the accuracy, timeliness and completeness of contributions to be an area of audit focus.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Deloitte response to the risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- Consider the design and implementation of key controls over the contribution process;
- Perform an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- Tie a sample of employer contributions received during the year back to the contribution rates stipulated by the 31 March 2016 actuarial valuation; and
- For a sample of active members across the Fund, we will recalculate individual contribution deductions to confirm that these were calculated in accordance with the rates stipulated in the by the LGPS and the 31 March 2016 actuarial valuation.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory updates, relevant to you

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

Our technical updates provide the Audit Committee with some insight in to relevant topical events in the pensions industry.

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

Paul Thomson

for and on behalf of Deloitte LLP

26 February 2019

Appendix 1: Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risk section of this document, we have identified the management override of controls as the key audit risk for the Fund.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.]
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

The Committee

- How the Audit Committee exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Audit Committee on the most significant fraud risk factors affecting the entity.

Appendix 2: Independence and fees
A Fair and Transparent Fee

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Committee for the year ending 31 March 2019 in our final report to the Committee.
Fees	Our audit fee for the year ending 31 March 2019 is £19,206* for the Fund. The above fees exclude VAT and include out of pocket expenses.
Non audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

* This fee excludes the cost of providing IAS 19 letters to other local authority's that will be recharged by the Fund to the other local authorities. This fee is in the process of being quantified and will be discussed with management.

Appendix 3: Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.