



**Annual Audit Letter on the  
2018/19 External Audit**  
North Yorkshire County Council and  
North Yorkshire Pension Fund

October 2019

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# 1. Letter to Members

The Members  
North Yorkshire County Council  
Oakroyd Hall  
Bradford Road  
Birkenshaw  
BD11 2DY

23 October 2019

Dear Sirs

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of both the North Yorkshire County Council ("the Authority") and North Yorkshire Pension Fund ("the Fund") for the year ended 31 March 2019.

Although this letter is addressed to the Members of North Yorkshire County Council ("the Authority"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Public Sector Audit Appointments Ltd (PSAA) website at [www.psaa.co.uk](http://www.psaa.co.uk) and on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from [www.psaa.co.uk](http://www.psaa.co.uk).

This letter has been discussed and agreed with the Corporate Director of Strategic Resources. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Authority following the transition of the PSAA contract in 2018/19. We would like to take this opportunity to thank you for your assistance and co-operation during this year's external audit. Our aim is to provide a high standard of audit, delivering insights identified from our audit work to make a positive and practical contribution, which supports the Authority's own agenda.

Paul Thomson  
Audit Partner  
for and on behalf of Deloitte LLP  
Leeds, United Kingdom

## 2. Key Messages

Statement of Accounts	
<b>Unqualified opinion issued on 31 July 2019</b>	<p>In 2018/19 the Authority and Fund were required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”) as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>The Statement of Accounts was prepared and audited in accordance with the agreed timetable. The Authority continued to achieve a good standard of financial reporting.</p> <p>Through our audit planning activity we identified one significant risk of material misstatement relevant to both the Authority and Fund and three significant risks relevant to the Authority which we addressed through our audit. These were: management override of control (Authority and Fund), valuation of pension liabilities (Authority), valuation of property assets (Authority) and completeness and cut off of service line expenditure (Authority). Additionally for the Fund audit we identified other areas of audit focus in relation to the completeness and valuation of investments and the completeness and valuation of contributions.</p> <p>Materiality for the Authority’s accounts was set at £20.7m, and for the Group accounts at £20.8m.</p> <p>Materiality for the Fund’s accounts was set at £23.1m.</p> <p>We issued our audit opinions on the financial statements of the Authority and Fund on 31 July 2019. Our opinions were not qualified.</p>
Value for Money (VfM) conclusion	
<b>Unqualified opinion issued on 31 July 2019</b>	<p>We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office, namely whether the Authority has in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>We issued an unqualified opinion in respect of the VfM conclusion on 31 July 2019.</p>
Audit findings	
<b>Weaknesses in internal control were identified</b>	<p>During our audit of the Authority and Fund we identified a small number of areas for improvement in internal controls and procedures including three recommendations relating to the areas of significant risk which are detailed below.</p>

## Independence and Objectivity

### Independence and objectivity

An analysis of audit fees for the year ended 31 March 2019 is shown in Section 6 of this letter.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

## 3. Responsibilities and Scope

### Responsibilities of the Authority and Auditors

The Authority and Fund are responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Authority's and Fund's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Authority's and the Fund's accounts; and
- evaluating whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM" conclusion).

### The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the VFM conclusion in line with guidance issued by the National Audit Office in November 2017.

## 4. Audit of the Accounts

Statement of Accounts	
<b>Unqualified opinion issued on 31 July 2019</b>	<p>We issued an unqualified opinion on the Authority's and Fund's 2018/19 accounts on 31 July 2019.</p> <p>Before we give our opinion on the accounts, we are required to Report to Those Charged with Governance (here the Audit Committee) any significant matters arising from the audit. A detailed report was discussed with the members of the Audit Committee on 22 July 2019.</p>
<b>Materiality</b>	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Authority's accounts was set at £20.7m which equated to 2% of estimated gross expenditure at the planning stage of the audit. Our materiality for the Group Accounts was set at the slightly higher level of £20.8m. This benchmark was chosen as the Authority is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>For the audit of the Fund's accounts our materiality was set initially at £35.7m based on 1% of net assets and subsequently reduced to £23.1m to support the provision of the assurance letters required by the auditors of the other admitted bodies to the pension fund.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £1m for the Authority and £0.3m for the Fund, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements.</p> <p>The final Authority Statement of Accounts upon which we issued our opinion contained three residual errors which remained unadjusted, these are set out in more detail below. For the Fund Statement of Accounts there were 2 residual unadjusted errors and one disclosure deficiency, which are also detailed below.</p>
<b>Significant Risks</b>	<p>Our audit work was designed to specifically address the following significant audit risks which are presented in further detail below. Significant audit risks are the areas deemed to be those with the greatest potential of being materially incorrect in the financial statements and are therefore areas of greater focus for the audit team.</p> <p>Our audit work was designed to specifically address the following significant audit risks:</p> <ul style="list-style-type: none"> <li>• <b>Whether property subject to revaluation in the year had been correctly stated</b> – We obtained an understanding of the key controls in place around the revaluation of the Authority's property and performed detailed testing of the revalued assets including seeking the view of our internal valuation specialists as to whether the methodology employed by the Authority appeared reasonable. Our work identified one misstatement,</li> </ul>

<b>Statement of Accounts</b>	
	<p>the detail of which is included below. We also raised two recommendations, one concerning the how the movements in individual assets which have been revalued in year are used to assess any required change in valuation for other assets within the same category and the other being that there should be formal documentation of the Finance team’s review of the valuation figures provided by the valuers.</p> <ul style="list-style-type: none"> <li>• <b>Whether the value of pension liabilities had been correctly stated</b> - We obtained an understanding of the key controls in place in relation to the assumptions used by the Authority and over information sent to the Scheme actuary. We performed detailed testing of the pension assets, the membership data and the contributions paid to the scheme as well as having our internal pensions specialists review the assumptions and methodology used by the Actuary. Particular challenges faced by the Authority in 2018/19 related to assessing the impact on the reported pension liabilities from GMP equalisation and the recent McCloud legal judgement. Based on our work two judgemental differences were identified, the details of which are included below. We did not raise any additional recommendations in relation to this risk.</li> <li>• <b>Whether the Authority’s or Fund’s controls had been bypassed by management in the preparation of the financial statements (Management override of controls)</b> - We obtained an understanding of the key controls in place around journal entries and judgements made in the preparation of the financial statements. Using Computer Assisted Auditing Tools we identified a number of journals which exhibited characteristics of audit interest and performed detailed testing on these journals. We also reviewed the key accounting judgements for bias. Whilst our work did not identify any errors requiring correction we did raise a recommendation concerning the process for reviewing and approving journals at both the Authority and the Fund.</li> <li>• <b>Whether the Statement of Accounts contained all of the expenditure relating to the year ended 31 March 2019 (Completeness and cut off of expenditure)</b> - We obtained an understanding of the controls in place that management rely upon to ensure that year-end transactions are correctly accounted for at year end. We tested a sample of transactions from April to June 2019 and confirmed whether they had been appropriately included or excluded from the total reported in 2019. From our work we did not identify any errors or issues with management’s judgements in relation to this risk.</li> </ul>
<b>Overall opinion</b>	<p>We issued an unqualified opinion on the Authority’s and Fund’s 2018/19 accounts on 31 July 2019, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority and the Fund as at 31 March 2019 and its income and expenditure for the year then ended.</p>

Key issues from work performed on the Statement of Accounts	
<b>We identified five uncorrected misstatements and one disclosure deficiency</b>	<p>We received a set of draft accounts in line with the agreed deadline, which were supported by working papers.</p> <p>Through our audit we identified a number of areas for improvement to disclosure for both the Authority and Fund, which we communicated to management for correction.</p> <p>Following the corrections to the Authority's Statement of Accounts upon which we issued our unqualified opinion there were three remaining immaterial judgemental differences.</p> <p>Two of the differences related to the valuation of the pension liabilities, the first being in relation to the recognition of an element of the impact of GMP equalisation in the pension liability and secondly a difference in the calculation of the adjustment for the McCloud decision, the total impact of these two differences is that expenditure is understated by £10m and the pension liability is understated by £10m.</p> <p>The third difference related to the movement in property assets value from the valuation date of 1 April 2018 to the year end 31 March 2019, the impact of which is an understatement of both property, plant and equipment and the revaluation reserve of £9m.</p> <p>Following the corrections to the Fund's Statement of Accounts upon which we issued our unqualified opinion there were two remaining immaterial judgemental differences and one immaterial disclosure deficiency.</p> <p>The judgemental differences were £5.4m and £2.8m respectively and arose due to different pricing sources being applied when valuing investment holdings.</p> <p>The disclosure deficiency related to a Pooled Investment Vehicle being disclosed within Cash and Cash equivalents balance.</p>
Annual Governance Statement and Other Information	
<b>No issues were identified in relation to this work</b>	As appointed auditors, we review the Annual Governance Statement ("AGS") and other information presented with the financial statements to check that information is consistent with the financial statements. We do not have any findings to report in relation to this.
Powers and Duties	
<b>We did not receive any questions about the accounts or make any public interest reports</b>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>



Whole of Government accounts return	
<b>Our work is not yet complete.</b>	<p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are required to undertake specific work on this pack as set out by the National Audit Office in their Group Audit Instructions. This requires us to obtain assurance that the pack is consistent with the Authority’s audited statutory accounts and that the Counter Party Identifiers (‘CPIDs’) data is complete and accurate.</p> <p>Our work on the pack confirmed that it was consistent with the audited financial statements, however in relation to the reported Counter Party Identifiers (‘CPIDs’) we are engaging with management to ensure that the CPIDs disclosed in relation to a small number of income and expenditure accounts are complete and accurate.</p>
Audit Certificate	
<b>We have not issued our certificate</b>	<p>We are not yet able to issue our certificate. We are required to complete our Whole of Government Accounts work and give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report with the pension fund accounts included in the financial statements of North Yorkshire County Council.</p> <p>Until we do so, we are unable to certify that we have concluded the audit for 2018/19 in accordance with the requirements of the Local Audit &amp; Accountability Act 2014 and the Code of Audit Practice.</p>

## 5. Value for Money

### Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the Authority financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."*

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Authority.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment.

### The VfM conclusion

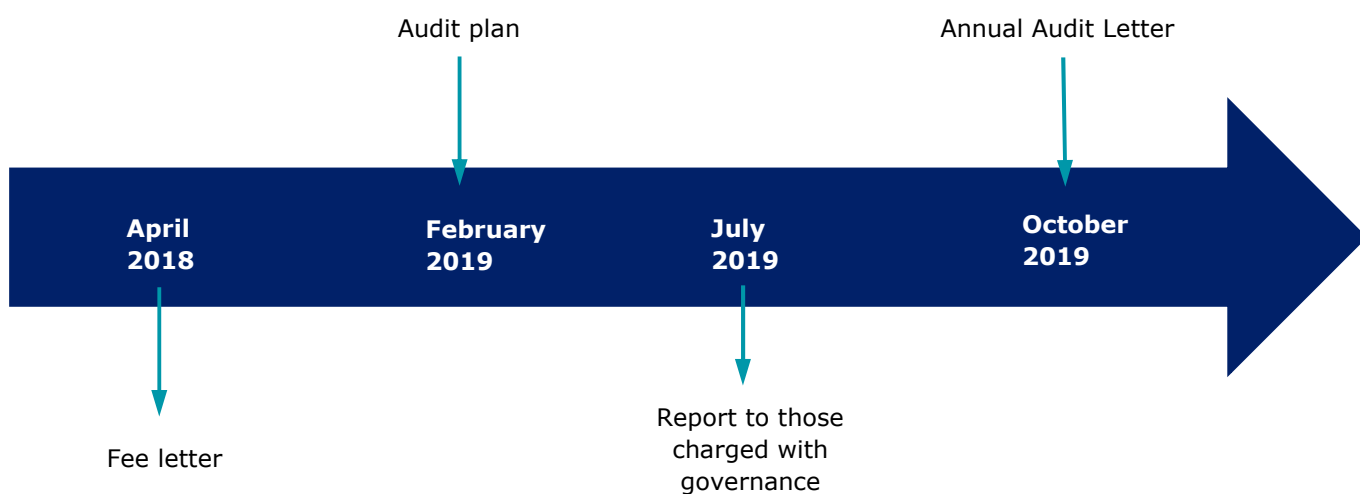
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion on 31 July 2019 in relation to the Authority's 2018/19 financial year.

## 6. Other Matters

### Reports issued

Reports issued during the course of the 2018/19 audit included:

- audit fee letter;
- annual audit plan;
- the report to those charged with governance on the 2018/19 audit of the Authority and Fund; and
- this annual audit letter.



### Analysis of audit fees

Audit fees charged are as follows:

	2018/19 £
Scale fees for the audit of the Authority's annual accounts, VfM conclusion and whole of government accounts return	72,757
Scale fees for the audit of the Fund's annual accounts.	19,206

Additional fees for the provision of IAS 19 assurance letters to auditors of other authorities have yet to be confirmed and are subject to approval by the PSAA.

In addition to the above Deloitte have agreed to undertake additional assurance work in relation to the Teachers Pension return, for which a fee of £4,000 has been agreed.

## **Statement of Responsibilities**

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.



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