ITEM 9(b)

Deloitte.

North Yorkshire County Council

North Yorkshire County Council

Report to the Audit Committee on the audit for the year ended 31 March 2020

October 2020

Contents

Partner introduction

The key messages in this report:

I have pleasure in presenting our report to the Audit Committee for the 2020 audit. I would like to draw your attention to the key messages in 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.

Status of the audit	We have the following principal matters to complete as part of our audit: • Receipt and review of reports from our specialist teams (pensions/PFI/financial instruments); • Receipt of Barclays, State Street Global and Blackrock confirmation letters; • Confirmation of Vale of York CCG debtor; • Completion of completeness of accruals, grant income and other service expenses testing; • Completion of pensions testing (including receipt of IAS19 assurance letter); • Completion of internal quality assurance procedures including follow-up queries arising from review; • Receipts and review of final version of the financial statements; • Receipt of signed management representation letter; and • Our review of events since 31 March 2020 through to signing.
Conclusions from our testing	The significant audit risks identified for the current year were: • Completeness of accrued expenditure; • Property valuations; and • Management override of controls. We have identified a number of audit adjustments and disclosure deficiencies as part of our audit, which management are in the process of updating in the financial statements. We will conduct a final review of the financial statements once completed. Audit insights, recommendations and unadjusted misstatements are discussed on pages 16 and 29-31 respectively. We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 7 and 8. Further details are included in our work on property valuations, where management's expert identified a material valuation uncertainty. This is common to 31 March 2020 valuations in the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic. Based on the current status of our audit work, we envisage issuing an unmodified audit opinion with an Emphasis of Matter in relation to your disclosures on the material valuation uncertainty, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

Partner introduction

The key messages in this report (continued)

Financial sustainability and Value for Money	• The Council reported a deficit on the provision of services of £62m (2018/19: £120m) for the year, which included a loss on disposal of £60m (2018/19: £104m) in respect of schools converting to academies. As at 31 March 2020, the Council had £234m (2018/19: £234m) of usable reserves. • The Council set a balanced budget for 2020/21, which included use of £3.9m reserves. The budget assumes £5m of savings. • We have not reported any matters within our audit report in respect of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. • See pages 21 and 22 for further comments on financial sustainability.
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report and Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have suggested a number of minor changes to management for consideration and they have made changes where needed.
Duties as public auditor	• We have received one formal objection from local electors this year. We are completing our assessment of the objection. • We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit. We are required to perform testing on the Council's WGA submission, checking its consistency to the audited financial statements and reporting our findings to the National Audit Office (together with our audit opinion and key issues from our audit). This work is outstanding at the time of issuing this report.

Nicola Wright
Audit Partner

Our audit explained

Final audit report

We expect to issue an unmodified audit report and unmodified value for money conclusion.

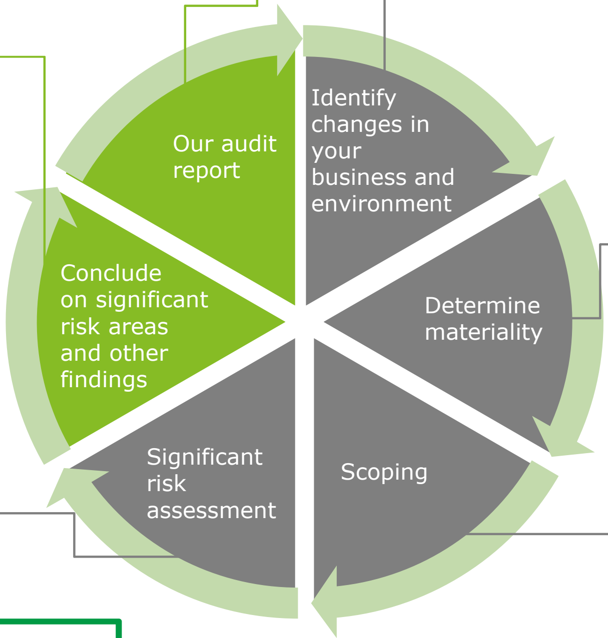
We expect to include an "emphasis of matter" paragraph in relation to material uncertainties around the property valuation.

Key developments in your business

As noted in our planning report, the Council will continue to see significant impacts on levels of expenditure and income due to the Covid-19 pandemic.

Conclude on significant risk areas

We draw the Audit Committee's attention to our update on the significant audit risks. See pages 9 to 14.



Materiality

Group materiality of £21.2m (2018/19: £20.8m) and the Council only materiality of £21.1m (2018/19: £20.7m) have been based on the benchmark of gross expenditure and is consistent with what we reported in our planning paper.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £1.1m (2018/19: £1m).

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we 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 the audit

We have scoped in line with the Code of Audit Practice issued by the National Audit Office.

We have audited the group financial statements for the year ended 31 March 2020 of North Yorkshire County Council. This includes the Council, and the consolidated balances from NYnet Limited and Yorwaste Limited.

Timeline 2019/20

December 2019 – February 2019
Meetings with management and other staff to update our understanding of the Council's processes and controls.

31 March 2020
Year end

27 July 2020
Presented planning paper to the Audit Committee

July-October 2020
Review of draft accounts, testing of significant risk areas and performance of substantive testing of results.

12 October 2020
Audit close meeting

26 October 2020
Audit Committee meeting

30 November 2020
Accounts deadline

Our audit explained: Scope of work and approach

We have three key areas of responsibility under the Audit Code

Financial statements

We have conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council has prepared 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. This has a deadline of the 3 December, which we expect to achieve.

Annual Governance Statement

We have considered the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identified 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 have reviewed the narrative report and compared with other available information to ensure there are no material inconsistencies. We have also reviewed any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We have satisfied ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
To perform this work, we have:

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

Our work therefore included a detailed risk assessment based on the risk factors identified in the course of our audit. No significant risks were identified based on our risk assessment and therefore no specific detailed testing was undertaken.

We have then provided a conclusion on these arrangements as part of our final reporting to you, see page 15.

Covid-19 pandemic
Impact on the statement of accounts and audit

Within our audit plan, we highlighted a number of potential impacts on the Council's statement of accounts and our audit due to the practical challenges and complications of the pandemic.

Area	Potential impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements. Consequently, this has resulted in an Emphasis of Matter in our audit report.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations, the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020. The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion.
Valuation of commercial or investment properties	Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needed to be reviewed against the conditions and assumptions at the measurement date. This presents some difficulties because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This required additional consideration in our work on year-end valuations.	The material uncertainty noted above also includes Investment Properties. We have involved our financial instrument specialists in our audit of the financial instruments balances and disclosures.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension, Fund investments have been subject to volatility.	We have maintained regular communication with our colleagues who are undertaking the audit of the Pension Fund to ensure that we would be aware of relevant issues.
Expected credit losses	The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	No issues in relation to this have arisen from our audit work.

COVID-19 pandemic (continued)
Impact on the statement of accounts and audit

Area	Potential impact on annual report and financial statements	Audit response
Covid-19 related income received pre year end	Covid-19 LA Support grant: This was the first tranche of £1.6bn passed out to Councils by MCHLG on 27 March 2020. North Yorkshire received £15m. This grant was un-ringfenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves.	We note that, after discussion and reference to guidance, this grant has been treated correctly in the updated statement of accounts. The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	The following areas need to be considered by local authorities, having being impacted on by the COVID-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty: The Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.	We note that the updated narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Controls D+I testing conclusion	Consistency of judgements with Deloitte's expectations	Slide no.
Completeness of accrued expenditure	✓	✓	D+I	Satisfactory		10
Property valuations	✓	✗	D+I	Satisfactory		11
Management override of controls	✓	✓	D+I	Satisfactory		12

Overly prudent, likely to lead to future credit — Overly optimistic, likely to lead to future debit.

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

Significant risks

Completeness of accrued 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 of expenditure (as well as management override of controls as detailed on page 12). In the current year, we have identified the risk as relating specifically to year end accruals. 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. For North Yorkshire County Council, there is therefore an inherent risk that it may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position.
Deloitte response	Our work in this area included the following: • We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness of accruals; and • We performed focused testing in relation to the completeness of accruals through testing of a sample of post year end payments made. Due to the potential impact of Covid-19 on the Council's processes in this area, we extended the period covered by our testing.
Conclusion	A small number of items remain outstanding and from our work to date, we have identified one recommendation in our testing of completeness of accruals, see page 16 for details. We have not identified any significant bias in the key judgements made by management based on our work performed.

Significant risks
Property valuations

Risk identified	The Council held £963m of property assets at 31 March 2019, which decreased to £934m as at 31 March 2020. The decrease was due to depreciation of £29m and disposals of £62m, offset by £7m of additions and an upwards revaluations of £55m as a result of the Council valuation exercise during 2019/20. 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 and any changes to the factors used in the valuation process could materially affect the value of the Council's assets as at year end. Furthermore the Council is undertaking its valuation as at 1 January 2020, and then will perform a roll forward process to year end. There is therefore a risk that the value of property assets materially differ from the year end fair value, particularly given that valuations are inherently judgemental and include a number of assumptions. In light of the Covid-19 pandemic, the Royal Institute of Chartered Surveyors has advised valuers to consider whether to include a "material valuation uncertainty" paragraph in their valuations. The Council's valuer has referenced a material valuation uncertainty in their report.
Deloitte response	Our work in this area included the following: • We tested the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; and • We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts. We utilised our valuation specialists, Deloitte Real Estate, to support our work in the following areas: • We reviewed the revaluations performed in the year, and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals; • We reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated; • We have used our valuation specialists, Deloitte Real Estate, to support our review and challenge of the appropriateness of the Council's assumptions on its roll forward of assets values between January 2020 and year end; • We have reviewed the disclosure made by the Council in the financial statements in response to any 'Material valuation uncertainty' included within the valuer's report due to the impact of COVID 19.

Significant risks
Property valuations (continued)

Conclusion	In relation to the valuations undertaken for schools, we identified two issues with the valuation approach, relating to the methodology and assumptions used in the modern equivalent asset valuation and the application of obsolescence factors. Following discussion with management and the valuer, adjustments have been made to the methodology and an updated valuation, which decreased the in-year upward revaluation by £104m, has been included within the updated financial statements. From our testing to date we have not identified any other issues with the valuation approach. We have also provided feedback on the ‘material uncertainty’ disclosures included within the financial statements to improve the disclosure. See page 13 for more detail.

Significant risks
Property valuations – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid-19	The Council's valuer has included disclosures in relation to Covid-19 in their report including the extracts below: *"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case."*
Impact on Statement of Accounts	The Council is required to disclose the existence of this material uncertainty in the statement of accounts. This can be seen in Note 3 to the accounts, an extract of which is included below: *"The outbreak of Covid-19 has impacted global financial markets and as at the valuation date less weight can be attached to market evidence used previously to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations in the financial statements are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global and reflected in the valuation report produced by the County Council's valuer. Consequently less certainty and a higher degree of caution should be attached to the valuations. Having reflected material valuation uncertainty in the report, the valuer has continued to exercise professional judgement and this continues to be the best information available to the Council."*
Impact on Audit Opinion	An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure, our proposed wording in the draft audit opinion is as follows: *"We draw attention to note 3, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio. As noted by the Council's valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter."*

Significant risks
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, pensions liabilities, 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.
Deloitte response	In considering the risk of management override, we have performed the following audit procedures that directly address this risk: • We tested the design and implementation of key controls in place around journal entries and key management estimates; • We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we considered to be of increased interest; • We reviewed accounting estimates for biases that could result in material misstatements due to fraud; and, • We obtained an understanding of the business rationale of significant transactions that we became aware of that are outside of the normal course of business for the Council, or that otherwise appeared to be unusual, given our understanding of the entity and its environment.
Conclusion	Based on our work to date, we have not identified any issues in relation to management override. We have raised one recommendation in relation to the journals control process, see page 16.

Value for Money

We have not identified any VfM significant risks

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our response

Our work in this area included:

- Obtaining an understanding of the Council's Medium Term Financial Plan, budget for 2020/21 and transformation programmes;
- Discussions with the Corporate Director – Strategic Resources, and senior operational staff;
- Review of the Council's draft Narrative 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 medium term financial plan; and
- Review of any reports from regulators e.g. Ofsted, issued in the year.

Based on our work, and our updated risk assessment to take account of the impact of Covid-19, we did not identify any significant VfM risks.

Deloitte view

As at 31 March 2020, the Council has a stable financial position with £234m of usable reserves. Prior to any Covid-19 related impacts, the Council expected that it would be required to deliver £39.5m of savings from 2020/21 to 2023/24, of which currently savings proposals for £20.4m have been identified. While the Covid-19 pandemic had a limited impact on the Council's financial position in the year to 31 March 2020, we would expect there to be a substantial impact going forward. See slide 21 for our initial consideration of financial sustainability in 2020/21.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Review of property valuation figures by Finance **(initially raised 2018/19)**	Whilst there is a process in place where finance review the draft valuation figures and discuss any large movements with the valuer, this process is not formally documented. It is recommended that finance document their review of the draft valuation report, and any subsequent challenge made to the valuer.	
Nil net book value items	Management should undertake a review of the nil net book value items held within the fixed asset register specifically within vehicles, plant and equipment to confirm that the assets are still in use and that the useful economic lives being applied are appropriate.	
Journal process controls **(initially raised 2018/19)**	From our work on the design and implementation of the controls in place around the posting of journals, it has been noted that there is no review of journals performed prior to posting. In addition to this, there is also no limit in place on the value of journals an individual can post. We recommend that controls in place around the journal process are tightened to ensure a review takes place prior to posting.	
Care home expenditure	The Council's standard approach in relation to care home expenditure is to make payments on a 4 weekly basis. At year end the period which spans the year end is accounted for in the financial year in which it started. The cost should be apportioned between the years.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings
Prior year recommendations

We have obtained updates on the progress management have made in relation to the recommendations raised as part of the prior year audit.

Area	Observation	Update from management	Priority
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	TBC	
Property valuations	For assets in categories which are not part of the formal revaluation in the current year a sample of individual assets is reviewed to identify any significant movements. Our audit work in this area identified a potential issue where a sampled asset with an unrepresentative valuation movement may distort the overall movement being applied to the wider category of assets. We recommend that as part of the process an exercise is undertaken to confirm that the valuation movements on the samples assets are representative of the wider movements within the category.	TBC	

Other significant findings (continued)
Prior year recommendations

Area	Observation	Update from management	Priority
No formal classification of data regarding its sensitivity	It has been noted that the Council do not formally classify data in terms of its sensitivity. The failure to classify data in the correct manner increases the risk that sensitive data is improperly handled by staff members or third parties culminating in an information security breach, which may result in a financial, legal and reputation impact.	TBC	
No formal SLAs in place with third party Heywood	It has been noted that there are no formal Service Level Agreements (SLAs) in place with the third party, Heywood and the Pension Fund. This leads to the Pension Fund receiving no assurance over the operational of key IT general computer controls including information security, change management and IT operations.	TBC	

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. As noted throughout this report, our work in a number of areas remains ongoing and it is possible that the conclusions below will change as a result of further findings. We will update the Committee in due course.

Our opinion on the financial statements

Based on the work performed to date we expect our opinion on the financial statements to be unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

We include details on the emphasis of matter paragraph in relation to property valuations on page 13 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Based on our work to date we expect our opinion on the Council's arrangements to be unmodified.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation.	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Our review identified a number of areas where the Narrative Reports needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable, these changes have been reflected in the final version.
Annual Governance Statement	The Annual Governance Statement reports that North Yorkshire County Council's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

Financial sustainability

Covid-19 impact on 2020/21

Due to the timing of the Covid-19 pandemic, there was limited impact on the Council's income and expenditure for the financial year currently under audit. However, as the Committee will be well aware, it is having a significant impact on the Council's operations and performance in 2020/21. Based on the Ministry of Housing, Communities & Local Government ("MHCLG") *Local authority COVID-19 financial management information reporting data*, during August Councils were forecasting for 2020/21 to incur additional Covid-19 related expenditure of £5.24bn and to suffer a loss in income of £5.99bn. In relation to the cost increases, the largest expected pressure was in Adult Social Care which comprised £2.30bn of the total. For lost income, the three main components were Business rates (£1.61bn), Council Tax (£1.56bn) and Sales, fees and charges (£2.01bn). To date the government has allocated £3.7bn of emergency funding to local authorities but this still leaves a significant gap.

North Yorkshire County Council's position

At the start of the 2019/20 year, when compared to other County Councils in the CIPFA Financial Resilience Index, it was considered to be relatively low risk across the majority of indicators and specifically in relation to the level and sustainability of reserves.

Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	7.72	100.00	100.00
Level of Reserves	7.96%	52.59%	60.03%
Change In Reserves	-27.98%	10.23%	142.59%
Interest Payable/ Net Revenue Expenditure	0.67%	3.32%	7.57%
Gross External Debt	£243,175k	£444,387k	£1,187,202k
Social care ratio	62.25%	62.25%	80.57%
Fees & Charges to Service Expenditure Ratio	5.13%	8.34%	14.65%
Council Tax Requirement / Net Revenue Expenditure	63.60%	77.76%	88.53%
Growth Above Baseline	1.00%	1.00%	6.00%

During the year to 31 March 2020, the Council achieved a total saving of £6.6m, which consisted of savings in Corporate Miscellaneous & Business and Environmental Service, offsetting the financial pressures in Health & Adult Services and Children & Young People's Services.

For 2020/21, the Council's plan had been for a £3.9m use of reserves. We are aware that the Council has considered various updates during the year to date, most recently at the August 2020 meeting of the Executive, which included an updated forecast of a net overspend of an additional £3.9m. This assumes that savings schemes of £1.8m are at risk due to delays driven by Covid-19. From tranches 1-3 of the Covid-19 funding from MHCLG, North Yorkshire has been allocated £29.5m.

Financial sustainability (continued)
Covid-19 impact on 2020/21

Impact on 2020/21 audit

Although the Council is in a relatively positive reserves position, Covid-19 nonetheless presents a significant financial challenge in 2020/21 and beyond. The Council's response will be an area we focus upon in our value for money work in 2020/21 and which we would expect to comment upon in our narrative commentary in the Auditor's Annual Report.

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 help the Audit Committee and the Members discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Narrative Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Audit Committee and 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.

Deloitte LLP

Newcastle| 14 October 2020

Sector updates

National Audit Office updated Code of Audit Practice

The National Audit Office has issued the new Code of Audit Practice applicable for 2020/21 audits onwards

Issue

The National Audit Office issued the new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities.

The Code remains aligned (where relevant) with generally accepted auditing standards, with the intention that this will allow the Code to adapt to any changes arising as a result of the wider debate within the audit profession (such as the Brydon Review and the Redmond Review).

The most significant changes are around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources), which:

- Change the approach away from the auditor performing a risk assessment, and then only performing further work if a significant risk were identified, to specifying procedures that will need to be undertaken in each of three areas. This will require a minimum level of work at every local public body, with additional risk based work where relevant.
- Moving the focus of reporting to providing public narrative commentary on each of criteria considered for all bodies. This will be included in a separate "Annual Auditor's Report", which will be a public narrative report, which for NHS bodies will be issued alongside the audit opinion.
- The audit opinion will continue to include reporting by exception where the auditor is not satisfied in respect of arrangements in place (which is a change from the initial proposals consulted upon).

The three criteria that would be considered in Value for Money work would be:

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

Where the auditor identifies significant weaknesses in VfM arrangements, the Code includes an expectation that the auditor will issue recommendations to the audited body, and considers whether to do so when identified.

Other proposed changes include:

- Giving the NAO the ability to specify whether auditors should issue 'enhanced' auditor reports (as is already done for NHS Foundation Trusts);
- Clarifying expectations on reporting by introducing key principles for effective reporting, so that auditors ensure that any reporting is as effective and transparent as possible and promotes local improvement.

We note that the changes are likely to increase the scope of work required for audits, both in required procedures on Value for Money and in the need for an additional public report each year.

The NAO will now move forward in developing supporting guidance on the detail of what will be required.

Next steps

- We will update the Authority as the requirements develop.
- We will agree with the Authority as soon as practicable how to implement changes from the new Code in our audit approach for 2020/21 onwards.

Brydon Review

Report of the independent review into the quality and effectiveness of audit

Issue

On 18 December 2019, Sir Donald Brydon published his far-reaching report following an independent review of the quality and effectiveness of audit.

In undertaking the review, Sir Donald received 120 submissions, totalling 2,500 pages, and held more than 150 meetings with regulators, auditors, investors, companies and professional services firms.

It is a long report with detailed and innovative proposals in a range of areas and it highlights the changing public-interest responsibilities of business and recognises that society expects corporate reporting to be broader and more relevant than at present. As part of that, Sir Donald is challenging auditors to play their part in making audit more informative to a broader group of stakeholders. Recognising the complexity of this part of the governance eco-system, the review also includes recommendations about the behaviour of directors, audit committees, shareholders and regulators and about actions that can be taken by all four to create an environment which will permit better and more effective audit.

Whilst the focus of the Brydon Review was on listed companies (with some recommendations focussing only on the largest listed entities), the findings will inevitably impact the wider audit profession and have an influence on the future scope of public sector audit.

His recommendations include:

- A redefinition of audit and its purpose
- The creation of a new profession of corporate auditing governed by principles
- The introduction of suspicion into the qualities of auditing
- The extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- A change to the language of the opinion given by auditors
- New reporting by directors - the introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the role of the audit committee
- A package of measures around fraud detection and prevention for both directors and auditors
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas such as APMs & KPIs
- The increased use of technology

Next steps

- BEIS will consider these recommendations and respond with a consultation later this year (timing as yet to be determined).
- We will continue to update the Authority as the actions resulting from this review become clearer and the impact on local audit, more specifically, is determined.

Redmond review

The Redmond Review will consider the effectiveness of the changes from the Local Audit and Accountability Act 2014, and how reporting could improve.

Issue

On 10 July 2019, the Secretary of State for Housing, Communities & Local Government asked Sir Tony Redmond to conduct a Review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014, with the report issued on 8 September 2020.

The scope of the review covered: whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Local Audit and Accountability Act 2014 (which replaced the Audit Commission arrangements); whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils; whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and to make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

The review's recommendations include:

- Proposing a single overarching body, the Office of Local Audit Regulation ("LOAR"), responsible for the co-ordination and regulation of local audit activity. This would bring together responsibilities currently held by Public Sector Audit Appointments, the National Audit Office, the Financial Reporting Council, and the Institute of Chartered Accountants in England and Wales. The OLAR would also publish reports summarising the results of audits across the sector. The OLAR would report to a new Liaison Committee comprising key stakeholders and chaired by MHCLG on the development of local audit.
- Councils reviewing their governance arrangements, including: the auditor reporting annually to Full Council; considering appointing at least one independent, suitably qualified, member of the Audit Committee; and formalising the Chief Executive Office, Monitoring Officer and Chief Financial Officer meeting with the Kay Audit Partner at least annually.
- Extending the timetable for local authority audits, probably to 30 September from 31 July each year.
- Revising the fee structure for local audit, to appropriately reflect the cost of delivery of audit and the required resources for audit quality.
- MHCLG should review its framework for assurance over financial sustainability of local government. The review suggests potential additional audit requirements around financial resilience that the OLAR may consider, including audit review of compliance with the CIPFA Financial management Code (which MHCLG might give statutory status).
- Introducing a new standardised statement of service information and costs prepared by each authority, compared to budget. This is envisaged to be a clearer way to communicate with taxpayers and service users. This report would be subject to some from of audit sign off. With budgetary performance separately reported, it is suggested CIPFA review the main accounts requirements, which may enable some disclosures to be removed (effectively moving the financial statements to IFRS reporting).

The implementation of most of the recommendations will require further consultation or primary legislation.

Next steps

- We will update the Audit Committee as proposals move forward for implementation of the recommendations.
- We would welcome the opportunity to implement the proposal to report annually to Full Council, and to include a formal meeting with the Chief Executive, Monitoring Officer and Corporate Director – Strategic Resources in our structure of contracts and interactions with the Council.

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease the deficit by £9.6 million and decrease net assets by £0.4 million and decrease unusable reserves by £10 million.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Reserves £m
Misstatements identified in current year					
Expenditure	[1]	2.7			
Investment Property	[1]		(2.7)		
Aggregation of misstatements individually < £1m					
	[2]	(0.6)	0.6		
Total		**2.1**	**(2.1)**		

[1] For 3 assets within investment properties we consider their value to be overstated following our assessment of where the value of the asset sits within the range provided by the valuer compared to the current carrying value.

[2] Balance relates to a small number of misstatements and extrapolations that are individual below our clearly trivial threshold.

Audit adjustments
Unadjusted Projected and Judgmental misstatements

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) in OCI/Reserves £m
Misstatements identified in current year				
PROJECTED				
Prepayments	[1]		1.7	
Expenditure	[1]	(1.7)		
TOTAL PROJECTED		**(1.7)**	**1.7**	
PRIOR YEAR UNCORRECTED MISSTATEMENTS	**[2]**	**(10)**		**10**
OVERALL TOTAL MISSTATEMENTS		**(9.6)**	**(0.4)**	**10**

[1] Extrapolation of a £20k understatement of prepayments across the untested prepayments balance.

[2] Impact on the opening position of uncorrected misstatements in the prior year in relation to McCloud and GMP equalisation.

Audit adjustments
Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by International Standards on Auditing (UK).

Disclosure	Summary of disclosure requirement
Contracts with service recipients	Within the notes to the accounts the Council should disclose an analysis of the debtors and payables that sets out contract assets and contract liabilities from contracts with service recipients.
Defined contribution pension scheme expected contributions	The Council should disclose the expected contributions to the plan for the next annual reporting period.
Critical judgements	Within this note the items disclosed should have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Repayment of loans	The receipt of repayments of loans provided by the council is currently disclosed in other comprehensive income but should be disclosed within the movement in reserves statement.

Fraud responsibilities and representations

Responsibilities explained

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. 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.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in management override of controls, and completeness and cut-off of expenditure as a key audit risk for your organisation.

During the course of our audit, we have had discussions with management and those charged with governance, and no significant issues were raised that would require a change to our audit plan.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified from whistle blowing procedures and our audit procedures.

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 and our objectivity is not compromised.
Fees	There are no non-audit fees for 2019/20.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company'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.
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 2019 to 31 March 2020 are as follows:

	Current year £	Prior year £
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment*	72,757	72,757
North Yorkshire Pension Fund audit	19,206	19,206
Total audit	**91,963**	**91,963**
Audit related assurance services	4,000	4,000
Total assurance services	**4,000**	**4,000**
Total fees	**95,963**	**95,963**

*We are in discussions with management in relation to the additional costs incurred due to the impact of Covid019 on the audit process.