



Audit Completion Report

Harrogate Borough Council

Year ended 31 March 2020

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

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Members of the Audit and Governance Committee
Harrogate Borough Council
Civic Centre
St Lukes Avenue
Harrogate
HG1 2AE

8 March 2020

Dear Members

Audit Completion Report – year ended 31 March 2020

We are pleased to present our updated Audit Completion Report for the year ended 31 March 2020. This report is an updated version of the report presented to the 30 November 2020, following completion of work that was outstanding at that point. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum of 23 March 2020. We provided an update in our progress report of September 2020, where we highlighted the impact of the economic downturn on our procedures, with our assessment of risk remaining, overall, unchanged. We have further updated our risk assessment as follows:

- we extended the significant risk in respect of property, plant and equipment valuations to also include investment properties; and
- we engaged our own expert to review the valuations of the Harrogate Convention Centre and Victoria Gardens Shopping Centre.

One implication of COVID-19 for the Council was that the dates for submission of the draft and audited financial statements were changed to 31 August and 30 November respectively. The Council prepared draft financial statements ahead of the revised date but key areas of our audit work involved procedures that meant the revised timetable requirement for an opinion by 30 November was not met. We would like to express our sincere thanks for the continued assistance of your team during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0113 394 5315 or 07747 764529.

Yours faithfully

Mark Kirkham
For and on behalf of Mazars LLP

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VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

This Audit Completion Report sets out the findings from our audit of Harrogate Borough Council ('the Council') for the year ended 31 March 2020 and forms the basis for discussion at the Audit and Governance Committee meeting on 22 March 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- property, plant and equipment and investment property valuations;
- defined benefit liability valuation (pensions);
- management override of control;
- revenue recognition: year-end income accruals; and
- NNDR provision (enhanced risk).

Status of our work

As we outline on the following page, our work is on-going. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B. We anticipate emphasising in our auditor's report, the material uncertainties in respect of property valuations disclosed by the Council; our opinion is not modified in this respect.

Value for money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office (NAO) in November 2020. As the Council's activity is below the threshold set by the NAO, we are not required to review the WGA return.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. There have been no objections or questions from local electors during the audit.

Executive summary

Significant findings

Internal control recommendations

Summary of misstatements


Value for money conclusion

Appendices




1. EXECUTIVE SUMMARY

Status of our audit work

Our work is on-going on the financial statements and value for money conclusion for the year ended 31 March 2020. There have been delays in responding to audit queries as well as other complexities to address in this extraordinary year and competing demands and pressure on officers' time. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Closing procedures		Review and closure processes, including consideration of post balance sheet events and checking the revised financial statements, including the restated statements and disclosures.

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations. Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in March 2020. We provided an update in our progress report of September 2020, where we highlighted the impact of the economic downturn on our procedures, with our assessment of risk remaining, overall, unchanged. We have further updated our risk assessment as follows:

- we have extended the significant risk in respect of property, plant and equipment valuations to also include investment properties; and
- we have engaged our own expert to review the valuations of the Harrogate Convention Centre and Victoria Gardens Shopping Centre.

Materiality.

We set materiality at the planning stage of the audit at £2.840m using a benchmark of 2% of gross expenditure at the surplus/deficit at net cost of services level, adjusted for the impact of the business rate pool. Our final assessment of materiality, based on the latest financial statements and qualitative factors is £2.466m, using the same benchmark, but with no adjustment for the business rate pool, given the lower percentage of retention under the 2019/20 pool. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee) at £0.074m based on 3% of overall materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for Senior Officers' remuneration, Members' allowances and expenses and termination benefits.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in March 2020. We provided an update in our progress report of September 2020, where we highlighted the impact of the economic downturn on our procedures, with our assessment of risk remaining, overall, unchanged. We have further updated our risk assessment as follows:

- we have extended the significant risk in respect of property, plant and equipment valuations to also include investment properties; and
- we have engaged our own expert to review the valuations of the Harrogate Convention Centre and Victoria Gardens Shopping Centre.

The risks set out in this section are:

Significant risks

- defined benefit liability valuation (pensions);
- property, plant and equipment and investment property valuations;
- management override of controls; and
- risk of fraud in revenue recognition – year-end accruals.

Enhanced risks

- NNDR (business rates) appeals provision.



2. SIGNIFICANT FINDINGS

Significant audit risks

Defined benefit liability valuation (pensions)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

Economic downturn

The risk has increased as a result of the economic downturn arising from COVID-19, in particular in relation to pension assets. The disclosure made in the draft North Yorkshire County Council statement of accounts for 2019/20 (unaudited) states: *“The ongoing impact of the COVID-19 pandemic has created uncertainty on the valuation of the Fund’s assets at the reporting date, particularly its illiquid assets, such as the property, private debt and infrastructure investments. Valuations for these funds are provided by external Fund Managers. Property fund valuations at the reporting date have been issued with a material uncertainty clause to reflect the market uncertainty as a result of COVID-19. For private debt and infrastructure funds, the latest available valuation has been adjusted for cashflows in the intervening period”.*

McCloud

The McCloud and Sargeant cases relate to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. Although the transitional protections differed between individual public service schemes, the majority included some form of protections to older members which have been ruled discriminatory on age grounds.

In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. Treasury recently launched a consultation on the mechanism that they propose to use in order to remedy the transitional arrangements introduced as part of the 2015 reforms to public service pensions. In respect of the LGPS, a specific consultation has been released on the proposed remedy by MHCLG.

How we addressed this risk:

- we critically evaluated the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- we challenged the reasonableness of the actuary’s assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office.
- we considered the assurance received from the Pension Fund auditor, including in respect of the triennial valuation; and
- we considered the impact of the consultation issued in July 2020 on the remedy for the McCloud pensions case.

Observations and conclusions

We note the material uncertainty included in the Pension Fund financial statements in respect of the impact of the pandemic on pension fund assets - property investment valuations; the Council has disclosed this fact in its own revised disclosures and we have drawn attention to this disclosure in our final auditor’s report (see Appendix B, ‘Emphasis of Matter’ paragraph and also summarised below).

Emphasis of Matter - material uncertainty relating to Pension Fund property investment valuations

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council’s share of pension fund property investments. As disclosed in note 4 of the financial statements, the Pension Fund has included a ‘material valuation uncertainty’ in their statements as a result of the Covid-19 pandemic impacting on the relevant market evidence for these investments. Our opinion is not modified in respect of this matter.

There are no other significant issues arising from our work to report to you.

3. SIGNIFICANT FINDINGS (CONTINUED)

Significant audit risks (continued)

Property, plant and equipment and investment property valuations

Description of the risk

The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment and also investment properties. The Council uses valuation experts to provide information on valuations and there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment and investment properties, due to the significant judgements and number of variables involved.

The risk has increased as a result of the economic downturn arising from COVID-19. We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by valuers, where appropriate, of material uncertainty declarations in their valuation reports.

How we addressed this risk:

- we critically assessed the Council's arrangements for ensuring that valuations are reasonable;
- we critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's valuers;
- we considered the competence, skills and experience of the seven valuers used this year (including the Council's internal valuer) and the instructions issued to the Valuers; and;
- where necessary, we performed further audit procedures on individual assets to ensure the basis of valuations was appropriate, including the Harrogate Convention Centre (HCC (property, plant and equipment) and the Victoria Gardens Shopping Centre (investment property). We commissioned our own expert to review of the valuations of the HCC and the Shopping Centre, because of the economic downturn.

Observations and conclusions

We highlight the following:

- a. the valuation of Harrogate Convention Centre (unadjusted non-material difference reported);
- b. the valuation of Victoria Gardens Shopping Centre (no amendment);
- c. the valuation of shared ownership properties (material amendment and prior period adjustment); and
- d. the material uncertainties for property valuations due to COVID-19 disclosed by the Valuers and the Council and the resulting 'emphasis of matter paragraphs' in our auditor's report as a result.

a. Harrogate Convention Centre (HCC – property, plant and equipment)

The HCC has previously been valued using a profits-based methodology, resulting in a nil valuation.

During the audit, the Council commissioned an external valuer to review the valuation and this led to an updated profits-based value of £0.5 million. As this is a specialist asset, we commissioned our own expert's review of this and challenged the assumptions. Our expert's estimate was that the HCC would be valued in a range of £1.3 to £1.6 million.

Management is satisfied the valuation of £0.5 million is prudent and has adjusted the financial statements for this updated valuation. We have, therefore, reported an unadjusted non-material difference between our expert's estimate and that of the Council's which is in the range of £0.8 million to £1.1 million.

3. SIGNIFICANT FINDINGS (CONTINUED)

Significant audit risks (continued)

Property,
plant and
equipment
and
investment
property
valuations
(continued)

Observations and conclusions (continued)

b. Victoria Gardens Shopping Centre (investment property)

The shopping centre valuation, based on a percentage of rents received, has decreased from £3.5 million as at 31 March 2019 to £2.2 million as at 31 March 2020.

The Council commissioned a valuation from an external valuer for the year ended 31 March 2020, which originally assessed the valuation as being £2.7 million; this was revised downwards in the summer of 2020 to £2.2 million, due to the economic downturn. Further information became available in October 2020, indicating the valuation might be reduced further.

We commissioned our own expert to review this and challenged the assumptions. The Council provided further information to support the assertion of why the valuation of £2.2 million included in the financial statements was appropriate, subject to the material uncertainty due to COVID-19 highlighted by the valuer and in the financial statements, for all valuations. We obtained the assurance sought, with no misstatements to report.

We note the shopping centre valuation has decreased significantly over the last decade (approximately 47% since 2013); we understand the Council has commissioned an external expert's review of its estates, including the shopping centre, as part of a wider strategic asset review.

c. Valuation of shared ownership properties (part of Other Land and Buildings)

Audit work identified the valuation of shared ownership properties required amendment, as the social housing adjustment factor of 41% had not been applied to the valuations, as required by stock guidance issued by central government. This resulted in a downwards valuation of the properties and as it was a material adjustment, prior years have been restated. The adjustment was £3.4m for 2019/20, £3.1 million for 2018/19 and £1.7 million for 2017/18. A number of statements and disclosures have changed as a result of this prior period adjustment, as summarised in the revised disclosure note 30 in the financial statements.

d. Material uncertainties

We anticipate emphasising in our auditor's report, the material uncertainties in respect of property valuations disclosed by the Council; our opinion is not modified in this respect. The wording is set out below (note this also covers the Council's pooled investment property funds, which are shown as long-term investments on the balance sheet, but has been included here for completeness). A similar paragraph has been included in respect of the Council's share of pension asset property valuations.

Emphasis of Matter - material uncertainty relating to valuations of land and property and investment property

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment property. As disclosed in note 4 of the financial statements, the Council's valuer included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Emphasis of Matter - material uncertainty relating to pooled investment property funds

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's pooled investment property funds. As disclosed in note 4 of the financial statements, the funds in which the Council has invested included a 'material valuation uncertainty' declaration in their year-end statements as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

There are no other significant issues arising from our work to report to you.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant audit risks (continued)

Management override of controls

Description of the risk

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement on all audits.

How we addressed this risk

We addressed the management override of controls risk by performing audit work on accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Observations and conclusions

There are no significant issues arising from our work that we are required to report to you.

Risk of fraud in revenue recognition – year-end income accruals

Description of the risk

There is a risk of fraud in revenue recognition because of the potential to inappropriately shift the timing and basis of revenue recognition, as well as the potential to record fictitious revenues or fail to record actual revenues. For the Council, our view is that the revenue recognition significant risk is present in relation to year-end income accruals.

How our audit addressed this risk:

- we evaluated controls in place to mitigate the risk of income being recognised in the wrong period;
- we tested year-end receipts to ensure income had been recognised in the right year;
- we tested adjustment journals; and
- we obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger.

Observations and conclusions

There are no significant issues arising from our work that we are required to report to you.

Enhanced risk

NNDR (business rates) provision

Description of the enhanced risk

The Council has disclosed its provision for NNDR (business rates) appeals as an area of estimation uncertainty in the financial statements. We consider this to be an area of enhanced risk in relation to the portion of the provision in relation to the new valuation list.

How our audit addressed this risk:

- we challenged the estimates and assumptions made by the Council; and
- carried out substantive procedures to gain assurance over the provision, including casting and recalculation of the Council's provision for NNDR appeals.

Observations and conclusions

There are no significant issues arising from our work that we are required to report to you.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council ahead of the revised deadline of 30 August 2020 and were again of a good quality.

Significant matters discussed with management

Over and above our challenge of management's judgements and assertions made in producing the financial statements, the following significant matters were discussed with management:

- the impact of COVID-19 on the Council's financial statements, including the potential impact on risks of material misstatement, whether due to fraud and / or error;
- the valuation of the Council's land and buildings and investment property, as reported elsewhere in this report, including the valuer's material uncertainty statement, as disclosed in Note 4 of the financial statements, due to COVID-19;
- the restatement of land and buildings, due to the social housing adjustment required for shared ownership properties, resulting in a prior period adjustment (detailed further in this report).
- the valuation of Harrogate Convention Centre and the Victoria Gardens Shopping Centre;
- the valuation of the pensions liability, in particular the impact of the consultation on the McCloud / Sargeant remedy issued in the summer of 2020;
- the completeness and classification of provisions;
- the completeness and accuracy of disclosures in the financial statements;
- the calculation of the impairment of debtors allowance and assessment of the expected credit loss allowance and the impact of the economic downturn; and
- the Council's assessment of whether there are any post balance sheet events.

Significant difficulties during the audit

The impact of the COVID-19 pandemic on the audit has been significant. We are grateful for the co-operation of officers and Council management during what has been a challenging audit period.

Our audit was scheduled to be completed by mid-October but this was not possible. There were some delays in responding to audit queries as well as other complexities to address in this extraordinary year which involved competing demands and pressure on officers' time. We are grateful for the support and cooperation of officers and their commitment to address outstanding work areas.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal controls, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal controls we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	2

Level 2 (medium)

- Member approval of employee settlement agreements
- housing benefits quality assurance checks
- adequacy of payroll documentation where more than one post held

Level 3 (low)

- detailing earmarked reserves in the MTFS
- formalising the Council's expected credit loss assessment

Our follow-up of prior year internal control recommendations is also detailed in this section.



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other internal control recommendations – Level 2 (medium priority)

Description of deficiency – Member approval of employee settlement agreements (level 2)

The Council has appropriately disclosed 'exit packages' in its revised statement of accounts. Exit packages include those arising from redundancy and also those which include compensation for loss of office (e.g. via reaching a settlement agreement, including ex-gratia payments).

The Constitution currently provides for delegated approval by the Monitoring Officer for settlement agreements. We encourage Members to consider updating their risk management arrangements for employee settlement agreements to ensure that, for each case, members also approve payments after satisfying themselves that:

- there is a clear rationale and payments comply with legislation;
- costs are minimised; and
- available options have been considered.

Potential effects

Lack of balance between risk of inappropriate expenditure and that of allowing ineffective employment relationships to continue.

Recommendation

The Council should consider updating risk management arrangements for settlement agreements.

Management response

The existing process already recognises that there must be a clear rationale for payments which complies with legislation; that costs should be minimised and available options considered; and amounts properly authorised and appropriately disclosed in the accounts. Although the number of such cases has been small, and flexibility is sometimes needed to deal with them in a timely manner, the Council will review its processes in order to ensure Member involvement in future decisions.

Description of deficiency – housing benefits quality assurance checks (level 2)

Our walkthrough of the housing benefit system key controls highlighted there is scope to improve the level of benefit entitlement quality assurance checks which are performed.

Potential effects

Risk of fraud and / or error.

Recommendation

Review the scope and level of housing benefit quality assurance checks.

Management response

This is being actioned.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other internal control recommendations

Description of deficiency – adequacy of payroll documentation where more than one post held (level 2)

Our walkthrough of the payroll system key controls included an employee who held two posts within the Council; for one of these posts, there was no formal documentation available to evidence the salary.

Potential effects

Risk of fraud and / or error.

Recommendation

Salaries should be supported by formal documentation setting out the amount to be paid.

Management response

This will be actioned.

Description of deficiency – detailing earmarked reserves in the MTFS (level 3)

The medium-term financial strategy (MTFS) should contain details of earmarked reserves, both actual and projected, for the period of the MTFS.

Potential effects

Lack of clarity/transparency in respect of earmarked reserves.

Recommendation

The Council should consider inclusion of earmarked reserves detail, both actual and projected, for the period of its MTFS.

Management response

This will be considered.

Description of deficiency – expected credit loss assessment (level 3)

As part of our review of financial instruments, we noted that the 'expected loss model' required by IFRS9 has not been formally applied to contractual financial assets. The Council should formally carry out and evidence this assessment, to support its assertions disclosed in the accounts.

Potential effects

Non-compliance with accounting standards.

Recommendation

The Council should formally carry out and evidence its assessment of expected credit losses for all relevant financial assets, to support its assertions disclosed in the accounts and comply with accounting standards.

Management response

This will be actioned.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow-up of previous internal control recommendations

We set out below an update on internal control recommendations raised in the prior year.

Description of deficiency – property, plant and equipment valuations (Level 1)

Audit work in 2017/18 identified that valuations of certain categories of property, plant and equipment (PPE) had not been reviewed as required for any significant changes in the underlying indices used to value them at the end of the year. As a result, PPE was misstated.

It is common practice for valuations in local government to be made as at 1 April. However, the general requirement to ensure that transactions and balances are not materially misstated might make necessary a valuation as at some other date. It should be noted that whatever the date of the valuation (including those at 1 April), the Code's adoption of IAS 16 requires the carrying value of non-current assets in local authority balance sheets to be materially accurate at 31 March.

Audit work in 2018/19 identified an error in respect of the valuation of council dwellings.

Potential effects

Material misstatement of Property, Plant and Equipment.

Recommendation

2017/18: the Council should review and strengthen controls in place for considering valuations across the full rolling programme at the year-end and ensuring the carrying value of non-current assets is not materially misstated at 31 March.

2018/19: specific recommendation in respect of error in respect of the valuation of council dwellings, due to a spreadsheet error.

2019/20 update

The Council reviewed its controls in place for the valuation of PPE and has strengthened controls over the last two years.

Specific issues were identified in 2019/20, in respect of the valuation of the Conference Centre and also shared ownership properties, which required amendments to the financial statements.

Description of deficiency – lack of Audit and Governance Committee approval of accounting policies (Level 3)

The Audit and Governance Committee does not currently formally approve the accounting policies used in preparing the Statement of Accounts.

Potential effects

Lack of oversight and inappropriate accounting policies.

Recommendation

It is good practice for a report to be taken to the Audit and Governance Committee annually setting out the proposed accounting policies including any changes, ahead of the Statement of Accounts being prepared.

2019/20 update

This remains a recommendation.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Description of deficiency – strength of Northgate password parameters (Level 3)

The password parameters for Northgate are not as strong as they could be or in line with good practice.

Potential effects

Risk of fraud and / or error.

Recommendation

Consider enhancing the complexity of Northgate password parameters.

2019/20 update

There are no significant issues arising that we are required to report to you.

Description of deficiency – journal narrative (Level 3)

Testing identified not all journals reviewed included appropriate explanatory narrative.

Potential effects

Risk of fraud and / or error. Strong journal controls are an integral part of the general ledger system, helping prevent and detect potential error and misstatement.

Recommendation

Users should be reminded to ensure adequate narrative is provided to support journals.

2019/20 update

This remains a recommendation.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.074m. The tables below outline the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The table overleaf outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2019/20

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Income statement £000s
1.	Dr: Property, Plant & Equipment Cr: Net cost of services Dr: Movement in Reserves Statement Cr: Revaluation Reserve	1,100		1,100 -1,100	-1,100
	Being the difference between the Council's valuation of Harrogate Convention Centre and our expert's valuation estimate, which was a range of £0.8 million to £1.1 million, after taking into account the Council's own valuation of £0.5 million. Similar in respect of prior years.				
2.	Dr: Net cost of services Cr: Creditors		-365		365
	Being the extrapolated error for expenditure recognised in 2020/21 which related to 2019/20, however, was not included in year-end creditors.				
3.	Dr: Provisions Cr: Earmarked reserves		364	-364	
	Being the error in respect of testing of provisions, which found that the 'other' provision of 364k should be reclassified as an earmarked reserve.				
	Total unadjusted misstatements	1,100	-1	-364	-735

Unadjusted misstatements from prior years with a carried forward impact

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Income statement £000s
1.	Dr: Community assets Cr: Infrastructure	348 -348			
	Being the misclassification of community assets which have been included in Infrastructure. No net impact on the face of the Balance Sheet, which shows one balance for all categories of property, plant and equipment, which includes community assets and infrastructure.				
	Total unadjusted misstatements brought forward	0	0	0	0

4. SUMMARY OF MISSTATEMENTS

Adjusted misstatements 2019/20

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Income statement £000s
1.	Dr: Property, Plant & Equipment Cr: Harrogate Convention Centre – net cost of services Dr: Movement in Reserves Statement Cr: Capital Adjustment Account	500		500 -500	-500
	Being the adjustment for the updated valuation of Harrogate Convention Centre (impacting on the income statement, as it reverses prior year revaluation losses recognised)				
2.	Dr: Provisions (short-term) Cr: Provisions (long-term)		279 -279		
	Being the reclassification, between short and long-term of the Energy bill provision, based on the expected timing of settlement.				
3.	Dr: Revaluation Reserve Dr: Capital Adjustment Account Dr: Income Statement Cr: Property, Plant and Equipment			1,206 1,941	253
	Being the misstatement of shared ownership properties (part of Other Land & Buildings), due to the social housing discount factor not being applied as required by the stock guidance. As this is a material amendment, the Council has restated its financial statements, along with presenting a third balance sheet for balances as at 1/4/2018. This prior period adjustment has impacted on numerous statements and disclosures, as detailed in the revised statement in disclosure note 30. The value of the adjustments for the two prior years is: - 2018/19 £3.146m - 2017/18 £1.674m (adjustment applied to opening balances)				
	Total adjusted misstatements	-2,900	0	3,147	-247

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

The Council has amended the disclosures for various minor points and presentational issues. The most significant disclosure amendments are summarised below:

- **Note 4 assumptions:** amendments to wording to clarify assumptions, including addition of narrative in respect of the material uncertainty for property valuations applying to investment property, pooled investment property funds (long-term investments) as well as the Council's share of pension fund assets.
- **Note 8f property, plant and equipment:** amendment to the revaluations table for the split of amounts between years (no net impact).
- **Note 11 financial instruments:** addition of omitted values for the fair value and carrying value of financial assets at amortised cost, plus amendment to the fair value of pooled investment property funds to ensure consistency with other disclosures.
- **Note 19 senior officers' remuneration:** amendment to disclosures.
- **Note 20 external audit costs:** amendment required to include the accrued cost of work for the 2019/20 benefits claim, plus also for the additional fee charged in respect of 2018/19.
- **Note 30 prior period adjustment:** addition of note to explain the restatement of the financial statements, for the adjustment to shared ownership properties, detailed in the previous section. Adjustments impacting on a number of statements and disclosures, including the Housing Revenue Account and its disclosures.
- **Collection Fund Note 4:** amendment to the narrative in respect of the changed business rate pool applying in 2019/20.



5. VALUE FOR MONEY CONCLUSION

Our audit approach

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below, followed by:

- consideration of the significant risk identified to our conclusion (responding to financial pressures); and
- our overall conclusion (as set out in Appendix B).

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p>The coronavirus pandemic set an unprecedented challenge for all councils; to maintain business critical services, reconfigure service delivery models to support the health and safety of staff and customers and critically, to determine and deliver support to communities, vulnerable residents and businesses during the pandemic.</p> <p>The Council has responded to the pandemic by refocusing its corporate plans, including specific COVID-19 recovery plans, covering three main themes:</p> <ul style="list-style-type: none"> • economic recovery; • financial recovery; and • community recovery. <p>Fundamental to the Council's overall future arrangements is the success of the overarching transformation programme, "2024", which is underpinned by a longer-term financial strategy and continuing to align expenditure with corporate priorities. The Council has reviewed this programme, alongside the Service Plan review, in order to ensure that there is clarity in the prioritisation of projects alongside Service Plan actions.</p> <p>The Council has continued to report regularly on its financial performance to Cabinet and the Management Board. For 2019/20, there was an overspend against budget of £327k. This compares to an underspend of £380k in 2018/19 and of £1.8m in 2017/18. The COVID-19 pandemic, however, affected the Council towards the end of the financial year and accounts for an estimated £270k of the overspend.</p> <p>The Council's General Fund unearmarked balance is £2.3m (£2.6m as at 31 March 2019); plans are in place to replenish the General Fund balance to the Council's policy level of £2.5m in 2020/21. We note also the Investment Reserve, totalling £15.2m (£15m as at 31 March 2019), being the funds set aside for capital projects.</p> <p><i>Financial and performance information and reliable and timely financial reporting</i> Our consideration of the Council's Medium-Term Financial Strategy, budget monitoring and its financial recovery plan is set out later in this section of the report (significant risk).</p>	Yes



5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making (continued)	<p><i>Managing risks effectively and maintaining a sound system of internal control (continued)</i></p> <p>The governance framework is set out in the Annual Governance Statement (AGS), published as part of the Annual Report including financial statements, along with how the effectiveness of that framework is reviewed throughout the year.</p> <p>The draft AGS also sets out the governance issues the Council has identified for monitoring and action in the coming year which include:</p> <ul style="list-style-type: none"> • COVID-19 recovery governance arrangements; and • evidencing completion by staff of mandatory training. <p>The Council received an overall 'satisfactory' internal audit opinion for 2019/20. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the Council. There is challenge by the Audit and Governance Committee over coverage and risk areas.</p>	Yes
Sustainable resource deployment	<p>The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of delivering planned budget reductions.</p> <p><i>Financial resilience</i></p> <p>As set out earlier in this section, the Council had a small overspend of £0.327m in 2019/20, of which £0.270m related to COVID-19.</p> <p>The Council has maintained comparatively healthy levels of usable reserves; £24.9 million as at 31 March 2020 (£23.6m million at 31 March 2019). Although these are earmarked for specific purposes, they do provide flexibility to manage the medium-term financial position.</p> <p><i>Performance management</i></p> <p>Areas of concern in the Council's year-end performance report include:</p> <ul style="list-style-type: none"> • sport and leisure attendances; • the number of new homes built by the Council; • average length of stay in temporary hostel accommodation; • Spa Lane development; • creation of a temporary Digital Incubator at Springfield House; • supporting the review of convention site; and • completion of the sport and leisure review. 	Yes
Working with partners and other third parties	<p>The Council's Annual Governance Statement sets out the governance arrangements for key partnerships and highlights the annual review of key partnerships that is undertaken.</p> <p><i>Working with third parties effectively</i></p> <p>In response to COVID-19, the Council activated its Incident Management Plan. As the pandemic developed, management at a regional level was coordinated through the North Yorkshire Local Resilience Forum (NYLRF), the partnership of local agencies working together to manage emergencies. Within the NYLRF, the Response to Major and Critical Incidents (RMCI) procedure was activated for the multi-agency strategic/tactical response.</p> <p>A Local Outbreak Management Plan is in place, overseen by a recently established Outbreak Management Board, which includes Council representation.</p> <p><i>Workforce</i></p> <p>The Council has redeployed officers in this period of exceptional demand and recognises their valuable work, working alongside partners to support communities.</p>	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk, namely:

- responding to financial pressures.

The work we carried out in relation to this significant risk is set out below.

Risk	Work undertaken	Conclusion
<p>Responding to financial pressures</p> <p>The Council continues to face decreases in Central Government funding and, as a result, the Council is having to find savings and consider how it operates.</p> <p>Whilst the Council has a good track record of achieving planned savings and underspends in recent years, the level of savings the Council needs to achieve over the period of its MTFS represents both a significant challenge to the Council and also a significant risk to the value for money conclusion.</p>	<p>We carried out audit procedures to review:</p> <ul style="list-style-type: none"> • the Council's own monitoring of progress in achieving savings and additional income targets; • the Medium-Term Financial Strategy (MTFS); and • budget monitoring reports and other finance updates. <p>We also considered the latest update of the MTFS, following the economic downturn arising from Covid-19.</p> <p>The Council continues to regularly update its MTFS and is clear in setting out the assumptions require close monitoring over coming months.</p>	<p>We obtained the assurance sought, with no significant issues arising.</p>

Our overall conclusion

On the basis of our work, we are satisfied that in all significant respects Harrogate Borough Council has put 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.

The wording of the conclusion is set out in our draft audit report in Appendix B.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

[Client address]

[Date]

Dear Mark

Harrogate Borough Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Harrogate Borough Council ('the Council') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Head of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

[continued]

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DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Head of Finance for the design, implementation and maintenance of internal controls to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

[continued]

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DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties and am satisfied the going concern assumption remains appropriate and that no material uncertainty has been identified. To the best of my knowledge there is nothing to indicate the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the financial statements.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included as an appendix to this letter **[TO BE ATTACHED BY THE COUNCIL UPON SIGNATURE]**.

Yours faithfully

Paul Foster
Head of Finance

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Independent auditor's report to the Members of Harrogate Borough Council

Report on the financial statements

Opinion

We have audited the financial statements of Harrogate Borough Council ('the Council') for the year ended 31 March 2020, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - material uncertainty relating to valuations of land and property and investment property

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment property. As disclosed in note 4 of the financial statements, the Council's valuer included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Emphasis of Matter - material uncertainty relating to pooled investment property funds

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's pooled investment property funds. As disclosed in note 4 of the financial statements, the funds in which the Council has invested included a 'material valuation uncertainty' declaration in their year-end statements as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Emphasis of Matter - material uncertainty relating to Pension Fund property investment valuations

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's share of pension fund property investments. As disclosed in note 4 of the financial statements, the Pension Fund has included a 'material valuation uncertainty' in their statements as a result of the Covid-19 pandemic impacting on the relevant market evidence for these investments. Our opinion is not modified in respect of this matter.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Head of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Head of Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Head of Finance is also responsible for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Head of Finance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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DRAFT AUDITOR'S REPORT (CONTINUED)

Conclusion on Harrogate Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Harrogate Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the Members of Harrogate Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Harrogate Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Kirkham
For and on behalf of Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

Date:



APPENDIX C INDEPENDENCE

As part of our on-going risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

