Public Document Pack

Agenda

Notice of a public meeting of **Audit Committee**

To: **Councillors Cliff Lunn (Chair), Karl Arthur, Margaret Atkinson (Vice-Chair), Robert Baker, Philip Broadbank, Jim Clark, David Hugill, Don MacKay, Mr Nick Grubb, Mr David Marsh and Mr David Portlock.**

Date: **Monday, 25th October, 2021**

Time: **1.30 pm**

Venue: **Remote meeting held via Microsoft Teams**

Under his delegated decision making powers in the Officers' Delegation Scheme in the Council's Constitution, the Chief Executive Officer has power, in cases of emergency, to take any decision which could be taken by the Council, the Executive or a committee. Following on from the expiry of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, which allowed for committee meetings to be held remotely, the County Council resolved at its meeting on 21 July 2021 that, for the present time, in light of the continuing Covid-19 pandemic circumstances, remote live-broadcast committee meetings should continue (as informal meetings of the Committee Members), with any formal decisions required being taken by the Chief Executive Officer under his emergency decision making powers and after consultation with other Officers and Members as appropriate and after taking into account any views of the relevant Committee Members.

The meeting will be available to view once the meeting commences, via the following link - www.northyorks.gov.uk/livemeetings Recordings of previous live broadcast meetings are also available there.

Business

6.1 **2020/21 External Audit of the North Yorkshire Pension Fund** **(Pages 3 - 30)**
Report of Deloitte

6.2 **2020/21 External Audit of North Yorkshire County Council** **(Pages 31 - 56)**
Report of Deloitte

Barry Khan
Assistant Chief Executive
(Legal and Democratic Services)

Enquiries relating to this agenda please contact Ruth Gladstone Tel: 01609 532555
or e-mail ruth.gladstone@northyorks.gov.uk
Website: www.northyorks.gov.uk

County Hall
Northallerton

Friday, 15 October 2021

Deloitte.

North Yorkshire Pension Fund

Update report to the Audit Committee on the 2021 audit

Issued on 22 October 2021

Deloitte Confidential: Government and Public Services – For Approved External Use Only

Agenda Item 6a

Contents

Update report

A tailored, insightful and efficient audit delivered by a team of pension audit specialists

Partner introduction

The key messages in this report:

I have pleasure in presenting our Update Report to the Audit Committee for the 2021 audit of the North Yorkshire Pension Fund (the 'Fund') and I would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority.

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A **robust** challenge of the key judgements taken in the preparation of the financial statements.

A strong **understanding** of your internal control environment.

A **well planned** and delivered audit that raises findings early with those charged with governance.

Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the statutory financial statements of the Fund which are prepared under the Code of Practice on Local Authority Accounting 2020/21 ("the Code") issued by CIPFA; and
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention.

Status of our audit

We have the following matters to complete as part of our audit:

- Completion of internal quality assurance procedures, including review processes and follow-up queries arising from review;
- Review of updated final version of the financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2021 through to signing.

Partner introduction

The key messages in this report (continued):

Our conclusion

Based on our work undertaken, we plan to issue an unqualified audit opinion on the financial statements of the Fund included within the financial statements of North Yorkshire County Council. However, we do have procedures outstanding and will report to management should any further matters arise as we complete our work. Our work on the Fund's annual report will be undertaken following signing of these financial statements.

In reaching our conclusions, we considered the control observations and the results from our testing on pages 9 to 16. In addition, we noted:

- The significant accounting judgements and estimates appear reasonable; and
- There is one uncorrected adjustment as set out in Appendix 1, but no uncorrected disclosure deficiencies.

We will provide a Final Report on completion of the outstanding procedures.

Nicola Wright
Audit Partner

Materiality

Our approach to materiality

Basis of our materiality benchmark

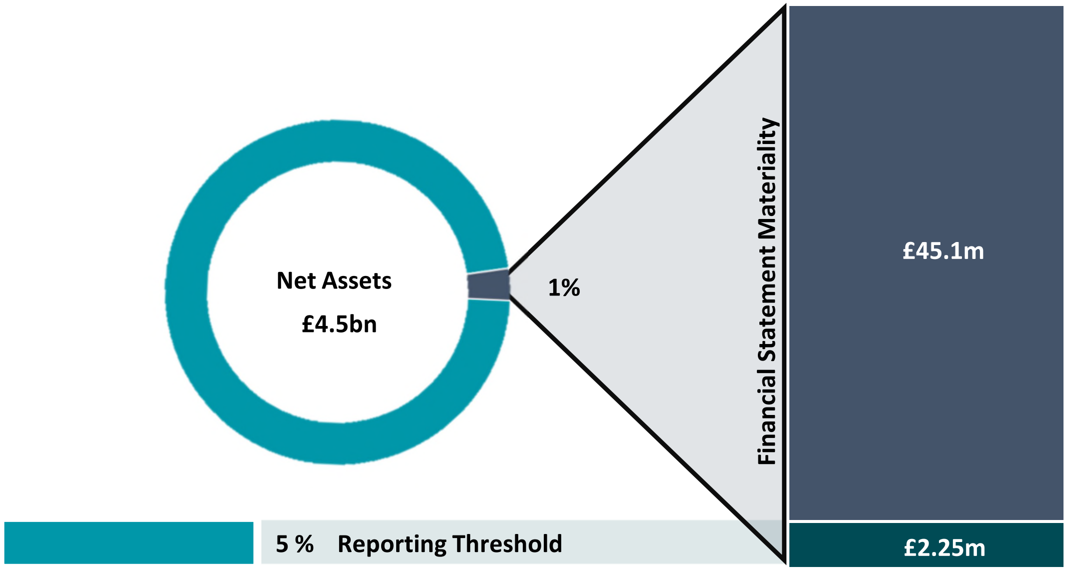
- We set materiality for our opinion on the financial statements at 1% (2020: 1%) of the net assets of the Fund.
- For the year ended 31 March 2021, we determined financial statement materiality to be £45.1m (2020: £35.4m).

Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2021, we determined the reporting threshold for the financial statements to be £2.25m (2020: £1.8m).
- Auditing standard also require us to highlight any uncorrected disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof.
- We have one uncorrected misstatement to report and have no disclosure deficiencies to report to you (see Appendix 1). There were no material corrected misstatements.

Materiality calculation

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Scoping

Risk dashboard

Risk Identified	Material Balance	Management Judgement	Controls Approach	Fraud Risk	Further Details
Significant Risk Management override of controls	✗	⚠	**D&I**	✓	Pg. 9
Other Focus Area Completeness and accuracy of the asset transfer to Border to Coast	✓	⚠	**D&I**	✗	Pg. 11
Other Focus Area Accuracy of investment transactions	✓	⚠	**D&I**	✗	Pg. 12
Other Focus Area Completeness of investments and valuation of alternative investments	✓	⚠	**D&I, OE**	✗	Pg. 13
Other Focus Area Completeness and accuracy of contributions	✓	⚠	**D&I**	✗	Pg. 14

Significant Risk

Other area of audit focus

Low levels of management judgement/complexity

Medium levels of management judgement/complexity

High degree of management judgement/complexity

D&I Design and Implementation

OE Operating effectiveness

Significant audit risks

Significant risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits.

The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance	Deloitte response to significant risk identified
The financial reporting process in place has an adequate level of segregation of duties.	In order to address this significant risk, our audit procedures consisted of the following: • Use of Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items; • Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements; • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • Tested the design and implementation of controls around the journals process, and investment and disinvestment of cash during the year; • Reviewed related party transactions and balances to identify if any inappropriate transactions had taken place; • Reviewed the accounting estimates for bias, such as year-end debtor and creditor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; and • Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year.

Deloitte comment

We have identified no matters to report to the Audit Committee.


Page 12
Audit focus areas

Audit focus areas

Completeness and accuracy of the asset transfer to Border to Coast

Risk identified

Due to the Government announcement that Local Government Pension Schemes ('LGPS') must pool their assets together in order to reduce the cost of investing to the public purse, the Fund became part of the Border to Coast Pension Partnership ('BCPP') in the prior year.

During the current year, the Fund transferred a further £90m of directly held assets to Border to Coast.

Response of those charged with governance

In the prior year, the Fund engaged Legal & General ('LGIM') to provide oversight and to report to them on the transition process.

Deloitte response to audit focus area identified

In order to address this audit focus area, our audit procedures consisted of the following:

- Confirmed the completeness and the accuracy of the values of the assets transferred by comparing the purchases of BCPP funds as per the client's breakdown and the investment manager reports; and
- Tested the design and implementation of key controls around asset transfers by reviewing the Border to Coast Type 2 internal control report and the custodian internal control report.

Deloitte comment

As a transition report was not issued in relation to the asset transfer to Border to Coast this financial year, our approach has therefore been to test the transactions. We have identified no matters to report to the Audit Committee as part of this work.

Audit focus areas

Accuracy of investment transactions

Risk identified

The Fund holds a diverse portfolio of pooled investment vehicles including equities, bonds, pooled investment vehicles ('PIVs') and property PIVs. The volume of transactions and different holdings could lead to a risk of incomplete or inaccurate reporting of transactions or balances at the year-end.

Response of those charged with governance

The Fund engages various investment managers (including BCPP) and BNYM as custodian for these investments.

Deloitte response to audit focus area identified

In order to address this audit focus area, our audit procedures consisted of the following:

- Performed design and implementation testing on the key controls over the accuracy of investment transactions by obtaining investment manager internal control reports and evaluating the implications for our audit of any exceptions noted;
- Obtained independent confirmation of transactions during the Fund year from the investment managers;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value);
- Performed design and implementation testing on an investment sale transaction, agreeing to the investment mandate and the investment manager's transaction report; and
- Tested the completeness of investments by agreeing a sample of purchases and sales by vouching items from the custodian report to the relevant investment manager confirmation.

Deloitte comment

The pensions team does not perform investment unit reconciliations or review one performed by the custodian, instead relying on review of cash movements. This increases the risk that an investment transaction goes unnoticed, as the change in market value is effectively a balancing figure in the annual reconciliation. We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions.

Except for the above, we have not identified any findings relating to the accuracy of investment transactions to report to the Audit Committee.

Audit focus areas

Completeness of investments and valuation of alternative investments

Risk identified

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

Additionally, within this portfolio, there is a range of alternative investments. These funds do not have publicly available prices and are often infrequently priced, increasing the risk of stale pricing.

Response of those charged with governance

The Fund engages various investment managers (including BCPP) and BNYM as custodian for these investments.

Deloitte response to audit focus area identified

In order to address this audit focus area, our audit procedures consisted of the following:

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

Deloitte comment

The internal control reports for Threadneedle and Borders to Coast are qualified, however we are satisfied that these qualifications have no impact on the year-end valuation of investments and the completeness of transactions during the year.

We also identified a difference between the custodian and investment manager reports, which has led to an understatement of the year end investment value by £9m. This was due to an error in the custodian report. We have raised this as an unadjusted error in Appendix 1.

We have no other matters to bring to the attention of the Audit Committee.

Audit focus areas

Completeness and accuracy of contributions

Risk identified

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

As a result, we consider the completeness and accuracy of contributions to be an audit focus area.

Response of those charged with governance

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

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

Deloitte response to audit focus area identified

In order to address this audit focus area, our audit procedures consisted of the following:

- Tested the design and implementation of key controls over the contributions process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of active members, we recalculated individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the actuary for employer contributions;
- Tested that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions; and
- For a sample of monthly contributions paid, we checked that they had been paid within the due dates per the LGPS Regulations.

Deloitte comment

We have not identified any matters to report to the Audit Committee.

Other findings

Heywood Altair system – no formal Service Level Agreement (SLA)

Risk identified

It has been noted that the North Yorkshire County Council (the 'Council') are responsible for the hosting and maintenance of the Heywood Altair system, the main pension administration system for North Yorkshire Pension Fund. The Fund does not receive Service Auditor Reports (SARs) from the Council and there are no formal SLAs in place with them. There is also no independent monitoring from management at the Fund over the main pension administration system that is hosted externally. This leads to the Pension Fund receiving no assurance over the operation of key IT general computer controls including information security, change management and IT operations.

In mitigation, there are general SLAs in place within the Council that are used across all services that the Council has a business relationship with, therefore there are general expectations outlined between the Council and the Fund, although not specific to the needs of the Fund. The Council hosts a range of services for external organisations, therefore the Fund is able to gain some assurance over the security and operating effectiveness of the controls the Council holds over the underlying infrastructure of the Heywood Altair system.

Recommendation

Formal Service Level Agreements should be put in the place between the Council and the Fund, so as to ensure that the Fund receives assurance over the operation of key IT general computer controls.

Prior year findings

Follow up on prior year findings

Finding	Recommendation	Follow up
Heywood Altair system – no formal Service Level Agreement (SLA).	Formal Service Level Agreements should be put in place between the Council and the Fund, so as to ensure that the Fund received assurance over the operation of key IT general computer controls.	No change. We continue to report this finding in the current year – see page 15.
The pensions team does not perform a unit reconciliation of investment holdings, relying instead on reporting prepared by the global custodian, BNYM.	We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions.	No change. We continue to report this finding in the current year – see page 12.

Other risks

Other audit considerations

Area of focus	Description	Audit response
Going Concern	As auditors, we are required to confirm in our audit report that the going concern basis of the financial statements is appropriate.	Our testing to address this risk included: • examined the latest publically available information regarding the financial position of the principal employers; • analysed the latest funding position of the Fund; and • reviewed minutes of the Audit Committee meetings.
Fraud	In our Audit Report in the financial statements we are now required to directly report on the extent to which the audit was considered capable of detecting irregularities, including fraud and other matters of non-compliance with laws and regulations.	Our testing to address the risk included: • performed procedures to assess the risk of management override as detailed on page 9; • reviewed the controls in place surrounding fraud risks including disinvestments; and • agreed a sample of investments to third party investment confirmations.
Brexit	During the Scheme year, the UK have left the European Union ("EU"). The impact of Brexit may be felt across the Scheme and its operations, for example through withholding taxes and the impact on the going concern of the Fund.	Our testing to address the risk included: • assessed the fair value of assets as at the Fund's year-end date; • reviewed minutes of the Audit Committee meetings and the going concern assessment; and • confirmed that appropriate disclosures have been made in the financial statements.

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 discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) 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.
- 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 Audit Committee.

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

Finally, our views on internal controls and Fund 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 Fund accounts 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 Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you on 12 March 2021.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

This report has been prepared for the AC, 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

Deloitte LLP

Statutory Auditor

Newcastle upon Tyne | 22 October 2021


Page 21
Appendices
Key audit matters

Appendix 1: Audit adjustments

Current year and prior year audit adjustments

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Uncorrected misstatements identified in current year	**(9)**	**9**
Corrected misstatements identified in current year	-	-

Uncorrected misstatements

As set out on page 13, we identified an understatement of investment assets due to an error in the custodian report at year end.

Disclosure deficiencies

At the time of writing this report, there were no corrected or uncorrected disclosure deficiencies to bring to the Audit Committee's attention for the current year. Should any further items arise as we complete our audit procedures, this will be reported to management and in our Final Report.

Prior year misstatements and disclosure deficiencies

In the prior year, there was a stale price adjustment relating to Permira Credit fund (£1.58m) which was corrected in the financial statements.

There were no other uncorrected misstatements or corrected or uncorrected disclosure deficiencies in the prior year.

Appendix 2: Independence and fees

A Fair and Transparent Fee

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund. In considering the requirements of Auditor Guidance Note 01 (issued by the National Audit Office) and the Ethical Standard 2019 to report all significant facts and matters that may bear upon our integrity, objectivity and independence, though not meeting the defined criteria for an affiliate of an audited entity, we have taken account of the tax and internal audit services provided to Border to Coast Partnership by Deloitte. To this effect, we have documented our assessment on the threats and safeguards concerned with the delivery of services to, and the receipt of fees from, Border to Coast Pension Partnership, along with our assessment on the opinion of a reasonable and informed third party on these services.
Fees	Our audit fee for the year ended 31 March 2021 is £19,206* (2020 £19,206**) for the Fund. The fee excludes VAT and includes out of pocket expenses. The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with the Authority the current level of fee. *This fee excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities. The latter has been discussed with management and agreed at £2,000 (2020 £2,500) per letter. **We have also requested an additional fee due to the impact of Covid-19 on the audit of £5,440. This request is currently under consideration by PSAA.
Non audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Ethical Standard 2019	The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.

Appendix 3: Fraud responsibilities and representations

Responsibilities explained

Your responsibilities:

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

Our responsibilities:

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

Fraud characteristics:

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

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

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

Appendix 3: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:

Management:

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

Internal audit

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

The Audit Committee

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

Appendix 4: Topical matters

Department for Work and Pensions (DWP) – taking action on climate risk

Prior to the approval of the Pension Schemes Act 2021, the Department for Work and Pensions (DWP) opened a consultation on regulations covering the new climate risk powers contained within the Act. Under the proposed regulations, the UK Government has announced its intention to make Task Force on Climate-related Financial Disclosures (TCFD) disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. It is proposed that the following schemes should be in scope of the mandatory climate change governance and TCFD reporting requirements:

(a) trust schemes with £1 billion or more in net assets
(b) authorised master trusts
(c) authorised schemes providing collective money purchase benefits

These qualifying schemes will have to produce and publish a TCFD report. We have included some detail on the recommended content of the TCFD report within this update.

The Minister for Pensions and Financial Inclusion, Guy Opperman stated "I whole-heartedly welcome the Chancellor's announcement of the TCFD Roadmap in November 2020 outlining the steps that the UK Government and regulators will take towards rolling out mandatory climate reporting requirements across its regulated community. This means that, come 2023, the vast majority of assets will be invested with pension scheme trustees, asset managers, and insurers who are disclosing climate- related financial risks and opportunities in line with recommendations by the TCFD."

Regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report on how they have done so. We have included a separate slide on the TCFD recommendations for reference. Statutory guidance, will set out how trustees should meet the requirements and report in line with the TCFD recommendations. Where trustees choose to diverge from statutory guidance, they need to be able to explain their reasons for doing so in their TCFD report.

With almost £2 trillion in assets under management, all pension schemes are exposed to climate-related risks. It is important to note, the government sees stewardship of assets, including engagement with higher carbon firms and voting at Annual General Meetings (whether directly or via asset managers), as entirely legitimate responses to the climate risk revealed through TCFD-aligned disclosures. Indeed, holding such assets places trustees in an influential position to steward firms towards lower-carbon business practices, which is why government advocates collaboration with business, as opposed to divestment.

The **four core** elements of TCFD disclosures are shown in the diagram and these form the basis of the required pension scheme disclosures.

1. Governance - Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme. They must also establish and maintain processes for the purpose of satisfying themselves that persons undertaking governance on their behalf or those who advise or assist the trustees with respect to governance, are taking adequate steps to identify, assess and manage climate-related risks and opportunities which are relevant to the scheme. In their annual TCFD report, trustees must describe how such oversight is maintained.

2. Strategy- Trustees must identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over the short term, medium term and long term on the scheme's investment strategy and (where it has one) the scheme's funding strategy. Short, medium and long term are such periods as the trustees deem appropriate, taking into account the scheme's liabilities and its obligations to pay benefits. The trustees need to document the above in their TCFD report.

Appendix 4: Topical matters

Department for Work and Pensions (DWP) – taking action on climate risk

3. Risk management - Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks which are relevant to the scheme. They must also ensure that management of climate-related risks is integrated into their overall risk management of the scheme. In their annual TCFD report, trustees must describe these processes and how they are integrated into the trustees' overall risk management of the scheme.

4a. Metrics -Trustees must select and as far as they are able to calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets. Draft statutory guidance proposes that trustees should use total emissions and carbon footprint metrics – calculating scope 1, and 2 and 3 greenhouse gas emissions (scope 3 is not included in the first year). Trustees must also select one additional climate change metric to calculate in respect of the scheme's assets. Draft statutory guidance suggests a range of measures, including an implied temperature rise or climate value at risk measure. Trustees must review their selection of metrics from time to time as appropriate to the scheme. The trustees need to document the above in their TCFD report and this must be disclosed in line with the requirements noted in the **Disclosure** section of this update.

4b. Targets - Trustees must set a non-binding target for the scheme in relation to at least one of the metrics which they have selected to calculate. On an annual basis they must measure performance against the target (as far as are they are able) and taking into account the scheme's performance they must decide whether to retain or replace the target. In their annual TCFD report, trustees must describe the target or targets which they have set, and the performance of the scheme against them.

Despite the common core principles of TCFD, the DWP acknowledged that the continuing rapid evolution of methodologies still poses the risk that different approaches could lead to different results being calculated for the same portfolio/assets. The Department indicated it will be consulting later on the use of one particular metric, 'implied temperature rise' (ITR) which is emerging as potentially the most useful and powerful.

We have detailed below a number of other matters of note contained within the DWP paper.

Scenario analysis - Trustees must, as far as they are able, undertake scenario analysis assessing the impact on the scheme's assets and liabilities, the resilience of the scheme's investment strategy and (where it has one) the scheme's funding strategy for at least two scenarios – one of which corresponds to a global average temperature rise of between 1.5 and 2°C inclusive on pre-industrial levels. In their annual TCFD report, trustees must describe the most recent scenarios they have analysed, the potential impact on the scheme's assets and liabilities and the resilience of the scheme's investment strategy and (where it has one) funding strategy in those scenarios, and their reason for not carrying out a new scenario analysis if they have not done one. Trustees should carry out scenario analysis as far as they are able in relation to all the scheme's relevant assets. Following the initial consultation in August 2020, the DWP have confirmed that they have made changes to the original proposal and will require that scenario analysis must be carried out in the first year that trustees are subject to the requirements and every three years thereafter. In the intervening years, trustees must do an annual review of their scenario analysis and carry out fresh analysis where they consider it appropriate to do so.

Trustee knowledge and understanding - Trustees must have the appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities in respect of occupational pension schemes, for the purposes of enabling them to properly exercise their functions. These principles will be prescribed matters for the purposes of the Pensions Act 2004.

Disclosure - Trustees are required to publish their TCFD report on a publicly available website, accessible free of charge. The Chair of trustees must sign the report. The TCFD report must be referenced from – but need not be included in – the Annual Report. Members must be told via any annual benefit statement they receive that the report has been published and where they can locate it. Trustees of DB schemes must also provide this information to members via the scheme funding statement.

Trustees must also provide TPR with the website address where they have published their most recent TCFD report via the annual scheme return form. Where trustees have not yet published their first report, they must inform TPR whether the period for doing so has ended. Trustees must also provide TPR with the website address of their published Statement of Investment Principles ("SIP") and (where applicable) implementation statement and published excerpts of the Chair's Statement in the annual scheme return form.

Appendix 4: Topical matters

Department for Work and Pensions (DWP) – taking action on climate risk

Penalties – there will be a mandatory penalty for complete failure to publish any TCFD report and other penalties would be subject to TPR discretion. Penalties in relation to climate change governance, reporting and publication could be imposed without recourse to the Determinations Panel, in a similar way to the penalty regime that applies under the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The requirements to reference the TCFD report from the Annual Report and inform members about the TCFD report's availability would be subject to the existing penalty regime in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The requirements to inform TPR of the website address of the published TCFD report – or that the period for publishing the report has not ended – and of the website address of the published SIP, implementation statement (where applicable) and excerpts of the Chair's Statement would be subject to the penalty regime in section 10 of the Pensions Act 1995.

Scope and timing of TCFD policy

The DWP paper has outlined two tests as to whether a pension scheme is in scope.
We have included details directly from the DWP paper below.

Threshold test

The condition	Governance requirement	Disclosure Requirements	
If	*Trustees must meet the climate change governance requirements for*	*Trustees must publish a TCFD report*	*Trustees must include a link to the report in:*
On 1st scheme year end date to fall on or after 1 March 2020: the scheme has relevant assets ≥ £5bn	Current scheme year from 1 October 2021* to end of that scheme year. *And* [unless scheme's relevant assets are <£500m on the scheme year end date] Next full scheme year to begin after 1 October 2021 to end of that scheme year. And so on.	Within 7 months of the end of the scheme year which is underway on 1 October 2021†. *And* Within 7 months of the end of the next scheme year to begin after 1 October 2021† And so on	The Annual Report and Accounts produced for that scheme year
On 1st scheme year end date to fall on or after 1 March 2021: the scheme has relevant assets ≥ £1bn	Current scheme year from 1 October 2022* to end of that scheme year And so on	Within 7 months of the end of the scheme year which is underway on 1 October 2022†. And so on.	
From any scheme year end date to fall on or after 1 March 2022 The scheme has relevant assets ≥ £1bn	The beginning of the scheme year which is one scheme year and a day after that scheme year end date	Within 7 months of end of that full scheme year†	

* unless audited accounts have not been obtained in respect of that scheme year, in which case they apply from the date they are obtained.
† unless scheme's relevant assets are zero on the scheme year end date.

Authorisation test

The condition	Governance requirement	Disclosure Requirements	
If	*Trustees must meet the climate change governance requirements for*	*Trustees must publish a TCFD report*	*Trustees must include a link to the TCFD report from*
On or after 1 October 2021, the scheme is [or becomes] an authorised master trust *Or* On or after 1 October 2021 the scheme is [or becomes] an authorised scheme providing collective money purchase benefits	Current scheme year which is underway to the end of that scheme year. *And* [unless scheme is both no longer authorised and relevant assets at previous scheme year end are <£500m] Subsequent scheme years.	Within 7 months of the end of the scheme year which is underway. *And* Within 7 months of the end of subsequent scheme years.	The Annual Report and Accounts produced for that scheme year

Schemes fall out scope through no longer being authorised and/or having assets of less than £500m

The condition	Governance requirement	Disclosure Requirements	
If	*Trustees' climate governance requirements*	*Trustees TCFD report publishing duties*	*Trustees must include a link to the TCFD report from*
After 1st October 2021 the scheme Ceases to be an authorised master trust *Or* Ceases to be an authorised scheme providing collective money purchase benefits *And* Has relevant assets < £500m at end of previous scheme year	End with immediate effect	End with immediate effect	N/A
On scheme year end date falling after 1 October 2021 The scheme has relevant assets <£500m and is not an authorised scheme.	End with immediate effect	Must be met within 7 months of the end of the scheme year† And fall away thereafter.	The annual report and accounts produced for that scheme year

Use

† unless scheme's relevant assets are zero on the scheme year end date

Deloitte response: The DWP document is vast and we have provided only a short summary of the key details. The full consultation document can be found [Taking action on climate risk: improving governance and reporting by occupational pension schemes – response and consultation on regulations - GOV.UK (www.gov.uk)]. We recommend that the trustees review the full guidance and familiarise themselves with the full requirements of the legislation.

In order to comply with the legislation there is a requirement to amend governance arrangements, consider the impact on investment strategy, identify and manage investment risks and obtain the relevant data from scheme advisers. All reporting duties are ongoing, except requirements to conduct scenario analysis, calculate metrics and set and review performance against targets.

Based on the proposed scope and timing of the policy on the left, we expect this to come in to force for the year ended 31 March 2022 financial statements, although the government has not yet set a firm deadline for LGPS.

Appendix 4: Topical matters

TCFD recommendations and supporting recommended disclosures

Within our topical update *'Department for Work and Pensions (DWP) – taking action on climate risk'* we have made reference to the fact that regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report within their TCFD report how they have done this. We have therefore included below a reminder of the recommendations and the supporting recommended disclosures.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Deloitte.

North Yorkshire County Council

Progress report to the Audit Committee on the 2020/21 audit

Issued on 22 October for the meeting on 25 October 2021

Contents

01 Progress report

02 Appendices

Introduction

The key messages in this report

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

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

Page 33

I have pleasure in presenting our progress report to the Audit Committee of North Yorkshire County Council (the Council) for the 2020/21 audit. We would like to take this opportunity to thank you for your assistance and co-operation during this year's external audit.

The scope of our audit was set out within our planning report presented to the Audit Committee in March 2021.

Status of our Statement of Accounts audit	We have the following principal matters to complete as part of our audit: • Completion of capital grant income, revaluation source data and pensions testing; • Completion of internal quality assurance procedures, including follow-up queries arising from review; • Review of final version of the financial statements; • Receipt of signed management representation letter; and • Our review of events since 31 March 2021 through to signing.
Progress update	Since our previous progress report was presented to the committee we have completed the following items that were included as outstanding: • Receipt and review of the report from our valuation specialist; • Received bank/investment confirmation letters for Scarborough Nursery, Wokingham Borough Council and Bank of Scotland; • Received bank statement evidence for two subsequent receipts samples; • Obtained supporting information for non-current debtor with Yorwaste Ltd; and • Completed testing of accruals, revenue and COVID-19 grant income, grants received in advance, and other services expenditure.
Status of our Value for Money audit	Our Value for Money work is on-going, and will be reported in our Auditor's Annual Report, which has a publication deadline under the National Audit Office Auditor Guidance Note 3 of three month after the signing of the Audit Opinion. From our work to date, we have not identified any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. Our opinion will state that our work is ongoing.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• The key judgements in the audit process related to:
	  • The completeness of accrued expenditure; and
	  • Management override of controls.
	• Based on our work, we have not identified any significant audit adjustments or disclosure deficiencies.
	• Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, 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.

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. • We have no matters to raise with you in respect of the Narrative Report.
Duties as public auditor	• We did not receive any queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts (WGA)	• The Council is above the threshold for WGA reporting. • 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).

Nicola Wright
Audit Partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

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

Oversight of external audit

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

Integrity of reporting

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

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

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

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements	!	The Council made changes to the accounting treatment for a substantial proportion of the capital grants received in advance during 2020/21. We recommend that any significant changes are discussed in advance of the preparation of the financial statements and the beginning of the audit so that we are able to provide early input.
Access to finance team and other key personnel		The audit team have been provided with good access to key members of the finance team and wider Council personnel.
Quality and accuracy of management accounting papers		Management accounting papers provided have been accurate and produced to a high quality.
Quality of draft financial statements	!	A good draft set of financial statements were available from 14th June, however it would be helpful if any figures i.e. collection fund, that are likely to change are highlighted.
Response to findings and recommendations	!	The audit team note that there have been recurring findings raised in both the prior year and current year audit, specifically in relation to journal process controls and care home expenditure.
Volume and magnitude of identified errors		There were a low volume and magnitude of identified errors.

Lagging ! Developing ! Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment
In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping
Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings
As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality
When planning our audit we set our materiality at £20.7m (Council only £20.6m) based on forecast gross expenditure. We have updated this to reflect year end figures and completed our audit to group materiality of £21.8m (Council only £21.7m), group performance materiality of £14.2m (Council only £14.2m) and we will report to you in this paper all misstatements above £1.1m.

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas
We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Our audit report
Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant risks

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Significant risks							
Completeness of accrued expenditure	✓	✓	DI	Satisfactory	⚠	Satisfactory	9
Management override of controls	✓	✓	DI	Satisfactory	⚠	Satisfactory	10

Controls approach adopted

- DI Assess design & implementation
- OE Test operating effectiveness of relevant controls
- S Involvement of IT specialists

Significant risks (continued)

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 in line with our approach in the prior year, and instead believe that a fraud risk lies with the completeness of accrued expenditure (as well as management override of controls as detailed on page 10). In the current year, we have identified the completeness of expenditure 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 and challenge	Our work in this area included the following: • We assessed the design and implementation of the controls in relation to recording the completeness of accruals; and • We performed focused testing in relation to the completeness of accruals through testing 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 this to 91 days to cover the period between April and June.
Conclusion	We have identified one recommendation in our testing of completeness of accrued expenditure, see page 14 for details. We have not identified any issues in relation to the key judgements made by management based on our work performed.

Significant audit risks (continued)

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 significant audit risks, (completeness of accrued expenditure) 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.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council’s results for the first half of the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood. Actions were taken to address the issues identified and the year-end position was an underspend; and
- Senior management’s remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant transactions

- We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Significant audit risks (continued)

Management override of controls

Deloitte response and challenge

Accounting estimates

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgement in the financial statements are those selected as significant audit risks: completeness of accrued expenditure.
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Conclusion

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 15.

Covid-19 pandemic

Impact on reporting and our audit

Impact on annual report and financial statements	
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods. Our work on property valuations included challenging whether the Council had appropriately considered the impact on the valuation (including any changes as a result of the pandemic and consequent service and organisational changes in the Council on the "modern equivalent asset" assumed in valuations).
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2021, we noted that the Council's share of pension fund assets had moved by £377m.
Narrative and other reporting issues	We have considered how the Council has reflected the impact of the pandemic in its reporting, including: • Narrative Report - discussion of the impact on services, operations, performance, strategic direction, resources and financial sustainability. Ensuring that this reflected the significant financial challenge that the Council has experienced. • Accounts disclosures on the impact on judgements and estimation uncertainty • We have made a number of minor recommendations for improving disclosures.
Events after the reporting period	The Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

Value for money

Our work is ongoing and will be reported in our Auditor’s Annual Report

Value for Money requirements

We are required to consider the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 (‘AGN03’), we are required to:

- Perform work to understand the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor’s Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Status of our work

Our Value for Money work is ongoing, and will be reported in our Auditor’s Annual Report, which has a publication deadline under the National Audit Office Auditor Guidance Note 3 of three month after the signing of the Audit Opinion.

Work performed to obtain an understanding of the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, including the supporting documentation provided on the arrangements, and will hold follow-up discussions on areas where additional information is required. In addition, we have:

- reviewed of the Council’s draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion;
- considered issues identified through our other audit and assurance work; and
- considered the Council’s financial performance and management throughout 2020/21.

Findings of our work to date

We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

Our opinion will state that work is on-going.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
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.	2019/20, Low priority Control environment	It is recommended that the relevant costs should be apportioned between years.	The Accounts and Audit Regulations 2015 set out the requirement to accelerate the production of draft annual accounts from 31 July to 31 May. In response to these changes CIPFA's best practice guidance, to ensure the shortened deadlines are met, recommends that authorities identify areas of the closedown process where it is appropriate to use robust estimation techniques to save time at the year end. The approach taken in relation to care homes uses a robust estimate of expenditure in the year to ensure the deadlines are met but also to ensure that the accounts represent a true and fair view of the financial position of the authority. Although the deadlines were extended for the 2020/21 accounts, the authority continued to adopt this approach to ensure draft accounts were produced in a timely manner and available for the external auditors. The payments to care homes are processed every 4 weeks using the Health and Adult Services system, Controcc and therefore reflect 52 weeks of payments in each financial year. To manually amend the transactions that have been processed by Controcc would not be practical or a good use of limited finance resource and time. Management is satisfied that reporting expenditure in this manner does not have a material impact on the figures in the Statement of Accounts.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Journal process controls 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.	2018/19, Medium priority Control environment	We recommend that controls in place around the journal process are tightened to ensure a review takes place prior to posting.	The authority processes a significant number of journals each year and a review of all journals prior to posting is not practically possible with limited resources. The key controls are the budget monitoring framework and formal quarterly performance reporting which would identify any material issues with journals and coding. Budget Managers with the support of Finance would flag if there were any material concerns with figures within their budget areas. Management is satisfied that these additional controls mitigate the requirement to have a formal review of journals prior to posting.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

It was noted as part of the prior year audit, that there were a large number of judgements included within the critical judgements section of the accounts. Deloitte consider that a number of these judgements do not meet the requirements to be considered critical judgements and the current year disclosure should be updated.

Other matters relevant to financial reporting:

The consolidation process at NYCC is to consolidate material subsidiaries. Deloitte recommend that all subsidiaries, irrespective of size, should be consolidated into the Group accounts. Deloitte have obtained the client workings behind the subsidiaries that aren't consolidated and have confirmed that they are not material to the Group.

The Council should ensure as part of its consolidation process that it considers whether any adjustments are required to harmonise accounting policies across the group.

In the current year disclosure requirements have been updated relating to the presentation of the Dedicated Schools Grant cumulative deficit within reserves, with a new unusable reserve 'Dedicated Schools Grant Adjustment Account' being created.

We will obtain written representations from the Accounting Officer and members on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.

Page 47

Our opinion on the financial statements

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Emphasis of matter and other matter paragraphs

There are no 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.

Value for Money reporting by exception

Our opinion will note that our Value for Money work is on-going and will be reported in our Auditor's Annual Report.

We have no matters to date to report by exception in our financial statement audit opinion.

Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report or Annual Governance Statement.

	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.
Annual Governance Statement	The Annual Governance Statement reports that 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.

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 Council 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 Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

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

Use of this report

This report has been prepared for 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.

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 Audit Committee.

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

Finally, 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.

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

Deloitte LLP

Deloitte LLP

Newcastle upon Tyne | 22 October 2021

Appendices

Audit adjustments

Unadjusted misstatements and Disclosures

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 do not impact on the results for the year, net assets or reserves.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m	If applicable, control deficiency identified
Misstatements identified in current year						
Unallocated cash received						
Cash	[1]		7.5			
Debtors	[1]		(7.5)			
Total			**-**			

[1] Adjustment relates to cash received that has not been allocated against the relevant debtors as at year end.

Audit adjustments (continued)

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 ISAs (UK).

Disclosure	Summary of disclosure requirement
FV disclosures	We identified some potential differences in the fair value disclosures as set out in Note 39 of the financial statements. As these items are disclosure only, we are not proposing to amend the financial statements. However we do propose that the Council reviews the calculations from the treasury adviser to confirm that the methodology used complies with the accounting standards and CIPFA guidance.
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.
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 the Comprehensive income and expenditure statement but should be disclosed within the movement in reserves statement.
Impairment losses	Disclosure within note 18 on impairment losses should be the gross impairment included within the surplus or deficit on the provision of services, currently the disclosure includes the net movement on investment properties.

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	Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page.
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 no 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 (continued)

The professional fees expected to be charged by Deloitte for the period from 1 April 2020 to 31 March 2021 are as follows:

	2020/21 Audit £	2019/20 Audit £
Code audit fee – Council*	72,757	72,757
Additional fee – Covid-19**	-	16,208
Additional fee – Objection**	-	10,818
Total audit	**72,757**	**99,783**
Teachers Pensions certification fees	TBC	4,000
Total assurance services	**TBC**	**4,000**
Total fees	**72,757**	**103,783**

* A variation to the fee scale has been proposed due to the changed requirements in relation to the Value for Money work, we estimate the cost to be between £15,000 and £25,000.

** Fees are still in the process of being approved by the PSAA.

Our other responsibilities explained

Fraud responsibilities and representations

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 Audit Committee 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 Council.

We have also asked the Audit Committee 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 completeness of accrued expenditure and management override of controls as a significant audit risk.

During 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.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.