

# **North Yorkshire County Council**

Update report to the Audit Committee on the 2022/23 audit

For the Audit Committee on 9 December 2024

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# 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.

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I have pleasure in presenting our progress report to the Audit Committee of North Yorkshire County Council (the Council) for the 2022/23 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 October 2023.

### **Status of our Statement of Accounts audit**

Our audit is on-going. Work is still to be performed around the following areas:

- Reviews of testing of operating expenses and reserves;
- Receipt of responses to pension queries from actuary and completion of work by our pension specialists;
- Review of updated financial statements, consolidation and the impact of adjustments (including technical review of prior year restatement);
- Completion of reviews and internal quality assurance procedures; and
- Our review of subsequent events from 31 March 2023 through to signing.

Based on the on-going work, there is a risk we will not meet the 13th December 2024 backstop deadline.

### **Status of our Value for Money audit**

Our Value for Money work is nearing completion, 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.

### **Audit summary**

- 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 identified three material misstatements which management have adjusted for in the draft financial statements, the details of these are included in page 4 and 5. We have also identified a number of uncorrected misstatements and disclosure deficiencies which are set out on page 25 and 26.
- Based on our work to date, nothing has come to our attention that would impact upon our audit opinion, however as noted our work is still ongoing.

# Introduction

## The key messages in this report (continued)

**Audit summary (continued)** As well as the key judgements identified above, we have identified the following audit matters as part of our work:

**Accounting for Property, Plant and Equipment revaluation movements:**

- In performing our procedures for property, plant and equipment (PPE) valuations we have identified an error in the calculation of the reversal of historic impairments where the asset is subsequently revalued upwards. Management have calculated the impact of the error on the financial statements and noted that the total impact is material therefore a prior period adjustment has been made to the financial statements.
- This error has been present for a number of accounting periods, and pre-dates 2021/22 which is the comparative period in the 2022/23 financial accounts. The error impacts the council's two unusable reserves, the revaluation reserve and the capital adjustment account, therefore the opening balances for these two reserves as at 1st April 2021 has been adjusted to correct this error where this issue was present prior to this date.
- The prior period impact on unusable reserves on 1 April 2021 is a £60.2m decrease to the revaluation reserve and a £60.2m increase to the capital adjustment account.
- The effect on the income and expenditure statement for the comparative year ended 31 March 2022 is a decrease of £10.4m to cost of services and a corresponding decrease in other comprehensive income.
- There is no net impact on the Movement in Reserves statement because of the impairment correction, as the impact of the change is captured solely within the unusable reserves, within the capital adjustment account and revaluation reserve.

Given the magnitude of this error, we have raised a recommendation around management ensuring accuracy of the underlying workings for PPE. See page 17 where this has been set out.

**Allerton Waste Recovery Park (AWRP):**

- AWRP was not due for revaluation under the Council's rolling programme in 2022/23, however due to the movements in the relevant building cost indices and the size of the underlying asset value, a desktop revaluation has been undertaken by management. From this it was identified that the value included in the 2022/23 draft financial statements for the AWRP was understated by £40.6m, therefore management have made this adjustment in the financial statements.
- The impact of this adjustment is an increase of £40.6m to PPE and a corresponding increase in the revaluation reserve.

# Introduction

## The key messages in this report (continued)

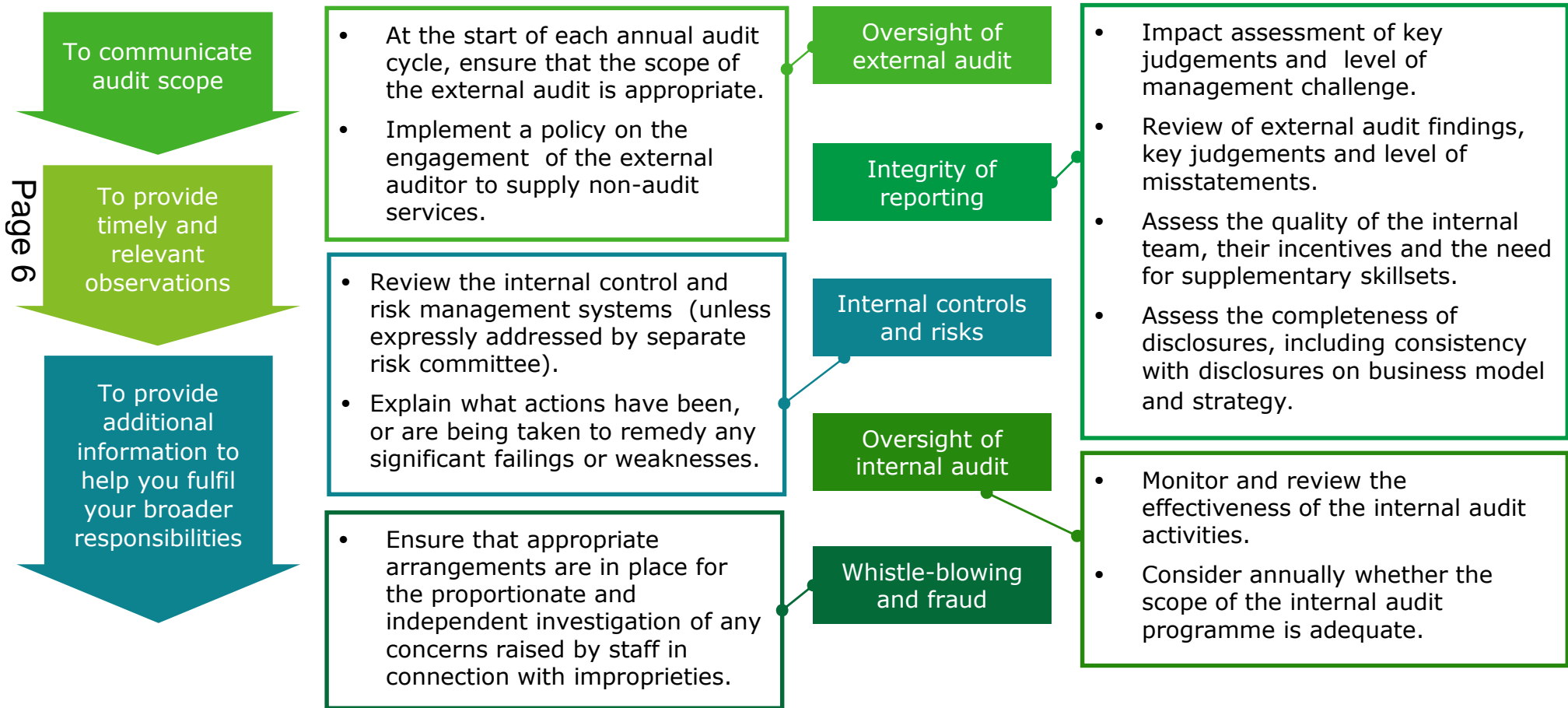
<b>Audit summary (continued)</b>	<b>Infrastructure Asset Lives:</b> <ul style="list-style-type: none"><li>• In the prior year we raised a recommendation in relation to the Council updating the useful economic lives for the different categories of infrastructure assets following the issuing of the statutory instrument and the CIPFA guidance.</li><li>• In 2022/23, the Council has determined the adjustments to depreciation required to address the issues raised in the prior year.</li><li>• Management have corrected this in the financial statements and the effect of the adjustments is an increase in depreciation and a corresponding decrease in PPE of £32.6m. The total amount is made up of £16.08m which relates to 2021/22 and £16.5m which relates to 2022/23.</li></ul>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>• We have reviewed the Council's draft Narrative Report to consider whether it is misleading or inconsistent with other information known to us from our audit work. We have a number of open comments that we are discussing with officers.</li></ul>
<b>Duties as public auditor</b>	<ul style="list-style-type: none"><li>• We did not receive any queries or objections from local electors this year.</li><li>• From our work to date 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.</li></ul>

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?







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



# Quality indicators

## Impact on the execution of our audit

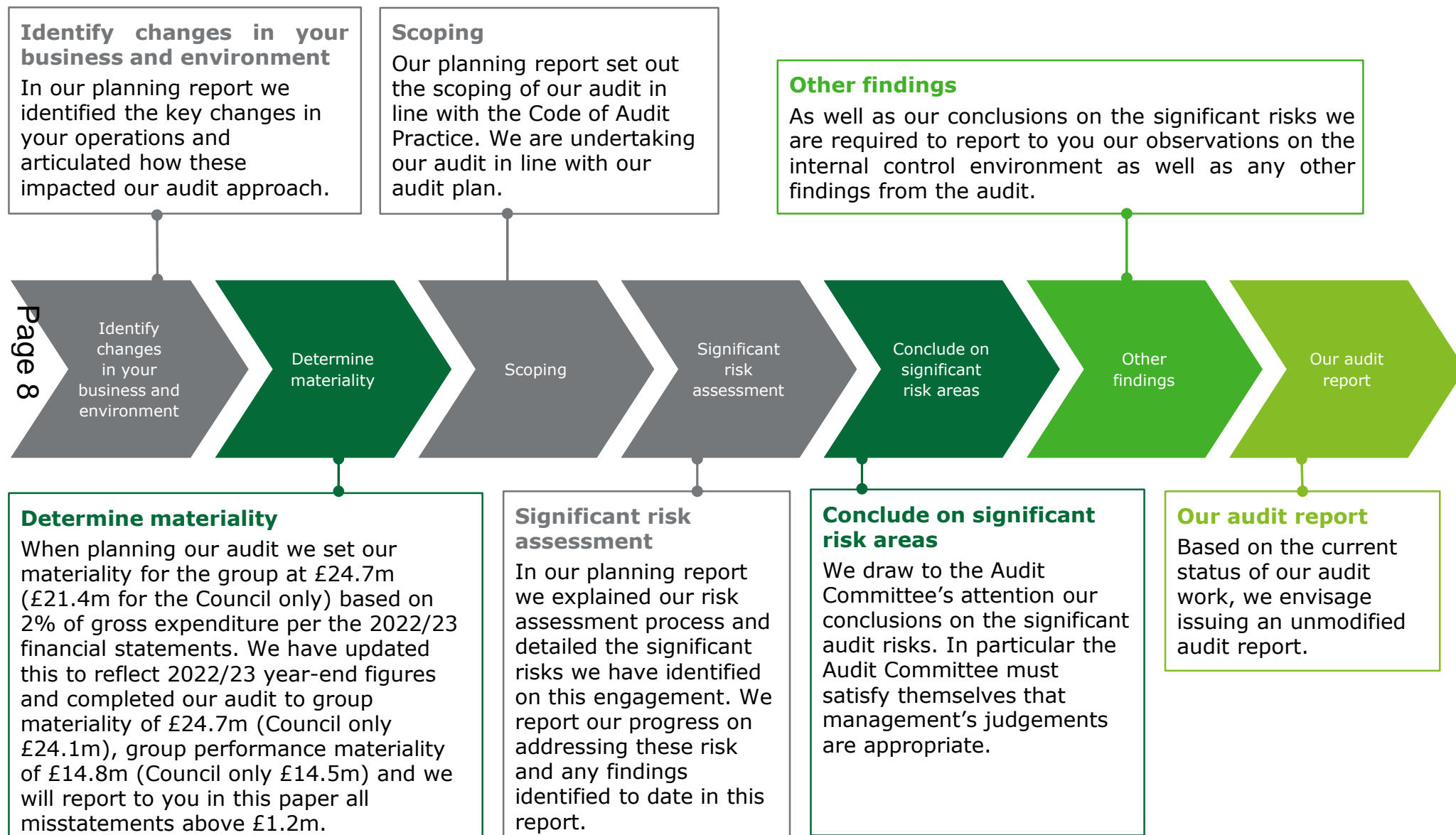
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to 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. We acknowledge that one of the drivers for the issues experienced has been the impact of LGR on the finance team and wider organisation.

Area	Grading	Reason
Timing of key accounting judgements		The audit team noted significant delays in receiving audit evidence required to test areas of key accounting judgements, this was partly due to the technical nature of the work and management have subsequently provided this evidence however this created a time lag in concluding the audit in these areas.
Access to finance team and other key personnel		The availability of the key members of the finance team and wider council was limited for some periods due to the team having other commitments in relation to LGR which delayed the restart of the audit. Once the audit work recommenced, we have had good engagement with the finance team.
Quality and accuracy of management accounting papers		The audit evidence and workings received was not always of sufficient quality in some areas and could be improved through more detailed reviews being undertaken. This resulted in a number of material adjustments being noted as part of the accounting papers. These have subsequently been corrected by management in the financial statements and are detailed on page 4 and 5.
Quality of draft financial statements		The Council produced draft financial statements which we provided comments to management for consideration and amendment and have reviewed the updated financial statements. These included a number of disclosure deficiencies and misstatements.
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. We have also noted the finance team have not been receptive to amending some disclosures in the financial statements in line with our recommendations to date.
Volume and magnitude of identified errors		The audit team noted a number of material errors in the financial statements as noted on page 4 and 5. Management have subsequently corrected these. Furthermore, there were several immaterial errors identified.

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# Our audit explained

We tailor our audit to your business and your strategy





# Significant risks

## Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
<b>Significant risks</b>							
Completeness of accrued expenditure				Satisfactory		Satisfactory	10
Management override of controls				Recommendation raised (Slide 16)		Satisfactory	11
No control reliance is taken as part of the audit.							

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### Controls approach adopted

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

# Significant risks (continued)

## Completeness of accrued expenditure

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**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 expenditure (as well as management override of controls, as detailed on page 11). In the current year, we have identified the risk as relating specifically to year end accruals.

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.

Furthermore, due to the formation of the new North Yorkshire Council, there is additional pressure on the capacity of the finance team which may impact the processes in place to identify accrued expenditure. There is therefore a heightened risk of error.

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**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 significant risk associated with the Council's processes in this area, we extended this to 91 days to cover the period between April and June.
- We performed analytical procedures comparing current year expenditure to prior year to identify any missed expenditure lines; and
- We performed detailed testing on a sample of accruals and challenge the assumptions used to ensure they are reasonable and complete

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**Conclusion** From our work we have not identified any adjustments above our clearly trivial threshold in relation to our testing of the completeness of accrued expenditure.

We have identified one recommendation in our testing of completeness of accrued expenditure, see page 16 for details.

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# Significant audit risks (continued)

## Management override of controls

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**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.

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**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 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;
- 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.
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# Significant audit risks (continued)

## Management override of controls

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**Deloitte  
response  
and  
challenge****Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- We have considered the overall control environment and 'tone at the top'
- The key judgement in the financial statements is that selected as a significant audit risk: 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.

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**Conclusion**

From our work we have not identified any issues in relation to management override.

We have raised one recommendation in relation to the journals control process, see page 16.

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# Other Areas of Focus

## Property Valuation

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**Risk identified**

Per the draft financial statements, the Council held £848.5m of property assets as at 31 March 2023 (2021/22: £831.5m). The increase from the prior year was in part due to £19.9m of disposals and £35.3m depreciation, and net revaluation movement of £70.9m due to the Council undertaking the usual valuation exercise during 2022/23.

The Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a four-year cycle. As a result of this, however, individual assets may not be revalued for three years.

Furthermore, the County Council completes valuations throughout the year. Any changes to factors used in the valuation process could materially affect the value of the County Council's assets as at year end.

There is therefore a risk that the value of property assets materially differ from the year end fair value due to the high level of judgement and complexity involved in the valuation process.

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**Deloitte response and challenge**

Our work in this area included the following:

- We used our valuation specialists, Deloitte Real Asset Advisory, to review judgements made on the timing and type of valuation performed and whether this is adequate for the valuation as a whole to remain current at year end.
- We also used our valuation specialists to assist in reviewing the qualifications and experience of the valuer and their methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs.

Other work on the valuation includes tests on information provided to the valuer for the purpose of the valuation, tests on the posting of the revalued amounts to the financial statements and recalculation of gains and losses and posting to the appropriate accounts in the financial statements.

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**Conclusion**

From our work we have identified the following misstatements:

- an error in the calculation of the reversal of historic impairments where the asset is subsequently revalued upwards and;
- an understatement in the valuation of Allerton Waste Recovery Park

Management have corrected the misstatements. The details of these are summarised on page 4 and 5 the impact on the financial statements is included in corrected misstatements on page 24.

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# Other Areas of Focus (continued)

## Valuation of Pension Asset/Liability

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**Risk identified**

The net pension asset/liability is a material element of the County Council's balance sheet. North Yorkshire Pension Fund (NYPF or "the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by North Yorkshire County Council (NYCC). The County Council is the reporting entity for the Fund.

The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore, there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council's employees and should be based on appropriate data.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.

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**Deloitte response and challenge**

Our work in this area is ongoing and will include the following:

- We will evaluate the competency, objectivity and independence of the Council's actuarial specialist and will review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used, including benchmarking of assumptions.
- We will engage with the Pension Fund Auditors to gain further assurance over the completeness and accuracy of pension data used by the actuary to calculate the IAS19 balances.
- At the year end the Council has a pension asset, consideration is required regarding the right to recognise an asset and if there are any restrictions on the value recognised.
- We reviewed the disclosures within the accounts against the Code.

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**Conclusion**

Our work is still ongoing in this area, from our work to date we have not identified any issues. We will report the finding in this area in the final report.

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# Value for money

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

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### **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.
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### **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 months after the signing of the audit opinion.

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### **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 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 2022/23.
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### **Findings of our work to date**

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

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# Your control environment and findings

## Control deficiencies and areas for management focus

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation
<p><b>Care home expenditure</b> 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.</p>	<p>2019/20, Low priority Control environment</p>	<p>It is recommended that the relevant costs should be apportioned between years.</p>
<p><b>Journal process controls</b> 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.</p>	<p>2018/19, Medium priority Control environment</p>	<p>We recommend that controls in place around the journal process are tightened to ensure a review takes place prior to posting of journals or for journals above a certain level.</p>
<p><b>Nil net book value items</b> From our review of the Council's fixed asset register we note that there is a large number of nil net book value assets included within vehicles, plant and equipment and intangibles.</p>	<p>2019/20, Low priority</p>	<p>Management should undertake a review of the nil net book value items held within the fixed asset register specifically within vehicles, plant and equipment and intangibles to confirm that the assets are still in use and that the useful economic lives being applied are appropriate.</p>
<p><b>Review thresholds</b> There are no specific thresholds set when reviewing the budget monitoring reports. There is also no formal documentation showing review of these.</p>	<p>2020/21 Medium priority</p>	<p>It is recommended that the process for reviewing both the budget monitoring reports and the financial statements is documented so there is a clear audit trail. It is also recommended that specific thresholds are set when reviewing the reports, and any variances above those thresholds are investigated further.</p>



# Your control environment and findings

## Control deficiencies and areas for management focus

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation
<p><b>IT findings – Prior years</b></p> <p>Our IT specialists have identified recommendations in relation to the following areas which are consistent with the points raised in previous audits:</p> <ul style="list-style-type: none"> <li>- Missing password parameters in Oracle &amp; Windows AD;</li> <li>- No formal movers process for Oracle, ResourceLink &amp; Windows AD</li> <li>- Starters - Access Mirroring For Users on Oracle, ResourceLink, Heywood Altair and Windows AD.</li> </ul>	2019/20, Low priority	We recommend that the IT controls are reviewed.
<p><b>IT findings – Current year</b></p> <p>Our IT specialists have identified that the starters and leavers processes are not comprehensive as the documents observed are very generic and high-level.</p>	2022/23, Low priority	We recommend that the council develops comprehensive starters and leavers processes and ensure that these are documented.
<p><b>PPE Revaluation movements</b></p> <p>From our review of revaluations movements, we noted an error in the calculation of the reversal of historical impairments where the asset was subsequently revalued afterwards.</p>	2021/22 Medium priority	It is recommended that the controls around reviewing revaluation entries to the FAR are tightened to identify any future errors similar to this.
<p><b>PPE AWRP revaluation</b></p> <p>AWRP was not due for revaluation under the Council’s rolling programme in 2022/23, however due to the movements in the relevant building cost indices and the size of the underlying asset value, a desktop revaluation has been undertaken by management which subsequently resulted in a management adjustment.</p>	2022/23 Medium priority	We recommend that council develops a controls to identify significant movements in cost indices and size of the underlying asset value and ensure that these are valued at the appropriate amount.

# Your control environment and findings

## Control deficiencies and areas for management focus

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation
<b>Financial Statements Review</b> A number of errors were identified in the consolidation workings for the Group accounts which required adjustment.	2022/23 Medium priority	There should be a detailed review of the workings that support the main statements and the notes of the financial statements to minimize the errors in the draft financial statements and to ensure that figures are reported consistently within the accounts.
<b>Members and senior officers' return information</b> We have identified that some North Yorkshire County Council's members and senior officers' returns for monitoring related-party transactions have been completed for the past two years.	2022/23 Low priority	We recommend that the council develops a control to ensure that all the members and senior officers' returns for monitoring related-party transactions is completed annually.

# 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 as they are unlikely to have a material impact on the financial statements i.e. valuation of investments in group companies and the bad debt provision.

We have raised a number of other points on the narrative report which are discussing with management, and where satisfactory changes were not made they have been noted as disclosure deficiencies, see page 26.

### 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.

We will obtain written representations from Officers 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.



### **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**

From our work to date 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	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>• Organisational overview and external environment;</li> <li>• Governance;</li> <li>• Operational Model;</li> <li>• Risks and opportunities;</li> <li>• Strategy and resource allocation;</li> <li>• Performance;</li> <li>• Outlook; and</li> <li>• Basis of preparation</li> </ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and considered it in terms of our understanding of the Council which we have acquired during the course of performing the audit, and we have raised a number of comments on improvements to the report which have been considered by officers.</p> <p>We have raised a recommendation for the areas where we consider that there should be additional disclosures, see page 26.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>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.</p>

# 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**

Newcastle upon Tyne | 9 December 2024

# Appendices



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# Audit adjustments

## Corrected misstatements and disclosures

The following corrected misstatements have been identified up to the date of this report and management have updated the financial statements. Details of these are included in page 4 and 5.

	Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m
<b>Prior period accounting for Property, Plant and Equipment revaluation movements</b>			
<b>Impact on 1<sup>st</sup> April 2021</b>			
Revaluation Reserve			(60.2)
Capital Adjustment Account			60.2
<b>Impact on year ended 31<sup>st</sup> March 2022</b>			
Cost of Services	10.3		
Revaluation of PPE (OCI)			(10.3)
<b>Total prior period adjustment</b>	<b>10.3</b>		<b>(10.3)</b>
<b>Allerton Waste Recovery Park (AWRP)</b>			
PPE		40.6	
Revaluation Reserve			(40.6)
<b>Infrastructure Asset Lives</b>			
PPE		(32.6)	
Depreciation	32.6		
<b>Total current period adjustment</b>	<b>32.6</b>	<b>8</b>	<b>(40.6)</b>



# Audit adjustments (continued)

## 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 increase the surplus by £ 1.5 million, decrease net assets by £ 1.3 million and decrease OCI by £2.8million.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m
<b>Misstatements identified in current year</b>				
<b>Investment Property Revaluation</b>				
Property, Plant and Equipment (PPE)	[1]		2.2	
Equity	[1]			(2.2)
<b>PPE GIA inputs overstatement</b>				
PPE	[2]		2.3	
Equity	[2]			(2.3)
<b>Care Home Prepayment – Overstatement</b>				
Expenditure	[3]	8.5		
Prepayments	[3]		(8.5)	
<b>Carryover of prior year misstatements</b>	[4]	<b>(10)</b>	<b>2.7</b>	<b>7.3</b>
<b>Total</b>		<b>(1.5)</b>	<b>(1.3)</b>	<b>2.8</b>

[1] Adjustment relates to an understatement of the revaluation for County Farm due to error in the Fixed Asset Register.

[2] Adjustment relates to a projected misstatement noted due to a difference between GIA inputs used by the Valuer compared to Concerto.

[3] Adjustment relates to prepayment for care home costs that partially relates to FY21/22 expense. The expenditure impact is offset by the impact of a similar £ 5.6m error in the opening position from the prior year.

[4] Carryover impact of prior year misstatements relates to a £4.4m understatement of the Goodwin pension liability, £5.6m overstatement of care home prepayments, and £12.7m overstatement of the pension liability due to triennial pension valuation adjustment. The net impact

# Audit adjustments (continued)

## Unadjusted misstatements and 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	Items should only be disclosed within this note if there is a significant risk of it resulting in a material adjustment to the carrying amounts of the relevant assets or liabilities within the next financial year.
DGS	Under the statutory instrument deficits should be posted to the DSG reserve, however given in the current year there is a DSG surplus, this should go to earmarked reserves rather than offsetting in the DSG Adjustment Account.
Narrative report	Improvements should be made to the narrative report in relation to the following areas: <ul style="list-style-type: none"><li>- commentary on how the authority has used its resources to achieve its desired outcomes;</li><li>- any significant future opportunities to develop services, along with key risks and uncertainties in relation to future service provision</li><li>- sufficient information to allow the user to assess the future sustainability of the organisation and its impact on service provision;</li><li>- narrative explanations for large year on year movements in balances; and</li><li>- clear disclosure of financial and non-financial KPIs and qualitative analysis of each identified.</li></ul>

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# 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:

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## 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 our objectivity is not compromised.

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## Fees

Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page.

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## 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.

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## 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.

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## Independence and fees (continued)

The professional fees expected to be charged by Deloitte for the period from 1 April 2022 to 31 March 2023 are as follows:

	2022/23 Audit £	2021/22 Audit £
Code audit fee – Council	81,364	72,757
Additional fee – scope changes	TBC	TBC
Value for Money*	TBC	TBC
<b>Total audit</b>	<b>81,364</b>	<b>72,757</b>
Teachers Pensions certification fees	9,000	8,000
<b>Total assurance services</b>	<b>9,000</b>	<b>8,000</b>
<b>Total fees</b>	<b>90,364</b>	<b>80,757</b>

\* 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.

\*\*\* There will be additional fees in the current year due to a number of changes in the audit scope, including work on the following: changes in accounting requirements for infrastructure assets, AWRP adjustment, accounting for Property, Plant and Equipment revaluation movement.

# 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.

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