North Yorkshire County Council

Planning report to the Audit Committee for the year ending 31 March 2022

Issued on 10 March 2022 for the Audit Committee on 21 March 2022

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Introduction

The key messages in this report

We have pleasure in presenting our planning report to the Audit Committee for the audit of the year ending 31 March 2022. We would like to draw your attention to the key messages set out in this audit plan.

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 principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Council prepared in accordance with the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA for the period ending 31 March 2022. We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in the 'PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies' published by Public Sector Audit Appointments Limited.

Audit Plan

We have updated our understanding of the Council, including discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key Risks

We have taken an initial view as to the significant audit risks for our audit, these are detailed on pages 13 and 14.

Regulatory Change

CIPFA is currently undertaking a consultation on the operational property, plant and equipment valuation approach and deferral of the implementation of IFRS 16, Leases. Responses were required by 3 March 2022 but to date no information in relation to any proposed changes has been communicated.

The Department for Levelling Up, Housing and Communities has extended the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for six years, beginning with the 2022/23 accounts.

We have reported on other regulatory changes in our accompanying sector developments section, on pages 21 to 24.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Nicola Wright
Audit Partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

The primary purpose of the auditor’s interaction with the Audit Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee’s responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help 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.

- Implement a policy on use of the external auditor for non-audit services and approve if arise.

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.

- Review the external audit findings, key judgements and level of misstatements.

- Assess the quality and capacity of the internal team, their incentives and the need for supplementary skill sets.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested, provide advice in respect of the fair, balanced and understandable statement.

- Assess and advise on the appropriateness of the Annual Governance Statement, including conclusion on value for money.

Internal controls and risks

- Review the internal control and risk management systems.

- Explain what actions have been, or are being, taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.

- 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 that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management, understanding the current year matters to assist with the preparation of our risk assessment for the audit. The two main matters in the current year are the continued impact from COVID-19 and preparation for the Local Government Reorganisation. We will continue to keep this under review throughout the audit process.

Scoping

Our work will be carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

More detail is given on page 10.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Determine materiality

We have determined preliminary materiality for the group and Council only to be £21.4m (2020/21 £21.8m) and £21.2m (2020/21 £21.7m) respectively. This is based on 2% of gross expenditure per the 2020/21 financial statements. We will report to you any misstatements above £1.0m (2020/21 £1.0m). We will also report to you any misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

The significant risks identified for 2021/22 are the same as those identified for 2020/21. More details on the significant risks for the current year are given on pages 12 to 15.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of North Yorkshire County Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Continuous communication and reporting

Planned timing of the audit

Planning	Interim audit	Year end fieldwork	Reporting
• Planning meetings to inform risk assessment and identify judgemental accounting issues. • Update understanding of key business cycles and changes to financial reporting. • Document design and implementation of key controls. • Review of key Council documents including Cabinet, Council and Audit Committee minutes. • Planning work for value for money responsibilities.	• Update on value for money responsibilities. • Scoping of components for the group audit. • Review of Council accounting policies and skeleton set of financial statements.	• Substantive testing of all areas. • Finalisation of work in support of value for money responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks.	• Year-end closing meetings. • Reporting of significant control deficiencies. • Signing audit reports in respect of financial statements. • Issue final Audit Committee paper. • Issue Annual Auditor’s Report (including narrative commentary on arrangements to secure economy, efficiency and effectiveness in the use of resources). • Whole of Government Accounts reporting (depending on guidance).
2021/22 Audit Plan		Final report to the Audit Committee	
February - March 2022	**June-July 2022**	**August – October 2022**	**November 2022**

Ongoing communication and feedback

COVID-19 pandemic and its impact on our audit

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments. Although we are now in a new phase of the pandemic following the roll-out of vaccinations and removal of legal restrictions, there remains a significant impact in 2021/22 on organisations. It therefore remains important to continue to consider the impact of COVID-19 in reporting.

Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:

- A detailed analysis across the Council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Council

We will consider the key impacts on the business such as:

- Interruptions to service provision
- Supply chain disruptions
- Unavailability of personnel
- Reductions in income
- The closure of facilities and premises

Impact on statement of accounts

We have considered the main impact of the outbreak on the statement of accounts to be in the following areas:

- Principal risk disclosures
- Impact on property, plant and equipment
- Valuation of commercial or investment properties
- Impact on pension fund investment measurement and impairment
- Going concern assessment
- Events after the reporting period and relevant disclosures
- Bad debts provision policy
- Narrative reporting
- Impairment of non-current assets
- Allowance for expected credit losses

Impact on our audit

We have considered the impact on the audit including:

- Resource planning
- Timetable of the audit
- Impact on our risk assessment
- Logistics including meetings with entity personnel

Materiality

Our approach to materiality

Basis of our materiality benchmark

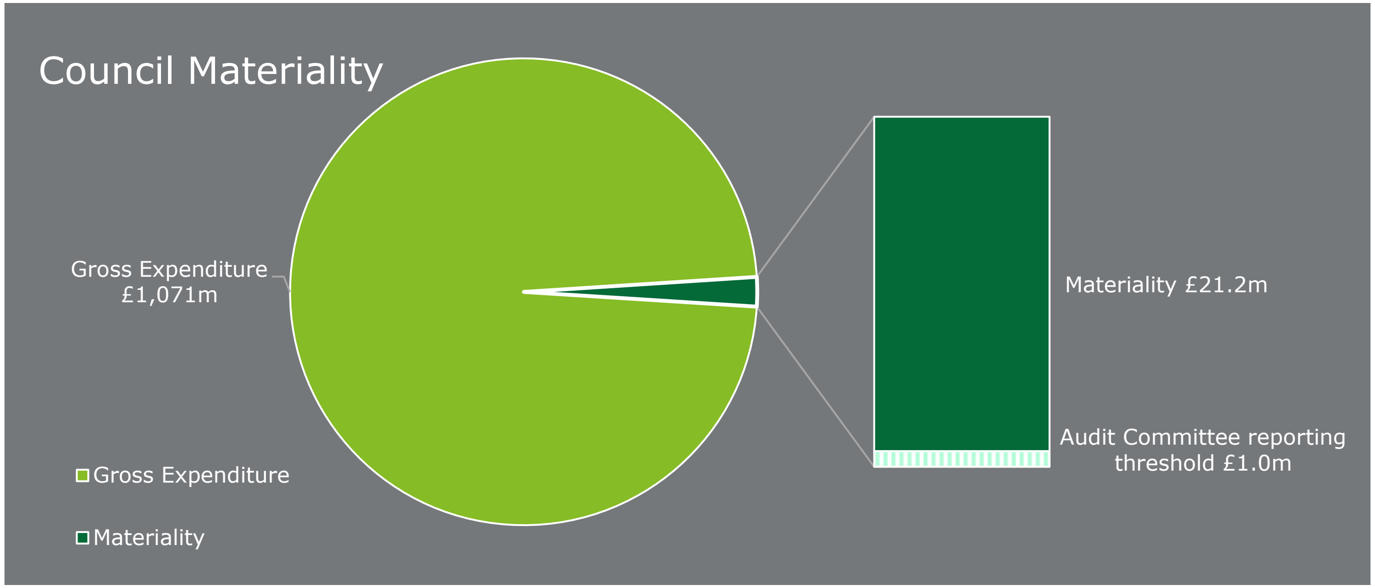
- We have determined preliminary materiality for the group and Council only of £21.4m (2020/21 £21.8m) and £21.2m (2020/21 £21.7m) respectively, based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of gross expenditure based on the audited 2020/21 accounts as the benchmark for determining our preliminary materiality. We will update our materiality calculation once the year end outturn is available.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £1.0m (2020/21 £1.0m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Reporting on Group Accounts

- Based on our understanding of the expected year end position, we have identified that we will need to undertake detailed testing on the subsidiary balances which are material to the group financial statements. See the group audit scope on page 9.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

We have four key areas of responsibility

Financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO'') and International Standards on Auditing (UK) ("ISAs (UK)") as adopted by the UK Auditing Practices Board ("APB"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting ("the Code'').

Group audit

We are undertaking our scoping of the components for the group audit and will perform direct testing of the subsidiary balances which are material to the group financial statements. In the prior year, we noted the main subsidiary companies in the context of the group audit were NYnet Limited and Yorwaste Limited. For the current year we expect there to be an additional component consolidated into the group accounts which will require testing, with NY Highways now being operational. However, due to their size none of the noted subsidiaries were considered to be significant components.

Value for Money

The National Audit Office's 2020 Code of Audit Practice revised the scope of the required work of the auditor on bodies' arrangements to secure value for money, moving away from a binary conclusion on arrangements in the audit report to a narrative commentary in an "Auditor's Annual Report" (which replaces the Annual Audit Letter).

To perform this work, we are required to:

- Obtain an understanding of the Council's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Council's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have identified any significant weaknesses; and
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This is consistent with the scope of work which applied in the prior year.

Annual Governance Statement

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the Statement of Accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in its use of resources.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of internal audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures (including consideration of the recent CIPFA publication on streamlining local government accounts), as well as the opportunity to review a skeleton set of financial statements and an early draft of the narrative report ahead of the typical reporting timetable to feedback any comments to management.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- The principal risks and uncertainties previously reported in the statement of accounts;
- The IAS 1 critical accounting estimates previously reported in the statement of accounts;
- The disclosures made by the Audit Committee in their previous Audit Committee report;
- Our assessment of materiality; and
- The changes that have occurred in the business and the environment it operates in since the last statement of accounts.

Principal risks and uncertainties

- Resource management
- Information governance
- Devolution
- Ability to secure commercial opportunities
- Underachievement of savings
- Health & Safety

IAS 1 Critical accounting estimates

- Future funding levels
- Property valuations
- Recognition of schools fixed assets
- Pension liabilities
- Valuation of investments
- Provisions and contingencies
- Accounting for grant income
- Classification of leases

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Changes in your business and environment

- Impacts of COVID-19
- Continued overspends in Children & Young People's Services
- Overspend in Health and Adult Services
- Increasing income generation from more commercial activities
- Local government reorganisation

Significant risks

Risk 1 – 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 inline 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 15). 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.
Our response	Our work in this area will include the following: • We will update our understanding of, and test the design and implementation of, the key controls in place in relation to recording of accruals; and • We will perform focused testing in relation to the completeness of accruals through testing of a sample of accruals recorded in the ledger and post-year end payments made.

Significant risks
Risk 2 – Management override of controls

Risk identified	In accordance with ISA 240 (UK), management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness 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.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will test the design and implementation of key controls in place around journal entries and key management estimates; • We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest; • We will review accounting estimates for biases that could result in material misstatements due to fraud; and, • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Value for Money

Areas of focus

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, 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: How the body plans and manages its resources to ensure it can continue to deliver its services.
    - Governance: How the body ensures that it makes informed decisions and properly manages its risks.
    - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- 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 VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Due to the timing of this meeting, this has not been possible to complete prior to the issue of this paper, and we will report to a later Audit Committee on any matters arising from this work. Although we have not fully completed our planning work, based on our existing understanding of the Council and the wider sector, the specific areas that we expect to focus on in understanding the Council's arrangements include:

Governance

Our 2021/22 work on arrangements will include consideration of how the Council is planning on adapting its internal governance arrangements and the processes it is following in year to put in place the appropriate governance structures for the new Council following the planned local government reorganisation.

Financial Sustainability

We will review the Council's financial performance throughout the year and achievement of savings, as well as the governance structures that are in place to support the Council's actions in delivering a balanced budget.

The processes and structures that the Council has put in place to monitor and manage the local government reorganisation to help ensure that the proposed benefits are realised.

Audit Quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism in all areas of our audit but with specific focus on any material issues or significant judgements made by the Council.

We will obtain a deep understanding of your business, its environment and of your processes, enabling us to develop a risk-focused approach tailored to North Yorkshire County Council.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve information technology, pension and property valuation specialists to support the audit team in our work on the IT environment, the pension balances and the property valuations respectively when required.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills and more specifically public sector audit, delivered by senior members of our public sector audit team.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

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

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

In the prior year, we communicated audit findings and control recommendations to management, and these will be followed up as part of our audit visits to assess how these have been addressed in the current year.

What we don't report

This report has been prepared for the Audit Committee, 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

Nicola Wright

for and on behalf of Deloitte LLP

Newcastle upon Tyne| 10 March 2022

Appendices

Sector Developments

CIPFA Consultation

CIFPA emergency proposals on the 2021/22 Code

Issue

CIPFA has issued an emergency consultation on potential measures that could be taken regarding the preparation of the 2021/22 financial statements to help alleviate the delays that have occurred in the publication of the audited financial statements, with only 9% of local authority accounts in England for the year ended 31 March 2021 meeting the audit publication deadline of 30 September 2021.

In December 2021, the Department for Levelling-up, Housing and Communities asked CIPFA to consider changes to the Code that may help with the delays and, following initial consideration, CIPFA issued a consultation in relation to two proposals:

- An adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and
- Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 Code to implement that standard.

Responses to the consultation were required to be submitted by 3 March 2022 and have therefore now closed, and we expect any changes to be communicated imminently.

In addition, as part of Deloitte’s response to the consultation, we also submitted a series of wider recommendations that we believe CIPFA could take to help reduce the burden on both finance and audit teams.

Next steps

Councils should be aware that, even if the proposals are accepted, there will still be actions in relation to these areas that the Council will need to make:

- Property Valuations – the Council will need to consider whether any potential impairment indicators have been identified in relation to the assets held by the Council.
- IFRS 16 – the change is a delay in implementation of the new standard and so work will need to continue to ensure the Council is in a good position to be ready for adoption in the following year.

Conflict between Russia and Ukraine

Potential impact on financial matters

Issue

The conflict between Russia and Ukraine is having a number of impacts on the global economy including inflationary pressures and the availability of commodities such as oil and gas, it is also impacting upon global financial markets, which is having a direct impact on the investment assets held by both Local Government bodies and LGPS Pension Funds. To date the assets most significantly affected have been those directly linked to Russia and Ukraine – government bonds issued by those countries and companies based there or with significant operations there.

Key considerations from the markets:

- Any holdings denominated in Rubles have lost 30% of their value versus USD since 25th February (based on 1 March rates);
- Although trading of Russian government bonds remains technically possible, at times the bid-offer spread has widened to more than 50%;
- Russian government bonds have lost their investment grade rating from many of the major ratings agencies, primarily reflecting concerns that, although a formal default is unlikely, sanctions may make it impossible for holders to receive interest or principal repayments;
- Overseas institutions have been banned from selling Russian securities on the Moscow Exchange (MOEX) and the operation of the exchange has been suspended;
- Trading in overseas listings of Russian companies have in many cases been suspended, including on the LSE and Deutsche Borse;
- Even if investors are able to find a willing counterparty to a transaction and are able to arrange the settlement process, investors outside of Russia may struggle to receive any proceeds from the sales now that many Russian banks have been barred from Swift – the global banking messaging system; and
- Due to the above issues, many funds with significant exposure to Russian assets – notably all Russian equity index tracker funds – have suspended redemptions.

Next steps

The following matters should be considered:

- IAS 19 asset values – often IAS 19 asset values are provided to the actuary in advance of 31 March. Due to the potential for significant market fluctuations between an earlier valuation date and the 31 March, actual values for the 31 March should be used for the 2022 IAS 19 valuation.
- Investment holdings – consideration of any investments that the Council holds in Russian or Ukrainian assets.

Climate change and the impact on public sector bodies

The NAO has published a guide for Audit and Risk Assurance Committees on climate change risk

Issue

Climate action failure was ranked as the most concerning global risk in the World Economic Forum's Global Risk Report 2021. Climate change is not a future concern, and will only continue to escalate in significance in future. Climate change risks are impacting all government organisations in some form and so it is vital that organisations engage now with climate related risks and opportunities.

The government has committed to achieving 'net zero' greenhouse gas emissions by 2050, and a challenge of this scale will require transformative change to the UK economy. There are a number of departments across government that are central to government's response to climate change. However, the all-encompassing nature of achieving net zero means that all government bodies have a role to play.

The National Audit Office has published "Climate change risk: A good practice guide for Audit and Risk Assurance Committees" (https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/) to help committees recognise how climate change risks could manifest themselves and support them in challenging management on their approach to managing climate change risks.

There are specific risk management principles around governance and leadership, integration, collaboration and best information, risk treatment, risk monitoring, risk reporting and continual improvement. Key climate change considerations are noted for each principle, along with example questions which audit committees can ask management and illustrative examples.

In addition to several questions for consideration in drafting the annual report, specific questions on the financial statements impact include:

- Where climate change risks give rise to a material financial impact, is this appropriately and accurately reflected in the financial statements? For example, an identified risk of rising sea levels and an increase in flooding could impact the valuation of buildings residing near to a floodplain and may require significant impairments.
- Has management fully considered the areas within their financial statements which could be impacted by climate change risks?
- Has management clearly explained material assumptions and uncertainties relating to estimates affected by climate change? For example, does it include relevant sensitivity analysis so users can appreciate the scale of impact.
- Where climate change has significantly affected the valuation of an organisation's assets and liabilities, is this adequately disclosed?
- Where climate change could affect an organisation's ability to continue to operate, is there adequate and appropriate disclosure in the accounting policies on the organisation's going concern status?

Next steps

- We recommend the Audit Committee review the guide and consider what assurance they need in this area, including whether financial statement impact and disclosures have been appropriately considered by the Council. Additional guidance on the impact of climate change for finance professionals is available in Deloitte's free training materials prepared in partnership with the ICAEW at https://deloitte.co.uk/climatechange/

Recently published Deloitte briefings and articles

Deloitte briefings

The State of the State 2021/22

Towards a new public sector normal

For more information, please visit:

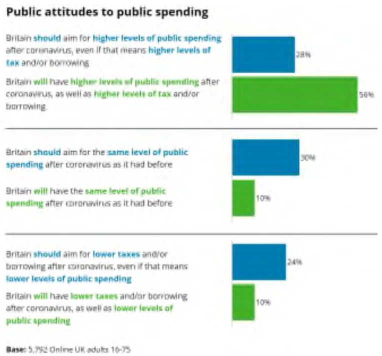
https://www2.deloitte.com/uk/en/pages/public-sector/articles/the-state-of-the-state.html

Since March 2020, the UK's government and public services have led radical, exhaustive and dynamic responses to the coronavirus pandemic. This year's State of the State finds them dealing with both the pandemic and its wider repercussions on the public sector's people, the services they deliver and the citizens they serve.

Looking beyond the pandemic, the UK Government has set out its ambition to 'build back better' through infrastructure investment, levelling up economic outcomes across the regions and revitalising the UK's place in the world. At the same time, the policies and politics of Northern Ireland, Scotland and Wales continue to diverge from Westminster. The State of the State explores all of these developments through exclusive research.

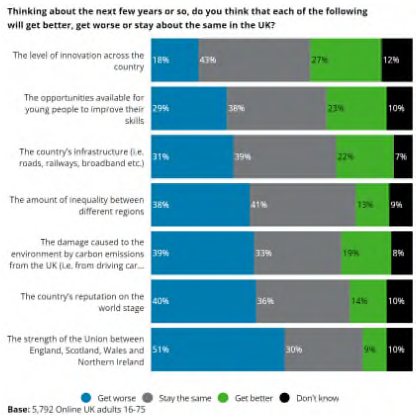
The pandemic has fractured public attitudes to tax and spending

This year, our survey finds the public split evenly between those who would welcome higher levels of tax and spend, those who would like to maintain the same levels as before the pandemic, and those who would prefer lower taxes and lower government spending. This split in attitudes to tax and spend appears to have deepened over the last year. There has been a drop in the those wanting higher spending and a rise in those wanting tax cuts since our last survey.



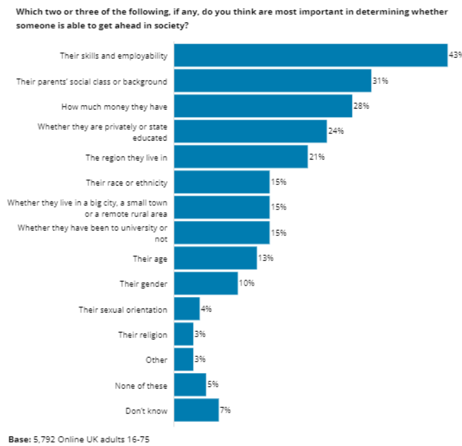
Levelling up is as much about people as place

As the Government continues to develop its levelling up programme, our survey explored some nuances of place-based thinking. Our citizen survey explored the factors people believe define our opportunities in life. The findings show a complex set of perceptions about social mobility in the UK.



The public expects the UK to build back, but not necessarily better

This Government has ambitious plans for the UK and aims to 'build back better' from the economic and social damage left by coronavirus, and our survey asked whether people expect those areas of UK life to improve in the next few years. Our results show that the pandemic has left the public fairly pessimistic for the future. Just 13 per cent believe inequalities between regions are set to improve, and 39 per cent think that the environmental damage caused by carbon emissions could get worse not better.



Fraud responsibilities and representations

Responsibilities explained

Your 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.

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 the risk of fraud in expenditure accruals and management override of controls as key audit risks for the Council.

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 Council:

- 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 entity or group 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 entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

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 entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- 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 entity.

Internal audit

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

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

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 will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2022 in our final report to the Audit Committee.
Fees	There are no non-audit fees for 2021/22 outside of those noted in the table on the following page.
Non-audit services	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 in the period from 1 April 2021 to 31 March 2022 are as follows:

	Current year £	Prior year £
Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment [1]*	72,757	72,757
Fee for additional work to address COVID-19 impacts [2]*	TBC	TBC
Value for money [3]	20,000	20,000
Total audit	**92,757**	**92,757**
Teachers' pension audit fee	4,500	4,500
Total assurance services	**4,500**	**4,500**
Total fees	**97,257**	**97,257**

[1] The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be looking to discuss with the Council the current level of fee.

[2] Addressing the required changes to our audit approach due to the impact of Covid-19, this will be discussed and agreed with management.

[3] We expect the fee for the work under the new Value for Money arrangements to be in the range of £15-25k. We will finalise the prior year figures once the work is complete and the AAR issued.

* All additional fees are subject to agreement with PSAA.

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2020/21 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC's findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

Our approach to quality

AQR team report and findings

The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."