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North Yorkshire County Council

# North Yorkshire County Council

## Planning report to the Audit Committee for the year ending 31 March 2023

Issued on 12 October for the Audit Committee on 23 October 2023

**Deloitte Confidential: Public Sector**

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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.

We have pleasure in presenting our planning report to the Audit Committee for the year ending 31 March 2023 audit. We would like to draw your attention to the key messages of this audit plan:

**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 2023. We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA 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 initial 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. We will notify the Council on any changes made to this audit plan.

**Key Risks**

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.

**Regulatory Change**

The Department for Levelling Up, Housing & Communities (DLUHC) consulted on a temporary statutory solution to difficulties both preparers and auditors were having in accounting for (and subsequently auditing) some aspects of local authority infrastructure assets.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 were laid in parliament on 30 November 2022, and came into force on 25 December 2022.

The regulations complement a temporary change to the 2021/22 CIPFA Code of Practice.

The impact of this was assessed as part of the FY21/22 and any further developments will continue to be assessed during the FY22/23 audit.

We have reported on other regulatory changes in the technical update section from page 6.

**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 lead**

# Responsibilities of the Audit and Governance Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit and Governance Committee?

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

As a result of regulatory change in recent years, the role of the Audit and Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Governance Committee responsibility to provide a reference in respect of these broader responsibilities.

**Oversight of external audit**

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

**Integrity of reporting**

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

**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**

- Monitor and review the effectiveness of the internal audit activities.
- Consider annually whether the scope of the internal audit programme is adequate.

**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 main change is the formation of the new North Yorkshire Council on 1 April 2023, however the impact on the financial year ending 31 March 2023 is expected to be limited to appropriate disclosure of the changes.

**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, including key audit matters if applicable.


**Determine materiality**

We have determined preliminary materiality for the Group and County Council only of £24.7m (2021/22 £21.4m) and £24.1m (2021/22 £21.2m) respectively. This is based on 2% of gross expenditure per the 2022/23 draft financial statements. We will report to you any misstatements above £1.23m (2021/22 £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 currently identified significant risks identified for 2022/23 are the same as those for 2021/22. More details on the significant risks for the current year are given on pages 15 to 18.

**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.

# Revisions to auditing standards coming into effect

## ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most entities, this will be December 2022 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment. We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise on the next few slides some of the areas where this may impact our audit.

*"The IAASB recognizes the importance, and also the complexity, of the auditor's risk assessment process"*

IAASB's basis for conclusions, ISA 315

| Area of change | Impact on our audit | Impact on the entity |
|---|---|---|
| New requirement to evaluate the 4 entity-level components of internal control | Whilst we have always been required to gain an understanding of the entity and its environment, including its internal controls, the new standard is more prescriptive on the need to go further and evaluate the 4 entity level controls components: the entity's control environment, risk assessment process, monitoring of internal control, and information system.<br><br>This could lead to an increase in the number of relevant controls. | You will need to consider the adequacy of your entity-level controls, and documentation thereof.<br><br>You should also expect more granular inquiries regarding the control environment. |
| Enhanced consideration of the types of relevant controls | Overall we expect to identify an increased number of relevant controls, particularly for controls designed to address risks at the higher end of the spectrum of inherent risk and controls over reconciliations. Where new relevant controls are identified, we may also identify control deficiencies and need to consider the effect of these. | You should expect more challenge of controls, particularly over complex accounting estimates, financial reporting and complex or highly automated business processes. |

# Revisions to auditing standards coming into effect

## ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

| Area of change | Impact on our audit | Impact on the entity |
|---|---|---|
| Enhanced understanding of IT and General IT controls | As we identify more relevant controls, it is likely there will be more relevant IT controls (e.g. automated controls) which themselves rely on underlying General IT Controls (GITCs).<br>We may need more IT specialist involvement to gain an enhanced understanding of IT controls and GITCs, particularly where there are a high volume of automated transactions in the entity. Similarly, where new IT systems come into scope, the likelihood is that there will be an increase in the number of deficiencies identified and action will be needed to determine the appropriate response. | You should expect more challenge over the effectiveness of your GITCs, including how these are monitored. |
| New approach to scoping account balances, classes of transactions and disclosures | We may now identify some account balances as "material but not significant" where we do not identify a risk of material misstatement, but where we are required to perform some substantive testing. | We may need to perform more substantive testing on overseas subsidiaries, where previously there was no separate category of material but not significant. |
| Revised definition of a significant risk, focused on risks at the upper end of a spectrum of inherent risk | We do not anticipate there being a significant increase in the number of significant risks identified, but where there are more material judgements or estimates being made and a significant risk has not been identified previously, we may conclude there is a significant risk. | You should expect more challenge on audits where before there were no significant risks beyond management override of controls. |
| Stand back requirement and increased focus on professional scepticism | Our audit approach already acknowledges that risk assessment is an iterative process as well as emphasising the importance of professional scepticism. We will use this as an opportunity to challenge ourselves on the evidence that professional scepticism has been applied through the risk assessment processes, including as part of the stand back assessment. | You should expect more challenge of the evidence provided in respect of our risk assessment, including revisiting this towards the concluding stage of the audit. |

# Revisions to auditing standards coming into effect

## ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The Financial Reporting Council (FRC) issued a revised fraud standard in May 2021, that takes effect for periods commencing on or after 15 December 2021 (i.e. December 2022 year ends).

Many of the revisions provide increased clarity as to the auditor’s obligations and codify existing expectations or best practice. The updates to the ISA do not include any changes relating to proposals in the Government’s White Paper regarding auditor reporting on a statement by directors on the steps they have taken to prevent and detect material fraud.

We summarise on the next few slides how this will impact our audit.

| Area of change | Impact on our audit | Impact on the entity |
|---|---|---|
| Fraud inquiries | In addition to the pre-existing required enquiries, we are now explicitly required to make inquiries of management or others at the entity who handle whistleblowing.<br><br>We also required to discuss the risks of fraud with those charged with the governance, including those risks specific to the entity’s business sector. | You should expect further challenge in relation to who we speak to in relation to fraud at the entity, including more focus on entity/sector specific risks. |
| Engagement team discussions | The revised ISA (UK) emphasises that the pre-existing audit team fraud discussion should explicitly include an exchange of ideas about fraud, incentives to commit fraud, and how management could perpetrate and conceal fraud.<br><br>There is also an explicit requirement for the engagement partner to consider whether further fraud discussions should be held at later stages of the audit. | You should expect increased challenge of the controls and processes in relation to the entity’s own fraud risk assessment and the documentation of that assessment. |

# Revisions to auditing standards coming into effect

## ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

| Area of change | Impact on our audit | Impact on the entity |
|---|---|---|
| Identified or suspected fraud by a key member of management | The revised ISA (UK) clarifies that if we identify or suspect fraud by a key member of management this may be qualitatively material. | Further challenge in relation to identified or suspected fraud by a key member of management. |
| Involvement of specialists | We are explicitly required to determine whether the engagement team needs specialised skills and knowledge:<br>• To perform the fraud risk assessment procedures, to identify and assess the risk of material misstatement due to fraud, to design and perform audit procedures to respond to those risks or to evaluate the audit evidence obtained; or<br>• Where a misstatement due to fraud or suspected fraud is identified. | There is likely to be more interaction with fraud specialists as part of our planning procedures. |
| Journal entry testing | We were already required to test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and make inquiries of personnel.<br>The revised ISA (UK) clarifies that our selection process should consider specifically both automated and manual journals, consolidation adjustments (in the preparation of group financial statements), and post-closing entries.<br>The standard also emphasises that when making inquiries about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, we should make inquiries of individuals with different levels of responsibility in the financial reporting process. | You should expect more challenge on GITCs over the identification and classification of automated and manual controls, especially where there are IT deficiencies.<br>There will also be more inquiries with people at different levels of responsibility at the entity. |

# Revisions to auditing standards coming into effect

## ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

| Area of change | Impact on our audit | Impact on the entity |
|---|---|---|
| Representations from those charged with governance | We will request an additional representations from those charged with governance regarding their responsibilities for the prevention and detection of fraud. | You should expect updated representations from those charged with governance that they believe they have appropriately fulfilled their responsibilities to design, implement and maintain internal control to prevent and detect fraud. |

# 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.<br>• Update understanding of key business cycles and changes to financial reporting.<br>• Document design and implementation of key controls.<br>• Review of key Council documents including Cabinet, Council and Audit Committee minutes.<br>• Planning work for value for money responsibilities. | • Document design and implementation of key controls and update understanding of key business cycles.<br>• Update on value for money responsibilities.<br>• Scoping of components for the group audit.<br>• Review of Council accounting policies and skeleton set of financial statements. | • Substantive testing of all areas.<br>• Finalisation of work in support of value for money responsibilities.<br>• Detailed review of annual accounts and report, including Annual Governance Statement.<br>• Review of final internal audit reports and opinion.<br>• Completion of testing on significant audit risks. | • Year-end closing meetings.<br>• Reporting of significant control deficiencies.<br>• Signing audit reports in respect of Financial Statements.<br>• Issue final Audit Committee paper.<br>• Issue Annual Auditor's Report (including narrative commentary on arrangements to secure economy, efficiency and effectiveness in the use of resources)<br>• Whole of Government Accounts reporting. |
| 2022/23 Audit Plan | Interim report to the Audit Committee | Final report to the Audit Committee | |
| **October 2023** | **October - November 2023** | **November -December 2023** | **February 2024** |

**Ongoing communication and feedback**

# Materiality

## Our approach to materiality

**Basis of our materiality benchmark**

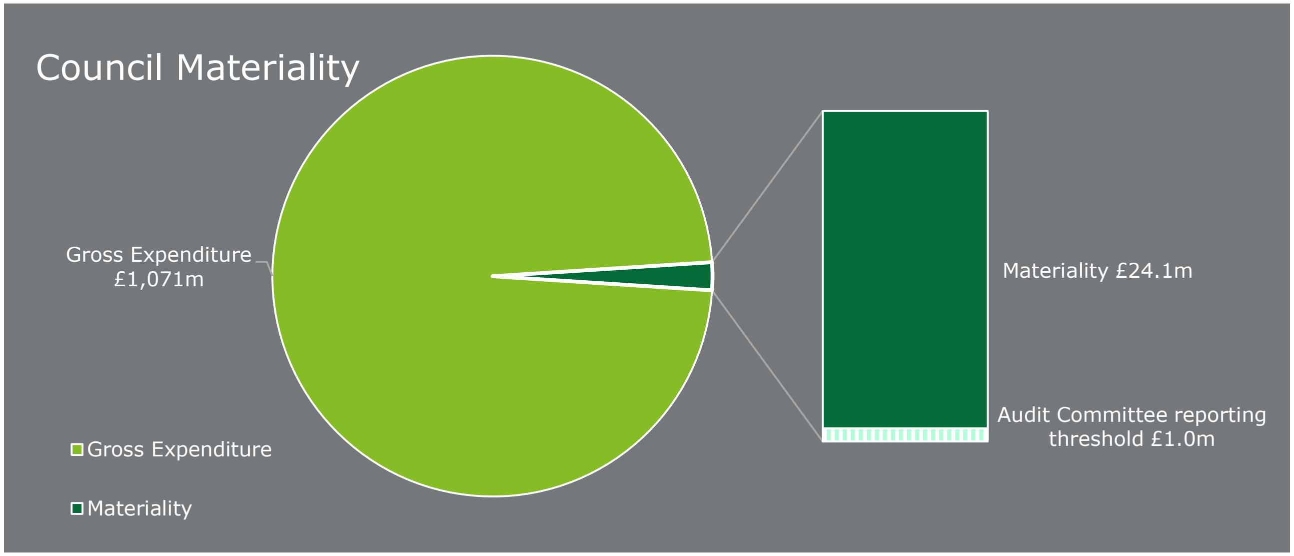
- We have determined preliminary materiality for the Group and Council only of £24.7m (2021/22 £21.4m) and £24.1m (2021/22 £21.2m) respectively, based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of gross expenditure based on the draft financial statements 2022/23 accounts as the benchmark for determining our preliminary materiality.

**Reporting to those charged with governance**

- We will report to you all misstatements found in excess of £1.0m (2021/22 £1.0m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

**Reporting on Group Accounts**

- We have identified that we will need to undertake detailed testing on the subsidiary balances which are material to the group financial statements.




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 under the Audit Code

### 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) ("ISA (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, Yorwaste Limited and NY Highways. Due to their size none of the noted subsidiaries were considered to be significant components.

### Value for Money conclusion

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 a new "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 reported any significant weaknesses.
- 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 will continue to review the draft of the annual report during the earlier part of the audit to feedback any comments to management and the Audit Committee.

### Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report:

- if we have reported any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources; or
- if the Annual Governance Statement does comply with the CIPFA Code, or is misleading or inconsistent with information of which we are aware from our audit. We are not required to consider, nor will we consider, whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

# Significant risks

## Our risk assessment process

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

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- 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 annual report and financial statements.

**Deloitte view**

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

Page 16 summarises the currently identified significant risks that we will focus on during our audit.

**Principal risk and uncertainties**

- Local government reorganisation
- Recruitment and retention
- Information governance
- Funding challenges
- Economic issues in the care market and workforce pressures.

**Changes in your business and environment**

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

**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

**NAO – Auditor Guidance Note 07**

The National Audit Office (NAO) has not identified specific local government accounting issues in Audit Guidance Note (AGN) 07 however the preceding guidance note (AGN 06) the NAO identified going concern, IFRS 16 Leases, transitional protection for certain pension scheme members, Guaranteed Minimum Pensions Equalisation, Dedicated Schools Grant – negative reserve and Pension guarantees to other entities as key issues in their Local Government Audit Planning guidance issued in November 2022.

We reviewed the approach being taken by the Council in response to these in the prior year audit and will refresh our understanding for the current year.

We do not believe any of these matters represent a significant audit risk but we will carefully review the approach being taken by the Council to address these issues.

# Significant risks

## Significant risk dashboard

| Risk | Material | Fraud risk | Planned approach to controls | Level of management judgement/ estimate | Management paper expected | Slide no. |
|---|---|---|---|---|---|---|
| Completeness of Accrued Expenditure | ✓ | ✓ | D+I | ⚠ | ✗ | 17 |
| Management Override of Controls | ✓ | ✓ | D+I | ⚠ | ✗ | 18 |

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

⚠ Low level of management judgement/ estimate

⚠ Moderate level of management judgement/ estimate

⚠ High level of management judgement/ estimate

# 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, and instead believe that a fraud risk lies with the completeness of expenditure (as well as management override of controls as detailed on page 13). In the current year, we have identified the risk as relating specifically to year end accruals.<br><br>There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position.<br><br>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.<br><br>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. |
| **Our response** | Our work in this area will include the following:<br><br>• We will update our understanding of, and test the design and implementation of, the key controls in place in relation to recording of accruals;<br><br>• We will perform focused testing in relation to the completeness of accruals through testing of post-year end unprocessed invoices and payments made; and<br><br>• We will perform analytical procedures comparing current year expenditure to prior year to identify any missed expenditure lines; and<br><br>• We will perform detailed testing on a sample of accruals and challenge the assumptions used to ensure they are reasonable and complete. |

# 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.<br>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:<br>• We will consider the overall control environment and 'tone at the top';<br>• We will test the design and implementation of key controls in place around journal entries and key management estimates;<br>• We will make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.<br>• We will test the appropriateness of journals and adjustments made in the preparation of the financial statements. The journal entries will be selected using computer-assisted profiling based upon identification of items of potential audit interest;<br>• We will review accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above.<br>• 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. |

# Areas of audit focus

## The following have been identified as areas of audit focus for 2022/23

**Property Valuation**

The Council held £864.4m of property assets as at 31 March 2023 (2021/22: £845.5m). The increase from the prior year was in part due to additions of £6.2m offset by £19.9m of disposals and £16.0m depreciation and impairment, and net upwards revaluations of £48.5m 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 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.

We will use 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 will also use 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.

**Valuation of Pension Asset/Liability**

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.

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.

# 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 (which replaces the Annual Audit Letter), 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 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:

**Financial Sustainability / LGR**

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.

We will also consider the processes and structures that the Council has put in place to monitor and manage the local government reorganisation to help ensure that appropriate governance arrangements are in place.

We will assess how the Council has continued to focus on financial sustainability as it transitions to the new North Yorkshire Council structure and governance arrangements alongside managing any staff capacity issues that arise.

# 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 have obtained a deep understanding of your business, its environment and of your processes in revenue, 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 Deloitte Real Estate 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. This will be headed up by one of our most experienced partners who will draw on colleagues from our dedicated Professional Standards Review function and other specialists to review before any audit or other opinion is signed. This team 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|12 October 2023

# Appendices

# 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 2022 and the 2023 report Failure to mitigate climate change is ranked as the most severe Global risk. 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/

# Our other responsibilities explained

## Fraud responsibilities

**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 risks of material misstatement due to fraud in in expenditure accruals, and management override of controls.
- 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.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

**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.

# 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.
- We plan to involve management from outside the finance function in our inquiries.

**Internal audit:**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the 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.

# Our other responsibilities explained

## Fraud responsibilities

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

**Management and other personnel:**

- 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.
- We plan to involve management from outside the finance function in our inquiries.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

**Internal audit and Local Counter Fraud Specialist**

- Whether internal audit and the Councils local counter fraud specialist have knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain their 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.

# Prior year audit adjustments

## Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

| | | Credit/(Charge) to the income statement £'m | Increase/ (Decrease) in net assets £'m | Increase/ (Decrease) in retained earnings £'m |
|---|---|---|---|---|
| **Judgemental misstatements** | | | | |
| Infrastructure Additions (Extrapolated) | [1] | - | - | |
| Infrastructure assets - UEL roads | [2] | 8.1 | (8.1) | |
| Infrastructure assets - UEL bridges | [3] | (1.6) | 1.6 | |
| Goodwin Ruling | [4] | 4.4 | (4.4) | |
| Investment Properties – Revaluations | [5] | | (1.0) | 1.0 |
| **Factual misstatements** | | | | |
| Care Home Prepayment Overstated | [6] | 5.7 | (5.7) | |
| Care Home Prepayment Overstated PY | [6] | (4.6) | | 4.6 |
| | | | | |
| Pensions Proposed Adjustment | [7] | (12.7) | 12.7 | |
| Unallocated cash | [8] | - | - | |
| **Total** | | **(0.7)** | **(4.9)** | **5.6** |

# Prior year audit adjustments

## Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

(1) 2020/21 infrastructure asset addition for £87k recorded in 2021/22 as an addition, with an extrapolated difference over the untested population of £3.8m. The impact is an increase in trade payables and a decrease in PPE (net impact is nil).

(2) The Council has used 40 years to calculate depreciation for the roads category of infrastructure assets which falls outside of the 20 – 30 years CIPFA recommended range. 2021/22 depreciation impact of using a UEL of 30 years rather than the current 40 years is £8,068k.

(3) The Council has used 40 years to calculate depreciation for the bridges category of infrastructure assets which falls outside of the 80 – 120 years CIPFA recommended range. 2021/22 depreciation impact of using a UEL of 80 years (lower range) rather than the current 40 years is £1,623k.

(4) Additional liability arising from an employee tribunal legal ruling which has been treated as a post balance sheet adjusting event.

(5) The current year valuation movement per the Council's valuer for the county farms has not been applied to the assets. Deloitte have calculated that investment properties are understatement by £988k.

(6) Incorrect recognition of Care Home expenditure around year end.

(7) The IAS 19 report has been adjusted for the Triennial Valuation data and the change in assumptions have resulted in a change in the liability and asset and an impact in the CIES.

(8) The Council has reconciling items in the bank reconciliation for £8.2m cash received which had not been allocated to the relevant debtor balance as at 31 March 2022 year end. The net impact on the balance sheet is nil.

# 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 2023 in our final report to the Audit Committee. |
| Fees | There are no non-audit fees for 2022/23 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 2022 to 31 March 2023 are as follows:

| | Current year £ | Prior year £ |
|---|---|---|
| Financial statement audit including Whole of Government Accounts [1]* | 81,364 | 72,757 |
| Value for money[2]* | TBC | TBC |
| Additional Scope of Work [3]* | TBC | TBC |
| **Total audit** | **81, 364** | **72,757** |
| Teachers' pension audit fee | 9,000 | 8,000 |
| **Total assurance services** | **9,000** | **8,000** |
| **Total fees** | **90,364** | **80,757** |

[1] The fee reflected here is the scale fee.

[2] 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.

[3] In the current year this will include changes in the scope of the audit due to new auditing standards and in the prior year it relates to work done for infrastructure and pensions work.

* All additional fees are subject to agreement with PSAA.

# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

### The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

### Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's: actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."