

Hambleton District Council Audit results report

Year ended 31 March 2020

27 November 2023

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letter.

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27 November 2023

Dear North Yorkshire Audit Committee members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Hambleton District Council for 2019/20. We have substantially completed our audit of Hambleton District Council for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit report on the financial statements in the form in section 3. We do, however, have matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources and expect to issue a qualified except for opinion in respect of the Council's arrangements.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 11 December 2023.

Yours faithfully,

Hassan Rohimun
Partner
For and on behalf of Ernst & Young LLP
Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of North Yorkshire Council as successor of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the March 2020 Hambleton Audit, Governance and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. Additional audit work was required due to issues arising on the 2019/20 financial statements and in relation to our assessment of the Council's Value for Money arrangements and the Council's infrastructure assets, a target date for the final sign-off for the Council financial statements has been agreed with management as December 2023.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- ▶ **Disclosures on Going Concern** - Medium term financial plans will need revision for Covid-19. We considered that the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2024 and as result a disclosure of the impact of the standard in the 2019/20 financial statements is not required. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes to the scope of our audit as a result of Covid-19

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- ▶ Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 35.

Executive Summary

Scope update

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £0.878m, with performance materiality, at 75% of overall materiality, of £0.659m, and a threshold for reporting misstatements of £0.043m. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with prior years at 1.8% of gross operating expenditure and we have used the same materiality levels for the group and single entity accounts. We are required to reassess our materiality thresholds at the end of each audit, taking into account the level of misstatements identified, and have not identified any further changes to this assessment.

Change in Audit Team

As set out in our Audit Planning Report, Hassan Rohimun is the Partner responsible for the overall quality and delivery of the audit. He was supported by Claire Mellons as Senior Manager and Richard Tebbs as Manager, following the departure of Vusi Maseko from EY.

Status of the audit

At the time of this report, we have substantially completed our audit of Hambleton District Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements. However until work is complete, further amendments may arise:

- ▶ Final audit partner review of audit file; and
- ▶ Review of final signed accounts, including adjustments to the Governance Statement and going concern note.

We will update the committee at the meeting on 11 December 2023 on any further findings on completion of this work.

Executive Summary

Audit differences

At the time of writing this report, there are two unadjusted differences arising from our audit, relating to the over-accrual of the housing benefit subsidy debtor and, over-accrual of construction costs by house buildings. These have a net impact of £63,000 on net assets. Management have chosen not to amend these amounts as they do not believe that the adjustment is material to the financial statements and we will request formal representation of this in our management representation letter.

We also identified the following audit differences, above our reporting threshold, which have been adjusted by Management:

- The Council's car parks had not been valued within the interval required by the CIPFA Code. This increased PPE by £1.1 million with £998,000 being recognised in the revaluation reserve and £54,000 being recognised in the CIES.
- Capital grants with a value of £477,000 were recorded in cost of services, rather than within taxation and non-specific grant income.

Prior Year Adjustments - Management agreed to adjust for two areas that required adjustment in the prior year:

- Thirsk and Sowerby Swimming Baths - We identified that the results of the charity were incorrectly included within the Council's accounts rather than the group's; and
- Some classification errors were identified in note 7(c) 'Expenditure and Income analysed by Nature' that impacted both the current, and prior year, disclosures.

Objections

We received one objection to the 2019/20 accounts from a member of the public. After consideration of the information provided we concluded that there was no appropriate basis to accept the objection.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hambleton District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



Executive Summary

Control observations

As a result of the work undertaken to support our Value for Money conclusion and infrastructure assets, we have identified significant deficiencies in internal control that are set out in more detail in section 7 of the report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risk in relation to commercial investment plans; however, as management decided not to proceed with these plans we no longer considered this risk to be relevant.

Our audit has identified weaknesses in the Council's arrangements and we will be issuing a qualified ('except for') value for money conclusion on your arrangements to secure economy efficiency and effectiveness in your use of resources. The details of our findings are outlined in Section 5.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have received an updated statement from management, which we will review in advance of the meeting.

We are required to perform procedures requested by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no issues to note in this regard.

We have no further matters to report.

Independence

Please refer to Section 8 for our update on Independence.



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Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Our judgement is that the significant risk at the Authority relates to the recognition of grants, the potential for improper capitalisation of revenue expenditure and the omission of expenditure in the financial statements.

What judgements are we focused on?

Our judgement is that the significant risk at the Authority relates to the recognition of grants, the potential for improper capitalisation of revenue expenditure and the omission of expenditure in the financial statements.

What did we do?

We tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions.

We tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.

We reviewed minutes of Council, Cabinet and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

We reviewed a sample of transactions recorded in the general ledger and payments from the bank account post year end, to confirm that the associated income and expenditure has been recorded in the correct period.

What are our conclusions?

As part of our testing of recognition of grant income we identified an amount of £177,101 which related to a drawdown on a zero-interest loan from Salix Finance Limited for the Energy Efficiency Loan Programme. This drawdown of cash had been incorrectly classified as income. Upon review of the supporting documentation we identified that the total loan value from Salix Finance Limited was £350,000 repayable over 5 years. Management have agreed to amend the financial statements to show this transaction as a creditor on the balance sheet, rather than recognise income.

We performed a further review of the listing of grant income and did not identify any further transactions of this nature.

Our testing of capital additions is complete and we did not identify any incorrectly capitalised items.

We have not identified any potential accruals or provisions which may have been omitted from the financial statements.

Our work on the cut-off of transactions recorded in the general ledger and post year-end bank statements is complete and we have not identified any issues through this testing.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We considered the specific circumstances of the Council and did not identify any judgements that we considered to lead to a significant risk of misstatement due to fraud or error, other than those identified as part of our risk of fraud in revenue and expenditure recognition.

Our work in this area, therefore, focussed on those mandatory procedures that are set out in auditing standards.

What did we do?

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.

We reviewed accounting estimates for evidence of management bias.

We evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls due to fraud or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We are therefore content that the financial statements are not materially misstated as a result of fraud or error.



Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What was the risk/area of focus?

Infrastructure assets (new)

At 31 March 2020, the Council has recognised infrastructure assets with a net book value of £3.3m, mainly comprising of street lighting. The Council has not maintained sufficiently detailed accounting records to enable it to identify individual assets within its accounting records. As a result, it was unable to demonstrate that individual assets have been accounted for in accordance with the requirements of the reporting framework. In particular, the Council was unable to demonstrate that remaining asset balances have been derecognised when individual assets have been replaced.

Valuation of land and buildings

The value of land and buildings represents the most significant asset balance in the Council's financial statements, and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What were our conclusions?

During the year, the CIPFA Code was revised and a statutory override were made allowing for temporary amendments to required disclosures in the financial statements. We have reviewed the disclosures made by management in line with these amendments and are content that they are materially consistent with the updated requirements.

We are content that net valuations at 31 March 2020 are materially correct, in part because of the statutory presumption that balances at 1 April 2019 were correct, however the risk of misstatement in net valuations due to inappropriate useful lives being applied will increase year-on-year.

Our review of the useful lives applied noted that the lives used by management are greater than guidance ranges published by CIPFA, however, that these do not give rise to any material impact. We also noted that infrastructure assets include £182,000 of car parks which should be accounted for as other land and buildings and were not depreciated since completion.

The amendments to the reporting framework are temporary and will apply only until 2024/25. Whilst this expires after the final reporting period for the Council, it is highly likely that they will require North Yorkshire Council to develop better information on the its infrastructure assets than it currently holds. We have included a recommendation relating to the accounting for infrastructure assets within section 7.

During the audit we identified that car parks had not been valued within the 5 year interval required by the CIPFA Code. Management subsequently obtained valuations for these assets from the Council's external valuation specialist and an adjustment has been made to the final draft of the financial statements to record an increase in valuation of £1,052,000.

We challenged management on the classification of industrial units within the property, plant and equipment (PPE) classification, rather than investment property and noted that, due to the units currently being let at below market rates in order to attract business into the area, the units are classed as being held for economic development purposes.

RECOMMENDATION: Management should review the classification of industrial units in the financial statements on an annual basis to ensure that it remains appropriate.

We also note that the valuations performed this year were undertaken in February 2020. We have considered whether the Covid-19 pandemic that came into effect during March 2020 would have had any impact on these valuations, particularly the valuation of industrial units that are valued at market value and are satisfied the asset values are not materially misstated.

We have completed our testing in this area and have no further matters relating to this risk to bring to your attention.



Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What was the risk/area of focus?	What were our conclusions?
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by North Yorkshire Pension Fund.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019, this totalled £21 million.</p> <p>The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt.</p> <p>Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have assessed the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and also considered the reviews undertaken by our EY actuarial team.</p> <p>We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</p> <p>We have received correspondence from the auditor of the North Yorkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.</p> <p>We have completed our testing in this area and have no matters relating to this risk to bring to your attention.</p>
<p>Disclosures on Going Concern</p> <p>Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.</p>	<p>Due to the impact of Local Government Reorganisation and the Council's merger into North Yorkshire Council, management's assessment of going concern has been based on the continuance of service provided by North Yorkshire Council. We have obtained analysis to support the going concern basis of North Yorkshire Council and have reviewed the revised going disclosures. We are content that the Going Concern basis and associated disclosures have been appropriately made.</p> <p>Due to the significance of Local Government Reorganisation, we have recognised an Emphasis of Matter, which does not impact our opinion, in order to draw attention to the disclosures made.</p>



Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What was the risk/area of focus?	What were our conclusions?
<p>Events after the balance sheet date</p> <p>We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.</p>	<p>Management have included a detailed disclosure in the financial statements. We will consider this disclosure in the context of the information provided by management to support their going concern assessment.</p> <p>We will also perform procedures up to the date of signing the financial statements to identify any other potential events after the balance sheet that may require disclosure.</p>
<p>Group financial statements</p> <p>Following our review of the related party disclosures, we challenged management on the nature of the relationship with Thirsk and Sowerby Swimming Baths and they concluded that it should have been consolidated into the Group financial statements as the Council has control over the Charity. We concurred with this judgement.</p>	<p>As the value of the building held by Thirsk and Sowerby Swimming Baths (TSSB) is material the Council should have prepared the financial statements on a group basis. Management have agreed that this is the case and have redrafted the financial statements including a restatement of the 2018/19 comparatives figures.</p> <p>As part of this work, management identified that some of the income and expenditure transactions for Thirsk and Sowerby Swimming Baths were already incorporated within the Council's single entity income and expenditure balances. Management therefore undertook an exercise to separate out the TSSB balances from the Council's single entity financial statements and include them within the restated Group financial statements.</p> <p>We also recommend that management give consideration as to whether the income and expenditure figures reported in the TSSB statutory accounts need revisiting, given that some of the Charity income and expenditure was recorded within the Council balances.</p>



03 Audit Report



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Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH YORKSHIRE COUNCIL

Opinion

We have audited the financial statements of Hambleton District Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Movement in Reserves Statement,
- Council and Group Balance Sheet,
- Council and Group Cash Flow Statement and the related notes 1 to 46 and G1 to G9, and
- Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Hambleton District Council and the Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Local Government Reorganisation

We draw attention to Note 1 which discloses the Local Government Reorganisation in North Yorkshire. As stated in these disclosures, a new council called North Yorkshire County Council replaced the District Council in April 2023. The Council's assets, liabilities, services, and functions transferred to the new North Yorkshire Council on 1 April 2023. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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



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statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Basis for Qualified Conclusion

Performance related Pay

In December 2019, the Council updated the Pay Policy to allow for the award of performance related pay. There are two elements to the approved scheme - an assessment of an individual's performance and an annual assessment of the senior management team as a whole, against specified criteria. The documentation maintained by the Council does not clearly map performance of individuals or the senior management team to the specified criteria and therefore it is not clear how the individual awards have been determined.

The Pay Policy also requires that the Leader of the Council (in consultation with Cabinet) assesses the performance of the senior management team as a whole. There is evidence that the Leader of the Council has approved the element of performance related pay award for the senior management team; however, there is no evidence that this has been discussed by Cabinet.

The issues above are evidence of weaknesses in arrangements for taking informed decisions in making performance related pay awards

Approval of exit package

The Council's Pay Policy requires that all exit packages in excess of his authorisation limit are approved by Cabinet.

The Chief Executive approved a payment to a former employee during 2019/20 which was in excess of his authorisation limit, given the former employee also received an extended notice period, which triggered the threshold for approval of the overall exit package by Cabinet. There is no documented HR or legal advice supporting the calculation of the payment or confirming that the action taken was in the best interests of the Council.

This issue is evidence of a weakness in arrangements for approving exit package payments.

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Financial Reporting

Material audit adjustments impacting the current and prior year were identified, including identification of an unconsolidated entity. Upon review of these errors management identified that elements of the unconsolidated entities income and expenditure were already reported within the Council position and a significant amount of work was required to accurately reflect the financial position of the individual entities. Other material audit adjustments arising from the financial reporting cycle were identified including errors in mapping the information in the underlying accounting systems to disclosures in the accounts and assets initially being excluded from the five-year rolling programme of valuations.

These issues are evidence of a weakness in the financial reporting arrangements.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Hambleton District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Council;

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 33, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Group and the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Council either intends to cease operations, or have no realistic alternative but to do so.

The authority is responsible for putting in place proper arrangements to secure



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economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

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

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Hambleton District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice 2015 in satisfying ourselves whether Hambleton District

District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice 2015. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Hambleton District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Hambleton District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



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Our opinion on the financial statements

Use of our report

This report is made solely to the members of North Yorkshire Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than North Yorkshire Council and North Yorkshire Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have identified the following misstatements during the audit:

- ▶ We identified classification errors in note 7C ‘Expenditure and Income analysed by Nature’ that impacted both the current and prior year disclosures.
- ▶ We identified the Thirsk and Sowerby Swimming Baths charity represents a material subsidiary and needs to be consolidated in the group financial statements. This impacts on both the current and prior year financial statements, with the most significant change being recognition of the building in the Group financial statements with a value of £2.8m.
- ▶ We identified income and expenditure transactions relating to Thirsk and Sowerby Swimming Baths charity had been included in the single entity financial statements of the Council and adjustments were made to the current and prior year comparatives to remove this.
- ▶ During the audit we identified the car parks had not been valued within the 5 year interval required by the CIPFA Code. This increased the value of PPE by £1.1 million with £998,000 being recognised in the revaluation reserve and £54,000 being recognised in the CIES
- ▶ We identified that capital grants with a value of £477,000 were recorded in cost of services, however under the CIPFA code, they are required to be recorded under taxation and non-specific grant income.

Summary of unadjusted differences

During the course of our audit, we identified the following differences that had not been adjusted for:

- the accrued debtor for housing benefit subsidies owed from DWP was overstated by £51,000;
- an accrual was recognised for costs relating to the North Northallerton Bridge project with two suppliers for £1.1 million. The Council were subsequently billed £114,000 less than that accrued; and
- within infrastructure assets, management have reported £182,000 in relation to car parks, however these should have been recorded in other land and buildings. We also note that these assets had not been depreciated despite being operational and therefore depreciation was understated by £46,000.

The net impact of these differences would further increase net comprehensive income by £17,000. Management have chosen not to amend the financial statements for these adjustments as they do not believe the impact is material.

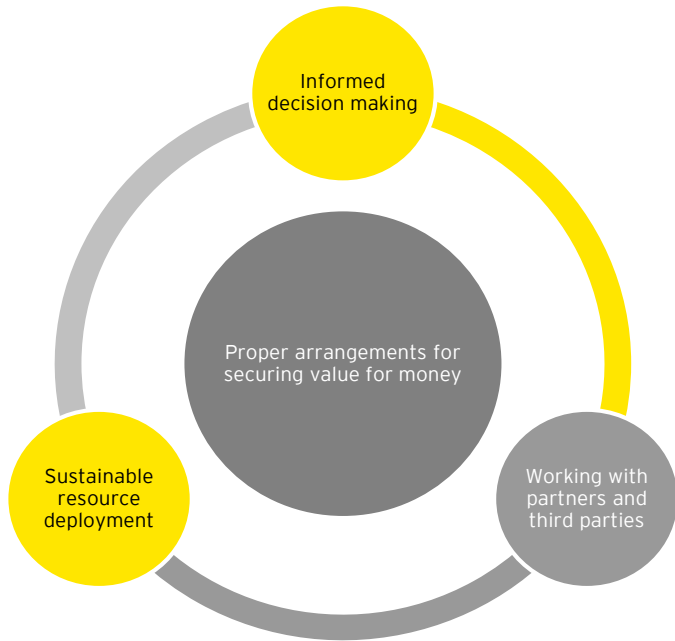


05

Value for Money



Value for Money



Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk to arrangements in the audit plan. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we identified during the audit.

We have concluded our work in this area and, subject to finalisation of outstanding consultation processes, we plan to issue an except for conclusion relating to the Council’s arrangements to secure efficiency and effectiveness in its use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk area in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>The Council had outlined plans to invest in commercial property to generate additional income over the next three years. It was planned that the additional income would be used to fund Council services and is based on increasing the investment property budget to £30m.</p> <p>As part of the 2018/19 Audit Results Report, we highlighted a number of areas to the Audit, Governance and Standards Committee that the Council should consider to mitigate the risks arising from the commercial development activity.</p>	<p>Take informed decisions</p>	<p>We note that the Council has not proceeded with any commercial property purchases in 2019/20, and in 2020/21 the decision was taken to place the Commercial Investment Strategy on hold. We therefore no longer consider this to be a risk to our VFM conclusion for 2019/20.</p>



Value for Money

Area	Arrangements affected	Our findings and conclusions
<p>We undertook testing to assess if there were appropriate governance arrangements to support the payments made for:</p> <ul style="list-style-type: none"> ▶ Exit package of £100,000 disclosed in the financial statements; and ▶ Performance related pay for senior officers. 	<p>Take informed decisions - in acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p>	<p>The Council's pay policy requires that termination packages in excess of £100,000 should be approved by Cabinet. For packages below this level approval is delegated to the Chief Executive. During 2019/20 the Council paid a £100,000 exit package to a former senior officer. As the sum paid was at £100,000 it was approved by the Chief Executive without Cabinet approval. However, in addition to the monetary payment made the notice period of the individual was extended from 3 months to 6 months which would result in the overall package being in excess of £100,000 and therefore take it to a level requiring Cabinet approval. The absence of Cabinet approval or evidence that the package was reviewed as a whole and consideration then made as to whether Cabinet approval should be sought is a weakness in decision making arrangements.</p> <p>In reviewing exit packages to senior officers we would expect and commonly find that in coming to a decision public sector bodies will have received formal documented HR and legal advice to ensure transactions: are appropriate; made in the best interest of the body; and to provide a safeguard against the risk of future actions. In the case of this transaction we were informed that the Chief Executive received professional advice verbally and that there was no documented evidence of this advice.</p> <p>At our request, the Chair of the Audit Committee arranged for an external legal firm to review the facts and circumstances of the termination package to assess whether there was any evidence that there was any underlying impropriety in arrangements. This review highlighted that the legal firm did not identify any evidence of wrongdoing, breach of Council Policy, or any other impropriety. Nor did they find any evidence of bullying, intimidation, improper motive. We engaged the support of our colleagues in the EY Forensic Investigation and Disputes team to support us in assessing the adequacy of the scope of the review undertaken by the external legal firm and we are satisfied that it was appropriate for the purposes of our external audit opinions.</p> <p>The review did not identify any evidence of impropriety or breach of Council Policy. The review identified that the Cabinet were kept informed of actions being taken in respect of the termination package but no documentary evidence of the briefings undertaken. The review identified that HR and legal advice was sought and received but no documentary evidence of professional HR or legal advice was provided to the external legal firm. In our view, the absence of documentary evidence to demonstrate that appropriate professional advice was sought, received, considered and followed represents a weakness in decision making arrangements.</p> <p>RECOMENDATION: <i>The Council should ensure that HR and legal advice is documented and retained to evidence that decisions are appropriately made and are in the best interests of the Council.</i></p>



Value for Money

Area	Arrangements affected	Our findings and conclusions
<p>We undertook testing to assess if there were appropriate governance arrangements to support the payments made for:</p> <ul style="list-style-type: none"> ▶ Exit package of £100,000 disclosed in the financial statements; and ▶ Performance related pay for senior officers. 	<p>Take informed decisions - understanding and using appropriate and reliable performance information to support informed decision making and performance management.</p>	<p>In December 2019, the Council updated the Pay Policy to allow for the award of performance related pay. There are two elements to the approved scheme - an assessment of an individual's performance and an annual assessment of the senior management team as a whole, against specified criteria. During 2019/20 the Council awarded senior officers a 10% performance related pay bonuses. Our review of the performance appraisal documentation for senior officers identified, in all cases, a brief commentary of the award received without any reference to the performance criteria. It is not possible to assess if there was an appropriate basis for the pay increases in the absence of more complete performance appraisal documentation. The Pay Policy also requires that the Leader of the Council (in consultation with Cabinet) assesses the performance of the senior management team as a whole. There is evidence that the Leader of the Council has approved the element of performance related pay award for the senior management team; however, there is no evidence that was assessed in consultation with the Cabinet. The absence of adequate appraisal documentation and evidence of Cabinet consultation represents a weakness in decision making arrangements.</p> <p>RECOMMENDATION: Performance appraisal documentation should contain sufficient information to evidence that there has been proper consideration of an individual's performance and to explain the rationale for performance awards made.</p> <p>RECOMMENDATION: The Council should ensure that consultations on pay awards are properly documented to record the points considered and the decisions made.</p> <p>Management have informed us that these recommendations have already been addressed during 2020/21 and we will review this documentation as part of our 2020/21 audit.</p>



Value for Money

Area	Arrangements affected	Our findings and conclusions
<p>In auditing the financial statements we assess if there are any indications of weaknesses in respect of financial reporting and financial management that impacts on our value for money conclusion responsibilities.</p>	<p>Take informed decisions - reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>As detailed in section 4 of this report during the audit we identified material misstatements in the preparation of the financial statements which impacted on our value for money conclusion considerations:</p> <ul style="list-style-type: none">▶ Thirsk and Sowerby Swimming Baths charity not being identified as a material subsidiary and being consolidated in the group financial statements. Income and expenditure transactions relating to Thirsk and Sowerby Swimming Baths charity having incorrectly been included in the single entity financial statements of the Council.▶ Car parks had not been valued within the 5 year interval required by the CIPFA Code.▶ Material errors in mapping the information in the underlying accounting systems to disclosures in the financial statements. <p>Not identifying that the financial statements should have been prepared on a group basis; incorrectly including a subsidiary's transactions in the single entity accounts and omitting material assets from the valuation cycle are weaknesses in financial management that impact on the "taking informed decision criteria" of our value for money conclusion responsibilities.</p> <p><i>RECOMMENDATION: The Council should ensure there are arrangements in place to consider the preparation basis of the financial statements and to ensure all assets are valued in accordance with the required timescale.</i></p>



06 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Report to the Annual Financial Report for 2019/20 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Report to the Annual Financial Report for 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have no issues to raise.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). At the time of writing this report, we have not identified any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. At the time of writing this report, we have not identified any issues.

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. We have nothing to report to you in relation this, except already covered under other areas of this report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

We have identified two observations in relation to financial reporting that we wish to bring to your attention.

- We have identified a significant deficiency in relation to the Council's records concerning infrastructure assets. Our findings and recommendation can be found on the following page.
- On review of note 16 to the financial statements, we identified that at 31 March 2020, the Council held intangible assets with a gross value of £3.6 million, with associated accumulated amortisation of £3.2 million, representing usage of their economic lives of 86.2%. The Council should review its aged assets listings to determine whether assets are not in use and have been disposed of.

Assessment of Control Environment

Area	Maintenance of infrastructure accounting records	Rating
Observation	<p>As noted in section 2, the Council has not maintained appropriate accounting records to allow it to account for infrastructure assets in accordance with the requirements of the reporting framework. Specifically, the Council is not able to separately identify individual assets within its accounting records and, therefore, cannot evidence that individual assets have been accounted for appropriately.</p> <p>The reporting framework has been modified for so that the Council does not need to separately disclose the gross cost and accumulated depreciation and impairment of infrastructure assets, only the net valuation, and can assume that the net valuation as at 1 April 2020 was correct. These modifications are however temporary, applying only until the 2024/25 financial year.</p> <p>The detailed requirements which will apply after 2024/25 are still to be determined, however it is highly likely that they will require North Yorkshire Council, as the successor body to Hambleton, to develop better information on the Council's infrastructure assets than it currently holds.</p>	
Recommendation	<p>The Council should review how it records its expenditure on infrastructure assets, in particular to allow it to separately identify individual assets within its accounting records.</p> <p>In addition, the Council should review what information it holds for existing assets in other forms, for example within the highways team, and how this can be used to disaggregate existing accounting records.</p>	



08

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 23 October 2023

We wrote to management and the Audit, Governance and Standards Committee Chair on 10 February setting out our considerations on the sustainability of UK local public audit. A scale fee of £31,381 has been set by PSAA for the 2019/20. We have been in correspondence with management to outline the impact that the changing risk and regulatory environment is having on our audits and why we do not believe the existing scale fees provide a clear link with either a public sector organisation's risk or its complexity and the work required to deliver a safe audit opinion. We outlined to management that we believe the fee for the Council should be set at £57,125. Management has not agreed to this increase in the scale fee and we have provided the PSAA with our assessment of the fee. Some of the factors relevant to this discussion were set out in our Audit Planning Report presented to the March 2020 Audit Committee.

We also note that there have been changes to our audit scope because of Covid-19 and additional work in response to issues arising during the audit. We will discuss the impact of these on the proposed fee with management before agreeing our final fee. Areas of additional work include:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the Council's valuation report;
- Review of the valuation of car parks
- Considering and responding to objections from a local elector
- Additional procedures to consider the Council's going concern assessment;
- Additional procedures to consider the Council's arrangements for securing Value for Money

- Impact of the revised Code of Practice on Infrastructure assets
- Consultation requirements concerning the impact on the Auditor's report from the land and building valuations material uncertainty clause and going concern assessment.
- Consultation on the form and content of the Value for Money conclusion.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken non-audit work in this period in relation to the certification of Housing Benefit grants claims and returns. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Fee (£) 2019/20	Fee (£) 2018/19
PSAA scale fee	31,381	
Responding to objections	13,700	
Group accounts and consolidation of Thirsk and Sowerby Swimming Baths	10,000	
Prior year restatements of the Expenditure & Funding Analysis notes	4,000	
Valuation of car parks	2,750	47,933
Consideration of the impact of the revised Code of Practice on Infrastructure	TBD	
Value for Money work on risks identified during the course of the audit	10,000	
Ongoing investigation work and implications for the audit	20,000	
Total Audit Fee - Code work	TBD	47,933
Non-audit work - Grant claim certification	TBD	11,280
Total services	TBD	59,213

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, senior management and its affiliates, including all services provided by us and our network to the Council, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included in the table below.

We confirm that none of the services listed in has been provided on a contingent fee basis.

As at the date of this report, we expect that we will also be engaged to perform housing benefit certification work for 2019/20.

Description of relationship	Related independence threat	Safeguards adopted and reasons considered to be effective
Housing benefit certification work	Self interest	The fees for certification are not significant in the context of the overall audit fee and relevant approvals are obtained from Public Sector Audit Appointments Limited.
	Self review threat	The work on housing benefit certification is distinct from the external audit and follows specific procedures set by the DWP.

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. We will continue to monitor and assess the impact of this standard on the services that we provide to the Council.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2022/ey-uk-transparency-report-2022.pdf







09

Appendices

Appendix A

Required communications with the Audit Committee




There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit, Governance and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report March 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results reports October 2020, March 2022 and December 2023

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results reports October 2020, March 2022 and December 2023
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results reports October 2020, March 2022 and December 2023
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results reports October 2020, March 2022 and December 2023
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results reports October 2020, March 2022 and December 2023




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results reports October 2020, March 2022 and December 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report March 2020</p> <p>Audit results reports October 2020, March 2022 and December 2023</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results reports October 2020, March 2022 and December 2023
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results reports October 2020, March 2022 and December 2023

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results reports October 2020, March 2022 and December 2023
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report March 2020 Audit results reports March 2022 and October 2023
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results reports March 2022 and October 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results reports March 2022 and October 2023
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results reports March 2022 and October 2023

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report March 2020 Audit results reports January 2022 and October 2023
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Audit results reports January 2022 and October 2023

Appendix B

Draft Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
2 St. Peter's Square,
Manchester
M2 3DF

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of Hambleton District Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of Hambleton District Council as of and of its financial performance (or operations) and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) for the Group and for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address

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the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;

- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Hambleton Council and committees including Council, Cabinet and Audit Committee, and the North Yorkshire Council Executive (or summaries of actions of recent

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meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 28 November 2023.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 30 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than the matters described in Note 6 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

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H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We will provide to you the final version of documents when available and prior to issuance by us, such that you can perform your procedures.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and Council financial statements.
2. The key assumptions used in preparing the consolidated and Council financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us.

J. Comparative information - corresponding financial information

1. Classification errors were identified in note 7C 'Expenditure and Income analysed by Nature' as a result of errors in the mapping of the underlying data.

2. Thirsk and Sowerby Swimming Baths Charity represents a material subsidiary of the Council which was not consolidated into the Group financial statements.
3. The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's consolidated and Council financial statements.

K. Going Concern

1. Note 1 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.
2. We believe that the functions and services provided by Hambleton District Council up to 31 March 2023 are expected to be continued to be provided by North Yorkshire Council as successor to the Council.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of our land and buildings and the valuation of the Local Government Pension Scheme liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

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M. Estimates (Pension scheme liabilities, PPE/Investment property valuations and provisions - "the estimates")

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to provide retirement benefits in line with the LGPS, hold property and settle obligations with regards to the Collection Fund on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

Annex - Schedule of unadjusted differences

	Impact (£000s) on		
	Assets	Liabilities	Net income/ expenditure
Management have over-accrued for the amount owed by DWP in relation to housing benefits.	(51)		51
At 31 March 2020, management recognised an accrual of £1.1m in relation to the North Northallerton Bridge project, however received subsequent invoices which were £114,000 less than that accrued for.		114	(114)
We identified two assets reported within infrastructure assets which had not been depreciated despite being in operational use	(46)		46
We identified that within infrastructure assets, car park assets with a value of £182,000 were identified that should have been recorded as other land and buildings. There is no net impact on total assets.	Nil		
Net impact of unadjusted differences	(97)	114	(17)

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