

NORTH YORKSHIRE COUNCIL

Audit Committee

9 December 2024

Report of the Corporate Governance Working Group Following the Review of Legacy County, District and Borough Final Accounts and Audits

1.0 PURPOSE OF REPORT

1.1 To advise members of the Audit Committee on:

The outcome of the consideration of the Statement of Final Accounts (SOFA), Annual Governance Statements (AGS) and Annual External Audit Reports for the legacy North Yorkshire District and Boroughs.

The consideration of the SOFA and AGS for North Yorkshire County Council for 2022/23 and the opinion of the working group in advance of the Audit Committee being asked to approve them.

2.0 SUMMARY

2.1 This report provides an update on the Corporate Governance Working Group's review of the Statement of Accounts, Annual Governance Statements and Audit Reports of the legacy Councils.

2.2 All of the outstanding district and borough audit reports and final Statement of Accounts (including Annual Governance Statements) were presented to the Working Group for approval. Of those presented, Selby's audit was completed but the remainder (Craven, Hambleton, Harrogate, Richmondshire and Scarborough) were presented with disclaimed audit opinions.

2.3 Ryedale District Council's 22/23 accounts were approved by Audit Committee in March 24 with delegated authority given to the Corporate Director Resources and the Chair of Audit Committee and the accounts were signed on 19 November following audit completion.

2.4 The North Yorkshire County Council SOFA for 2022/23 was presented for scrutiny by the working group with subsequent recommendations to be submitted to the Audit Committee.

3.0 BACKGROUND

3.1 On 23 September the Audit Committee considered a report providing an update on the SOFAs for the North Yorkshire legacy councils in light of the Governments backstop arrangements to resolve the audit backlog for local government.

3.2 In order to fulfil its responsibilities, the Audit Committee is required to ensure that the SOFAs properly reflect the financial position of the legacy Councils. As a result, it was agreed that a Corporate Governance Working Group with the Chairman and Vice-Chairman of the Audit Committee, Cllr Philip Broadbank, Cllr Neil Swannick and Mr David Portlock be convened with Terms of Reference as follows:

- To consider the SOFA and AGS for North Yorkshire County Council for 2022/23 and make recommendations to Audit Committee

- In respect of the outstanding accounts for the legacy North Yorkshire districts and boroughs, to consider in overview, the SOFA and AGS and Annual External Audit reports and make recommendations to the Corporate Director Resources and Chairman of Audit Committee;
- to consider the SOFA for North Yorkshire Council for 2023/24 and make recommendations to Audit Committee.

3.3 The audit of the North Yorkshire Council SOFA for 2023/24 is still in progress, therefore the Working Group has not considered the 2023/24 SOFA and will review at a later date. This report provides a summary of the review of the SOFAs and AGSs for legacy North Yorkshire districts and boroughs and North Yorkshire County Council.

4.0 LEGACY NORTH YORKSHIRE DISTRICT AND BOROUGH

4.1 Following local government reorganisation, North Yorkshire Council inherited a variety of accounts in differing stages of audit. While the Ryedale District Council and Selby District Council audits have been completed, for the remaining District & Borough accounts auditors have been unable to complete audits and have issued a 'disclaimed' audit opinion.

4.2 Ryedale District Council accounts were approved by Audit Committee in March 24 and were therefore not considered by the Corporate Governance Working Group. As a result the Working Group considered the following district and borough SOFA, AGS and Audit Reports:

Council	Years Outstanding	Auditor and Opinion
Craven	21/22 – 22/23	Forvis Mazars - Disclaimed
Hambleton	19/20 – 22/23	Earnst & Young - Disclaimed
Harrogate	21/22 – 22/23	Forvis Mazars - Disclaimed
Richmondshire	20/21 – 22/23	Earnst & Young - Disclaimed
Scarborough	15/16 – 22/23	Forvis Mazars - Disclaimed with issue of concern
Selby	22/23	Forvis Mazars - Audit completed

4.3 The Working Group considered in overview the SOFAs, AGSs and Audit Reports for the legacy district and borough accounts, noting significant points highlighted in the audit reports and acknowledging in particular, outstanding matters highlighted by Forvis Mazars in relation to Scarborough Borough Council and the Whitby harbour court case, recognising that the issue would need to be addressed by North Yorkshire Council upon notification of

the outcome of the court case. The Working Group also expressed concerns over the severance payments made to senior management of the former Hambleton District Council but noted there were no actions to carry forward for North Yorkshire Council. The notes from the Working Group Meetings are attached as **Appendix A and Appendix B**.

4.4 Following their review the Corporate Governance Working Group recommended the Chief Executive and Leader to sign the AGSs and the Corporate Director Resources and Chair of Audit Committee to sign the accounts and letters of representation.

5.0 NORTH YORKSHIRE COUNTY COUNCIL (NYCC)

5.1 The draft NYCC SOFA 2022/23 was presented to Audit Committee on 26 June 2023.

5.2 While the audit of the accounts was still progressing at the point at which the Working Group considered the SOFA, an update report from auditors and revised SOFA were considered by the Working Group. The key changes to the final SOFA resulting from the audit were discussed as follows:

- **Allerton Waste Recovery Park (AWRP) Valuation** - While the AWRP was not due for revaluation under the Council's rolling programme, due to the movements in the relevant building cost indices and the size of the underlying asset value, a desktop revaluation has been undertaken which identified that the value included in the 2022/23 draft financial statements for the AWRP was understated by £40.6m. The valuation has now been updated in the Final SOFA.
- **Infrastructure Assets change in depreciation** - The Council has determined the adjustments to depreciation required to address the issues raised in the prior year in relation to the infrastructure useful economic lives. An additional £29.8m depreciation charge has been reflected in the Final SOFA.
- **Impairment Accounting within Unusable Reserves** – Audit identified an error in the calculation of the reversal of historic impairments where the asset is subsequently revalued upwards. The impact of the adjustment has resulted in a restatement of 2021/22 as well as changes to 2022/23, which now reflect a movement of £60.2m between headings in the Balance Sheet in the Final SOFA.
- **Consolidation error** - Audit identified an error in the group accounts consolidation where debtors balances were held by NYCC with their subsidiaries resulting in a £10m change between lines in the Balance Sheet, increasing debtors and increasing creditors.

Annual Governance Statement

5.3 The Corporate Governance Working Group reviewed the updated Annual Governance Statement following completion of Sections 7 & 8 after the publication of the draft AGS in June 2023. There are no matters to bring to the attention of the Audit Committee.

Statement of Accounts

5.4 The Corporate Governance Working Group reviewed the SOFA and a number of detailed questions were submitted. Explanations were provided with changes actioned to correct typos and provide greater clarity in the supporting narrative within statements to provide greater clarity to the accounts.

6.0 Conclusions

- 6.1 Work to complete the legacy district and borough accounts up to and including 2022/23 has concluded with unqualified opinions for Ryedale and Selby district councils, and disclaimed opinions for Craven, Hambleton, Harrogate and Richmondshire. A disclaimed opinion with a matter of concern has been issued for Scarborough - the outcome of the Whitby Harbour court case is still awaited and any required actions will be addressed by North Yorkshire Council. All of the final Statements of Accounts were approved by the Working Group.
- 6.2 Subject to no further material changes being identified through the remainder of the audit the Working Group are satisfied that the 2022/23 SOFA for North Yorkshire County Council represents a true and fair view of the Council's financial position.
- 6.3 The Working Group is satisfied that all appropriate actions have been taken and satisfactory explanations have been provided where required.

7.0 Recommendations of the Corporate Governance Working Group

- 7.1 That Audit Committee note the Working Group's approval of and signing by the Corporate Director Resources and Chair of Audit Committee, of the legacy district and borough Statements of Accounts up to and including 2022/23, and endorse the recommendations to the Chief Executive and Leader to sign the various AGSs.
- 7.2 Subject to the completion of the audit, the Working Group recommends to the Audit Committee that the North Yorkshire County Council Statement of Final Accounts and Annual Governance Statement for 2022/23 are approved.

APPENDICES:

Appendix A – Notes of the Corporate Governance Working Group meeting 18 November 2024
Appendix B – Notes of the Corporate Governance Working Group meeting 25 November 2024

Corporate Governance Working Group
9 December 2024

Corporate Governance Working Group

Notes of the Teams meeting 18 November 2024 – 1.00pm

Attendees:

Councillor Cliff Lunn (Audit Committee Chair)

Councillor Philip Broadbank

Councillor Neil Swannick

Co-opted member of the Audit Committee – David Portlock

Apologies:

Councillor George Jabbour

Officers in attendance:

Karen Iveson – Assistance Director Resources

John Raine – Head of Corporate and Technical Finance

Paul Nicholson – Senior Accountant Corporate and Technical

Officers outlined the process for approval and sign-off of the legacy district and borough council accounts. With the exception of Ryedale, Selby and North Yorkshire County Councils the outstanding accounts up to and including 22/23 were expected to receive disclaimed audit opinions. This means the auditors have been unable to complete sufficient work by the backstop date to provide assurance on the accounts and effectively draws a line under these years.

The accounts under review at this meeting were Craven 21/22 and 22/23, Harrogate 21/22 and 22/23 and Scarborough 15/16 to 22/23, with the audit reports for Hambleton 19/20 to 22/23, Richmondshire 21/22 and 22/23 and Selby 22/23 remaining outstanding and therefore deferred until the next meeting on 25 November.

Noting the disclaimed audit opinions for the 3 legacy councils under review, members asked what assurances could be given for the closing assets and liabilities that would form the opening balances for North Yorkshire Council (NYC).

Officers advised that a consolidated asset register for NYC had been produced by amalgamating the 8 separate registers that underpinned the legacy councils' accounts. Whilst this could not guarantee every asset in each council's ownership had been captured it gave reasonable assurance that those previously identified by the county, district and boroughs councils, were included on the new NYC register. In relation to the asset values an appropriate valuation cycle had also been established for NYC.

In respect of liabilities, the level of materiality is such for NYC that individual matters would be unlikely to have a significant impact and NYC had sufficient reserves to mitigate this risk.

Members then queried the governance weaknesses highlighted in the Craven and Harrogate value for money opinions.

Officers advised that for Craven and Harrogate these related to delays in the completion of the draft accounts. The delays were as a result of a combination of factors including officer capacity due to the impacts of LGR preparations. No recommendations had been made for carry over to NYC.

Members also noted the outstanding matters highlighted by Forvis Mazars in relation to Scarborough Borough Council and the Whitby harbour court case and asked what assurances could be given over any liabilities that would be carried over to NYC.

Officers advised that the outcome of the court case was still awaited and even if it came before the backstop date it was now too late to complete the Scarborough audits and any impacts would be for NYC to resolve. Whilst this was a significant matter in the context of Scarborough's accounts, the scale of NYC's balance sheet means that it is not expected to be of such magnitude that it destabilises the new council. However, the accounts for 23/24 will need to include the necessary accounting arrangements for the harbours and associated disclose in the Statement of Accounts. Any accounting change required following notification of the court case outcome would be addressed by NYC from 23/24 onwards.

Members asked that they be given more time to consider this particular issue and requested that the Scarborough accounts be deferred to the 25 November meeting.

Officers then explained that a report would be submitted to the full Audit Committee setting out the decisions made by the working group (these meeting notes) and the various annual audit reports.

The working group resolved to:

In respect of the outstanding statements of accounts for 21/22 and 22/23, for the former Craven District and Harrogate Borough Councils, authorise the Chief Executive and Leader to sign the AGSs and the Corporate Director Resources and Chair of Audit Committee to sign the accounts and letters of representation.

Request that the accounts and audit reports in respect of Scarborough Borough Council be brought back to the working group meeting on 25 November 2024.

Corporate Governance Working Group

Notes of the Teams meeting 25 November 2024 – 1.00pm

Attendees:

Councillor Cliff Lunn (Audit Committee Chair)

Councillor Philip Broadbank

Councillor Neil Swannick

Co-opted member of the Audit Committee – David Portlock

Councillor George Jabbour (intermittently)

Officers in attendance:

Karen Iveson – Assistance Director Resources

John Raine – Head of Corporate and Technical Finance

Paul Nicholson – Senior Accountant Corporate and Technical

Following the meeting on 18 November 2024, the accounts under review at this meeting were Selby 22/23, Hambleton 19/20 to 22/23, Richmondshire 21/22 and 22/23, Scarborough 15/16 to 22/23, and North Yorkshire County Council 22/23.

Members noted the audit completion report for Selby District Council.

Officers advised that there had been one significant amendment in relation to the Summit building (a leisure facility adjacent and connected to Selby Leisure Centre which had been closed as a result of the Covid pandemic) – amending from open market value to existing use value and the consequential increase in balance sheet value.

Officers also highlighted the management response to weaknesses in payroll reconciliation processes which were to be carried forward to North Yorkshire Council given the former NYCC had provided payroll services to Selby.

Members noted the unqualified opinion and audit conclusion that the accounts represented a true and fair view of the former council's finances.

In respect of Selby District Council's 22/23 accounts, the working group resolved to authorise the Leader and Chief Executive to sign the Annual Governance Statement; and the Chair of Audit Committee and Corporate Director Resources to sign the accounts and letter of representation.

Members then noted that the final audit reports for both Hambleton and Richmondshire district councils remained outstanding. They queried the governance weaknesses in respect of severance payments to senior officers, highlighted in the value for money reports.

Officers advised that these related to exit packages as a result of LGR. Members noted the external audit comments in relation to these payments and expressed some concerns over the decisions taken in relation to the payments to senior managers at the former Hambleton District Council. There were clearly differences in the legal advice provided to the district councils and NYCC regarding the application of TUPE but members also noted that no follow up actions for North Yorkshire Council were recommended.

In respect of Hambleton 19/20 – 22/23 and Richmondshire District Council’s 20/21 - 22/23 accounts, the working group resolved, subject to receipt of the final audit reports, to authorise the Leader and Chief Executive to sign the Annual Governance Statements; and the Chair of Audit Committee and Corporate Director Resources to sign the accounts and letters of representation.

Members then (following on from the discussion at the 18 November working group meeting), considered the outstanding matters highlighted by Forvis Mazars in relation to Scarborough Borough Council and the Whitby harbour court case.

Officers reassured members that the outcome of the court case would be addressed by North Yorkshire Council (NYC). The NYC accounts for 23/24 would include the necessary accounting arrangements for the harbours and associated disclosure and any accounting change would be addressed by NYC.

Members also acknowledged that even if the court case was resolved before the back stop date, it was now too late for any amendments to be made to the former Scarborough Borough Council’s accounts.

In respect of Scarborough Borough Council’s 15/16 - 22/23 accounts, the working group resolved to authorise the Leader and Chief Executive to sign the Annual Governance Statements; and the Chair of Audit Committee and Corporate Director Resources to sign the accounts and letters of representation.

Officers then took members through the audit update report in respect of the NYCC 22/23 accounts, provided by Deloitte, noting a number of significant amendments that had been made to the accounts following publication of the initial draft. The issues related to the revaluation of the Allerton Park Waste and Recycling Plant to reflect construction industry inflation; the term of depreciation of infrastructure assets; and a formula error in respect of asset impairments and revaluations which had led to the overstatement of two unusable reserves – the latter having no impact in the overall balance sheet value for the council.

The status report also highlighted a consolidation error in respect of debtor balances for one of the council’s companies which had been added rather than being removed and therefore overstated the group debtors balance – the accounts had been updated to correct this error.

Members also noted the on-going audit work outstanding but subject to there being no further material changes to the accounts following completion of the audit and receipt of the final audit report, they resolved to recommend that Audit Committee approve the NYCC 22/23 accounts and AGS.