Annual Audit Letter 2017/18

North Yorkshire County Council

August 2018
Section one

Summary for Audit Committee
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This Annual Audit Letter summarises the outcome from our audit work at North Yorkshire County Council ("the Authority") in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 30 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £15 million which equates to around 1.4% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £25 million which is approximately 0.7% percent of gross assets.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.75 million for the Authority (£1.25 million for the Pension Fund).

We identified two significant audit adjustments. One related to the accounting entries of the Authority’s Pension Deficit Contributions payment made in 2017/18. This adjustment impacted on the General Fund but with a nil net effect, and decreased net assets by £16.8m. The other related to the valuation of the Council’s share of the Allerton Waste Recovery Plant asset and as a result of technical accounting adjustments the value of the asset was reduced by £49m. This adjustment had no impact on the General Fund.

Additionally we identified some non significant and presentational adjustments required to ensure that the accounts were complaint with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Our audit work was designed to specifically address the following significant risks:

— **Management Override of Controls** – Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud. We had no matters arising from this work;

— **Valuation of PPE** – There was a risk that the carrying values of assets not revalued in year would differ materially from year-end fair value, and inappropriate valuation methods and assumptions could be used. We did not identify any issues;

— **Accounting treatment of the Allerton Waste Recovery asset** – As this was the first year this asset became operational there was a risk that the value of the asset recognised by the Council would not be materially correct;

— **Pensions Liabilities** – There was a risk that the assumptions and methodology used in the valuation of the Council’s pension obligation were not reasonable. As a result of our work we determined that the Pension Asset, Obligation and Net Pension Liability are materially correctly stated; and

— **Faster Close of Financial Statements** – For 2017/18 draft financial statements were required by 31 May 2018.
Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Pension fund audit

From our planning work we did not identify any significant risks relating to the Pension Fund.

Our audit identified one audit adjustment which resulted in deficit contributions being increased by £25m with a corresponding decrease in current liabilities. As a result the Net Assets of the Fund increased by the £25m.

Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority’s pack was materially consistent with the audited financial statements.

Value for Money conclusion

We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017/18 on 30th July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified no significant matters.

High priority recommendations

We raised no high priority recommendations as a result of our 2017/18 work.
Certificate

We are not yet able to issue our certificate. We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report with the pension fund accounts included in the statements of North Yorkshire County Council.

Until we do so, we are unable to certify that we have concluded the audit for 2017/18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our fee for 2017/18 was £94,490, excluding VAT (2017: £94,490). Our fee for the audit of the Pension Fund was £24,943 excluding VAT (2017: £24,943). Consistent with previous years we have requested approval from PSAA Ltd to raise an additional fee of £4,996 relating to the audit of the Pension Fund, reflecting the work we are required to carry out at the Pension Fund on behalf of the auditors of Pension Fund Scheduled Bodies. Further detail is contained in Appendix 2, including fees for additional work.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.
Appendices
Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit Committee pages on the Authority’s website.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority’s financial statements, including those of the Pension Fund, and to support the VFM conclusion.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor’s Report

The Auditor’s Report included our audit opinion on the financial statements (including the pension fund accounts) along with our VFM conclusion.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.
This appendix provides information on our final fees for the 2017-18 audit.

External audit

Our final fee for the 2017/18 audit of the Authority was £94,490, which is in line with the planned fee (2016/17 £94,490).

Our fee for the 2017/18 audit of the Pension Fund is estimated to be £29,939 (2016/17 £29,939). This includes £4,996 for which approval from PSAA has been requested relating to work we carried out following requests from the auditors of other Scheduled Bodies for assurance over IAS19 accounting entries.

Audit of controlled entities

We charged £7,250 for the audit of the 2017/18 accounts of the Authority’s controlled company Align Property Partners Ltd, and £3,500 for the audit of the 2017/18 accounts of the Authority’s controlled company Brierley Homes Ltd.

Other services

We charged £750 for Pension Fund tax withholding work. This work was not related to our responsibilities under the Code of Audit Practice.

External audit fees 2016/17 (£’000)

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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