Deloitte.

North Yorkshire County Council

Report to the Members on the 2012 Audit

Final Report

September 2012

Deloitte LLP
1 City Square
Leeds
LS1 2AL
United Kingdom

Audit Committee
North Yorkshire County Council,
County Hall,
Northallerton,
NE1 8BR

20 September 2012

Dear Sirs

We have pleasure in setting out in this document our report to the audit committee of North Yorkshire County Council ("the Authority") for the year ended 31 March 2012, for discussion at the meeting scheduled for 27 September 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The matters arising during our audit, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- Work is continuing on the annual report and some aspects of underlying audit work. A list of the outstanding testing still to be completed has been included in the Executive Summary. We will be in attendance at the Audit Committee meeting on 27 September 2012 and will present an update to our final report on our audit at that time.
- In the absence of unforeseen difficulties, both we and management expect to meet the agreed audit and financial reporting timetable and we will then issue an unmodified audit report.

We would like to take this opportunity to thank the John Moore, Corporate Director – Finance and Central Service, and his team for their assistance and co-operation during the course of our audit work.

C. D. Powell

Chris Powell
Engagement Lead

Contents

Executive Summary

We have pleasure in setting out in this document details of our audit of North Yorkshire County Council (the Authority) for the year ended 31 March 2012. We have issued a separate document which contains details of our audit of North Yorkshire Pension Fund for the year ended 31 March 2012.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Completion of the audit

We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan.

At the date of preparation of this report, certain procedures are still outstanding and need to be finalised before we can finalise our audit:

- testing of Note 4 Segmental Analysis;
- review of group reporting from PricewaterhouseCoopers LLP in relation to their audit of Yorwaste Limited;
- receipt of a small number of school bank letters;
- sundry other minor testing to complete;
- receipt of the signed management representation letter;
- update of subsequent events to signing of the audit report; and
- Whole of Government Accounts testing (due by 5 October 2012).

We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

Overall view

On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements and an unqualified value for money conclusion.

The matters that we have taken into account in forming our overall view are described in the following sections.

Executive Summary (continued)

Key findings on Value for Money risks	Status
As part of our audit we are required to form a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources ("Value for Money", "VFM"). We are required to report in the Audit Report should any significant weakness be identified through the course of our audit work.	
The key findings regarding the risks we identified are listed below:	
• **delivery of financial targets and the management and reduction in financial resources:** although the Council continues to face significant financial pressures, the approach to financial planning and management of the reduction in financial resources continues to be appropriate;	●
• **delivery of the One Council transformation programme:** no matters of concern have been identified during the course of our audit; and	●
• **reduction in capacity resulting from the reduction in the financial settlement:** no matters of concern have been identified during the course of our audit.	●
Further details are given in Section 6.	

● Risk appropriately addressed ● Risk satisfactorily addressed but with unadjusted errors identified ● Material unresolved matter

Key findings on audit risk and other matters	Status
The key findings regarding the risks we identified are listed below:	
• **changes to accounting framework:** from management's process to identify heritage assets we have noted four operational assets with a total value of £196,000 that could be reclassified to Heritage Assets. Officers should continue to review the asset base of the Authority for Heritage Assets. We have reviewed and tested the application of all other new requirements and have no other matters to bring to your attention;	●
• **adequacy of bad and doubtful debt provisions:** we have reviewed collection of debtors post year end to ensure that all significant debts have been recovered. The bad debt provision has been calculated on a consistent basis with the previous year. There are no matters to bring to your attention from our testing;	●
• **valuation of investments in group companies:** we have reviewed the valuation of investments and concur with Officers view that there is no need to record an impairment against the £3.5m investment in Yorwaste Limited. Furthermore we are satisfied that all material group companies and their trading results have been appropriately included in the consolidated group results for the year ended 31 March 2012;	●
• **valuation of fixed assets:** we have reviewed the valuation of Authority's property and identified that the initial valuation produced by Bruton Knowles was not fully compliant with the requirements of the Code as specialised property (schools) were not being valued on an 'instant build' basis. A corrected misstatement has been included at Appendix 1. The revised valuation had a consequential impact on the depreciation charge. An uncorrected misstatement has been proposed at Appendix 1;	●
• **presumed risk of revenue recognition fraud:** grant income was found to have been recognised in the appropriate period; and	●
• **presumed risk of management override of control:** there have been no instances of management override of control noted from our testing.	●
Further details are given in Section 1	

Executive Summary (continued)

Key areas of estimation uncertainty

We have reviewed the assumptions made by the actuary in valuing the Authority's share of the assets and liabilities of the pension fund. We have also consulted with our own in-house actuaries to determine whether the assumptions are reasonable and within expected ranges. We note that financial assumptions used are based on the NYCC membership being classified as mature although our estimation of the duration would indicate that the Authority is on the borderline of being mature and average. A one year increase in the duration would decrease the liability by £18 million.

We are satisfied that the approach taken by Officers in the selection of assumptions is acceptable.

In our role as auditors of the North Yorkshire Pension Fund we have gained assurance over the Authority's share of the underlying assets in the pension fund.

Our observations on your financial statements

As part of our audit, we consider the quality and acceptability of the Authority's accounting policies and financial reporting.

The Statements of Accounts have to be prepared under an International Financial Reporting Standards ("IFRS") - based Code of Practice on Local Authority Accounting 2011/12.

The draft financial statements presented for audit did meet most of the disclosure requirements of the IFRS Code 2011/12. To improve compliance with the Code we recommended a number of additional disclosures. Two areas of non-compliance with the Code have been identified.

Further details are given in Section 4.

Risk management and internal control system

As part of our audit we consider the quality and robustness of the Authority's internal control environment. We have not identified any significant internal control weaknesses during the course of our work. However, we have identified one opportunity to improve and enhance existing controls in relation to authorisation of journals.

We have also documented an update on the Information Technology controls points identified in prior years.

Further details are given in Section 3.

Identified misstatements

Audit materiality was calculated as £7,500,000 as set out in our audit plan. The threshold for reporting misstatements was £150,000.

We have identified one misstatement that reduces net assets at 31 March 2012 by £69.6m. This has been adjusted in the revised financial statements. The adjustment relates to the revaluation of the County Council's schools to exclude finance costs and reduce the level of planning fees so that the valuation is performed on an 'instant build' basis as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). The adjustment impacts on both the opening position of the Authority Balance Sheet as at 1 April 2011 and the closing position of the Authority's Balance Sheet as at 31 March 2012. The impact on opening net assets is a reduction of £33.5m which has been recorded against the value of land and buildings and the revaluation reserve. There is a further reduction in 2011/12 in the value of land and buildings in the Authority's Balance Sheet and a reduction to the reported surplus on revaluation of non-current assets in the Comprehensive Income and Expenditure statement of £36.1m.

Identified uncorrected misstatements, if adjusted, would decrease the deficit on provision of service by £1,987,000. Officers have concluded that the total impact of uncorrected misstatements, both individually and in aggregate, are not material in the context of the financial statements taken as a whole. The definitive summary of uncorrected misstatements will be attached to the representation letter obtained from the Officers.

Further details are given in Appendix 1.

Executive Summary (continued)

Independence

Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.

Annual Governance Statement

As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Council's governance arrangements.

We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Council's governance arrangements and internal controls derived from our audit work.

Further details are given in Section 7.

4. Significant audit risks

The results of our audit work on significant audit risks are set out below:

● Risk appropriately addressed ● Risk satisfactorily addressed but with unadjusted errors identified ● Material unresolved matter

Changes to the accounting framework	
2011/12 ●	2010/11 ●
Background	The financial statements of all Councils are required to comply with the accounting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ("Code of Practice 2011/12") based on International Financial Reporting Standards ("IFRS"). There has been a number of minor changes required as a consequence of the Code of Practice 2011/12 which will impact on the account balances recorded and disclosure made. The most significant of these changes relates to accounting for Heritage Assets which are now required to be reported in accordance with the requirements of Financial Reporting Standard 30 (FRS 30). Other changes to the Code of Practice 2011/12 are: accounting for Carbon Reduction Commitments; a change to the definition of related parties; a Statement of the Role of the Chief Finance Officer in the Annual Governance Statement; disclosure of exit packages; and clarified disclosure in relation to financial instruments arising from leases and PFI schemes.
Deloitte response	We have reviewed the process undertaken by management to identify any Heritage Assets that would need to be recognised or reclassified from operational assets. The Authority has identified a number of assets that are held for cultural, environmental or historical associations. In general the assets identified are below the Authority's deminimus for recording capital assets. Management have identified four assets which are above the £20,000 deminimus for capitalisation but have not been classified as heritage assets as management do not consider that they are held for their cultural significance. We consider that these asset could be classified Heritage Assets (total value £196,000) and Officers should continue to review the Authority'. No adjustment has been made in respect of these assets however the impact is considered to be immaterial. We have reviewed all of the other changes to the Code of Practice 2011/12 as identified above. There are no matters that we want to bring to your attention from our work.

1. Significant audit risks (continued)

Adequacy of bad and doubtful debt provision	
2011/12 ●	2010/11 ●
Background	In the current climate there is likely to be more pressure on the Authority's council tax payers' financial resources. It therefore follows that there is likely to be a higher level of unpaid debts at 31 March 2012 and potentially more bad and/or doubtful debts occurring.
Deloitte response	We obtained a detailed calculation of all elements of the bad debt provision: • the provision was reviewed and compared to the historical calculation of the bad debt provision; • the provisioning policy was considered in light of our knowledge of the history of bad debt exposure; • the calculation was re-performed to ensure the accuracy of the calculation; and • the aging of the debtor balance was assessed to confirm the accuracy. In all areas we concluded that the bad debt provision was adequate.

1. Significant audit risks (continued)

Valuation of the investment in group companies	
2011/12 ●	2010/11 ●
Background	There is a risk concerning the carrying value of long term investments, the recoverability of loans and other inter-organisational balances made by the Authority to its group companies. The Authority holds the 100% shareholding in NYnet Limited, a company incorporated under the Companies Act 1985, which provides broadband infrastructure to North Yorkshire. The Authority's investment at 31 March 2011 in NYnet Limited is limited to £1 ordinary share capital however the Authority has provided loans to its subsidiary of £7.7 million as at 31 March 2011. At 31 March 2011 the company had net liabilities of £6.2 million. The Authority holds a 78% shareholding in Yorwaste Limited, a company incorporated under the Companies Act 1985, which provides waste disposal services. The remaining 22% is held by City of York Council. The Authority's investment in the ordinary share capital of Yorwaste Limited as at 31 March 2011 was £3.5 million and it had provided loans to this subsidiary of £3.7 million. The results to 31 March 2011 showed a profit before and after taxation of £1.6 million and £0.7 million respectively and net assets of £11.6 million. The Authority holds a 50% shareholding in Veritau Limited, a company incorporated under the Companies Act 1985, which provides Internal Audit and Information Governance Services. The remaining 50% is owned by City of York Council and is operated as a joint venture arrangement by the two Authorities. The Authority's investment in Veritau Limited is limited to £1 ordinary share capital and the Authority has not provided any loans to this entity as at 31 March 2011. The results to 31 March 2011 showed a profit before and after taxation of £179 and £141,000 respectively and net assets of £55,000. We will also review the appropriateness of the accounting treatments adopted for the consolidation of the two new group companies, the North Yorkshire Business and Education Partnership and the Yorkshire Purchasing Organisation.
Deloitte response	**NYnet Limited:** The Authority's investment in NYnet Limited is limited to £1 however as at 31 March 2012 the Authority had provided loans to this subsidiary of £7.1m. NYnet Limited had at 31 March 2012 unaudited net liabilities of £6.2m. We have reviewed the long term projections for NYnet Limited and we have noted from these that the company is anticipated in the long-term to generate sufficient profits to enable loans to be repaid. As a cash pooling arrangement exists between NYnet Limited and the Authority we are satisfied that all current trading balances between the Authority and NYnet Limited will be recoverable. **Yorwaste Limited:** The Authority's investment in Yorwaste Limited is £3.5m and it has provided loans to this subsidiary of £3.7m. The results to 31 March 2012 show a profit before and after taxation of £2.8m and £2.1m respectively and net assets of £12.6m. As part of our audit in the earlier years we have reviewed the long terms business plans of Yorwaste Limited and noted that there are no scheduled repayments of the loan prior to 31 March 2014. No concerns were identified over the recoverability of trading balances between the Authority and Yorwaste Limited.

1. Significant audit risks (Continued)

Valuation of the investment in group companies (continued)

Veritau Limited:

The Authority's investment in Veritau Limited is £1 and the Authority has not provided any loans to this entity. The trading debtor due from Veritau Limited as at 31 March 2012 is considered to be trivial. No concern is noted in respect of the recoverability of this balance.

Carrying value of investments:

The Authority values its investments in its subsidiaries and joint venture on a historic cost basis. The Code requires that the Authority values its investments in group companies either at cost, or in accordance with valuation criteria for financial instruments, which follow a hierarchy of tests to determine fair value. As the Code allows an accounting policy choice, management have elected to value its investments In group companies at historic cost due to the difficulties in obtaining market values and the cost of hiring a professional firm to value these companies.

NYnet Limited has significant trading losses as at 31 March 2012. Due to the accumulated losses we consider that the Authority's holding in NYnet Limited is impaired as at 31 March 2012. Due to the level of rounding used in the preparation of the Authority accounts the impairment of the £1 interest in NYnet Limited does not impact on the value of investment in group companies disclosed in Note 27.

Veritau Limited had trading losses of £64,000 as at 31 March 2012. Due to the accumulated losses we consider that the Authority's holding in NYnet Limited is impaired as at 31 March 2012. Due to the level of rounding used in the preparation of the Authority accounts the impairment of the £1 interest in NYnet Limited does not impact on the value of investment in group companies disclosed in Note 27.

In respect of Yorwaste Limited we note that the net assets of Yorwaste group are £12.6m as at 31 March 2012. The net assets of the Yorwaste group provide assurance that the carrying value of the investment of £3.5m is recoverable.

Other group companies:

On 2 February 2012 a subsidiary of NYnet Limited was incorporated, NYNET 100 Limited, to develop a next generation broadband infrastructure. The company commenced trading on 1 March 2012 and incurred a trading loss in the first month of operation of £0.9m. We are satisfied that the loss has been appropriately included within the consolidated results of the group.

On 1 February 2012 a subsidiary of Veritau Limited was incorporated, Veritau North Yorkshire Limited, to provide internal audit service to the district councils in the North Yorkshire area. The company did not trade in the period to 31 March 2012. No consolidation entries were therefore required in the preparation of the consolidated results of the group.

The Authority has a 30% interest in the North Yorkshire Business and Education Partnership (NYBEP) over which it is able to demonstrate significant influence. On this basis the Authority should accounts for its investment in NYBEP as an associate. However, as the net assets NYBEP are £0.2m and the movement in net assets in the year is clearly trivial the Authority has excluded this from the consolidation on the grounds of materiality.

The Authority is one of 13 members of the joint committee that operates the Yorkshire Purchasing Organisation. As the Authority is unable to demonstrate any significant influence or control over the operations of Yorkshire Purchasing Organisation this is accounted for as a simple investment.

From the results of our testing we are satisfied that management has appropriately accounted for its interest in other group companies.

1. Significant audit risks (continued)

Valuation of fixed assets	
2011/12 ●	2010/11 ●
Background	In the current climate the property market is still volatile and there is the potential for valuations of property and other assets to have fallen. We will review the data extract supplied by the Authority to Bruton Knowles to determine if the valuation has been prepared based on information from the Authority that is both accurate and complete. We will obtain a copy of the third party valuation report for the land and buildings held by the Authority and review a sample of accounting entries arising from these valuations for arithmetic accuracy. Where Officers have used ‘beacon’ properties to value the County Farms we will obtain a copy of the third party valuation report and review a sample of the accounting entries arising from these valuations for arithmetic accuracy. We will also review the information provided to the Bruton Knowles in relation to the County Farms and conclude on whether the ‘beacon’ assets used in the valuation are truly representative of the rest of the portfolio. We will use our in-house property department to review the basis of the valuations which will include a review of the assumption used by the Authority’s property specialist adviser, Bruton Knowles, to ensure valuations are reasonable based upon their market knowledge and experience. We will consider whether there is any indication of impairment from the third party valuations and whether any noted impairment should be applied across the portfolio of property to other assets that have not been valued in the current year. Jacobs UK are responsible for most of the construction work on schools. This accounts for the majority of fixed asset additions. At the year end, Jacobs UK provides a report listing costs incurred during the year and the percentage of these costs that should be expensed and the percentage that should be capitalised. In order to assess the accuracy of the report produced by Jacobs UK we will discuss the percentage applied to a sample of the larger additions with both Officers in Children’s and Young Peoples Services and Jacobs UK. There is also a requirement under IFRS for all new or revalued tangible assets with component parts, which may have different useful lives, to be reviewed and the components to be depreciated at different rates according to their useful lives. We will continue to monitor the Authority’s approach to componentisation and will perform a review of the new and revalued assets and the associated depreciation charge calculation.
Deloitte response	We have obtained a copy of the data supplied by the Authority to Bruton Knowles, in order for them to undertake the valuation as at 1 April 2011, and confirmed that this agrees to the fixed asset register tested as part of our 2010/11 audit. We have also discussed the process with Officers to understand how the work of the valuers in scoped by the Authority and are satisfied that the process is both robust and well established. We have obtained a copy of the signed valuation report from the Authority’s valuers Bruton Knowles and reviewed a sample of the valuations for arithmetic accuracy. Our internal property team have reviewed the assumptions and a sample of valuation work paper produced by Bruton Knowles as part of their revaluation of all primary schools as at 1 April 2011.

1. Significant audit risks (continued)

Valuation of fixed assets (continued)

Deloitte response

Our review of the Bruton Knowles work papers indicated that the valuation produced was not compliant in all respects with the requirements of the Code. Under the Code and RICS guidance the schools are considered to be specialised property. On this basis the Code requires that the schools valuation should be performed on an 'instant build' basis which is a difference to the standard RICS guidance. An instant build basis assumes that the Authority would not incur any finance charges during the construction process and would incur minimal costs in obtaining planning permission. Our internal property team identified that that the valuations produced by Bruton Knowles included an allowance of 3% for finance costs and 15% for planning costs and on this basis it was concluded that the initial valuation was overstating the value of the primary schools.

Following discussion between our internal property specialist, Officers and Bruton Knowles it was agreed that a desktop valuation would be undertaken to quantify the impact of removing the finance costs from the valuation and reducing the planning costs from 15% to 3%. This desktop exercise was completed by Bruton Knowles on a sample of 25 primary schools and 11 secondary schools. The reduction in value identified from the samples tested was £6.1m in relation to primary schools and £7.9m in relation to secondary schools. Based on these results an extrapolated total reduction in the valuation of £69.6m was calculated by Bruton Knowles.

Using this sample of schools used by Bruton Knowles in there desktop valuation Officers have determine that the entire adjustment should be recorded as an adjustment to the revaluation reserve. We have reviewed the Authority fixed asset register and are satisfied that the have been sufficient upwards revaluations of the school properties in earlier years to record the adjustment in its entirety against the revaluation reserve.

As the secondary schools were revalued as at 1 April 2010 the reduction in value of £33.5m has been recorded by Officers as a prior period adjustment. Having reviewed the Code we are satisfied that managements proposed treatment is in accordance with accounting requirements. Primary schools were revalued as at 1 April 2011 and a further adjustment of £36.1m has been recorded in 2011/12. A corrected misstatement has been reported in Appendix 1.

The impact of adjustment to the schools valuation would also impact on the depreciation charge for the year. Management have estimated that the impact on the depreciation in the prior year is £1.1m, and the impact on both primary and secondary schools in the current year is £2.3m. An adjustment has been proposed at Appendix 1.

We have obtained the report produced by the valuer which confirms that there are no other impairments in the Authority's property which have not been revalued during 2011-12. The Authority has not revalued its investment property in the current year. A valuation was undertaken in 2010/11 and these assets will be next revalued in four years' time as part of the Authority's rolling process of revaluations. In order to determine if there is any indication of impairment of the County Farms we have obtained a Savills research article on value of arable land in the North of England. This research article concludes that the value of arable land has increased by approximately 3% during 2011-12. On the basis of this report we are satisfied that there are no indications of impairment of investment properties.

We part of our audit of fixed asset we have also considered the accuracy of the report produced by Jacobs and the Authority's approach to componentisation of its asset base. All testing in these two areas was completed with no issues noted.

1. Significant audit risks (Continued)

Presumed risk of revenue recognition fraud	
2011/12 ●	2010/11 ●
Background	International Standards on Auditing (UK and Ireland) 240 – "The auditor's responsibility to consider fraud in an audit of financial statements" requires the auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a key audit risk. For the Authority, based on our knowledge gained from previous audits, we consider that the specific revenue recognition risk relates to inappropriate cut-off of grant funding. We will also perform a review of all grant income which has been deferred to future accounting periods to ensure that deferment is appropriate as the Authority has yet to meet the conditions of the grant. We will also undertake sample testing on grant income received in the year to ensure that where a grant has not been deferred that the conditions of the grant has been met and the expenditure has been incurred.
Deloitte response	We have reviewed a breakdown of the sources of income for the Authority and concluded that the amounts recognised in the current year are in line with our expectation and the conditions of the grants. As part of our testing we agreed the major sources of funding to third party source documentation.

Presumed risk of management override of controls	
2011/12 ●	2010/11 ●
Background	International Standards on Auditing (UK and Ireland) requires the auditors to perform certain audit procedures to respond to the risk of management's override of controls.
Deloitte response	We have performed the following: • understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments; • reviewed accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; • retrospectively reviewed management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and • obtained an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the organisation and its environment. An observation in relation to journals has been raised in Section 3.

2. Key areas of estimation undertainity

Pension scheme assumptions

2011/12 ● 2010/11 ●

Background

In the current climate the choice of pension inflation, discount and yield assumptions will be both difficult and judgemental. Small and apparently insignificant changes to these key assumptions can have material consequences for the actuarial assessment of the liability included within the financial statements of the Authority.

We will document the process the Authority has put in place to determine the assumptions and will use our in-house pension and actuarial department to review these assumptions for reasonableness based upon prevailing market factors.

Assurance over the underlying asset values will be provided by the Deloitte as auditors of the North Yorkshire Pension Fund, in accordance with the Audit Commission's FRS 17 protocol.

Deloitte response

We have reviewed the assumptions made by the actuary in valuing the Authority's share of the assets and liabilities of the North Yorkshire Pension Fund. We have also consulted with our own in-house actuaries to determine whether the assumptions are reasonable and within expected ranges.

The key assumptions adopted at 31 March 2012 by the Authority in valuing their share of pension fund liabilities are as follows:

	2012	**2011**
Rate of inflation (CPI)	2.5%	2.9%
Rate of increases in salary	4.3%	4.7%
Rate of increases in pensions	2.5%	2.9%
Rate of discounting scheme liabilities	4.9%	5.5%
Mortality assumptions. Life expectancy of a male (female)		
- future pensioner aged 65 in 20 years time	23.6 (26.4)	23.5 (26.3)
- current pensioner aged 65	22.2 (24.8)	22.1 (24.7)

At 31 March 2012 the assumptions used to value the pension liabilities were based on the scheme being mature which means the duration of the liabilities is between 14 and 18 years. Our estimate of the duration is c18 years so we consider the scheme to be borderline between mature and average. If the scheme has been classified as average the liability would decrease by £18m.

All other assumptions are within the normal range of assumptions we are observing as at 31 March 2012. We note that the calculation has been performed on a basis that is consistent with the prior year, is in accordance with general accepted actuarial principles and methodology and is compliant with the accounting requirements of IAS 19 'Employee Benefits'.

The selection of actuarial assumptions is an area of judgement and the approach taken by Officers is acceptable.

In our role as auditors of the North Yorkshire Pension Fund we have gained assurance over the Authority's share of the underlying assets in the pension fund.

3. Risk management and internal control systems

Update on prior year observations

● No issues noted ● Satisfactory – minor observations only ● Requires improvement ● Significant improvement required

Format of journals		2012	2011
Background	Where journals are entered by Oracle super-users they can be input and authorised by the same person. Journals entered by other Oracle users are not authorised by more senior members of the finance team. In September 2012 Officers have undertaken a review of the number of users that have access to input or authorise journals within Oracle. Officers have also determined the number of super-users as super-users can prepare and authorise their own journals. There are 53 individuals who can input journals into Oracle, 11 Oracle Authorisers and 55 Oracle super-users.	●	●
Recommendation	Management should seek to rationalise the number of super-users to restrict the ability of users to prepare and authorise their own journals within Oracle. A report should be developed so that management can obtain and review a report of the journals input by super-users on a regular basis.		
Management response	Directorate Accountants will review the number or Oracle super- users in the near future with the objective of rationalising the number of such users during the latter part of 2012/13. Accountants will also determine and implement procedures to identify and retrospectively review journals which were input and authorised by Oracle Super-users, on a periodic basis. This will be implemented before the end of the current financial year.		

Update of prior year IT recommendations		2012	2011
Background	In previous years we have identified a number of areas of improvement to the IT environment of the Authority. As part of the financial audit planning purposes we have held discussions with IT management to gain an understanding of the IT environment and IT governance arrangements that were in place during the period 1 April 2011 to 31 March 2012. Whilst not performing any validation work, from these discussions we have identified a number of findings which were outstanding at the end of May 2012, the key points discussed relate to the following: **User Administration** • While formal user administration procedures are in place and improvements have been made over the audit period, the removal of leavers within Oracle Financials is not always adhered to on a timely basis. **Password security settings** • Weak password control settings over the AXISe pension system, and the Windows Domain operating system; • The password to the Oracle Database 'SYSADMIN' administrator account is not being changed on a regular basis. However, this privileged account is only known to two database administrators; and	●	●

3. Risk management and internal control systems (continued)

<table>
<tr><th>Update of prior year IT recommendations</th><th></th><th>2012</th><th>2011</th></tr>
<tr><td>Background</td><td>
A Novell user has the ability to use another users Oracle account (only if their Novell password is known), as the single sign on process currently does not restrict an Oracle account to a particular Novell account. This finding will be redundant upon completion of the replacement of the network operating system from Novell to Windows later this year.
Change management
While formal change management procedures are in place, a number of areas of weakness were noted as follows:
There is no log maintained of modifications made to the Oracle Business Objects reports by Finance; and
There is no formal defined change classification in place on what constitutes a Major, High, Medium and Low change classification.
Computer operations
No evidence is retained to prove that checks are undertaken on a daily basis of any failed batches from SWIFT into the Oracle Financials application, and that any failed jobs have been resolved.
These weaknesses in the IT governance framework increase the risk of changes to systems or data which could affect the confidentiality, integrity or availability of the systems and their financial information.”
We are pleased to acknowledge that a number of prior year findings were remediated in May 2012, as follows:
Weak password controls over the core application system Oracle Financials, and the Solaris (Unix) operating system; and
No system audit trail of administrator user postings and activities on the Oracle Financials application.
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<tr><td>Management response</td><td>
The actions taken and / or planned in relation to the four areas identified are as follows:

User Administration - in October 2012
Oracle user accounts will be suspended after 30 days of inactivity, compared with the current 56 days and a review of processes will be undertaken to improve the timeline and notification procedures in relation to leavers.
Password Security settings
the Windows Domain operating system used for the AXISe pension system has been improved and complies with the password policy. Password configuration changes to AXISe will be raised with the third party provider (by December 2012)
the Oracle database has recently been upgraded and the introduction of regular changes to the SYADM password and alignment with the password policy is being investigated (by December 2012)
the completion of migration to Windows7 by March 2013 will remove this issue; there will be no Novell account users from that date.
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3. Risk management and internal control systems (continued)

Management response (continued)	Change management • Improvements have already been made to address the two specific points raised Computer operations • It is acknowledged that there have been problems with the SWIFT / Oracle Financials interface. The emphasis has therefore been to resolve these issues as and when and as quickly as possible. Now that the process is stable, work will be done to ensure that appropriate checks and subsequent corrections are made for any failed batches from SWIFT into Oracle Financials (by December 2012)

4. Our observations on your financial statements

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

We note that the Authority has continued to produce good quality working papers for audit. We would like to take this opportunity to thank John Moore, Corporate Director – Finance and Central Services, and his team for their assistance during the process.

Our comments on the quality and acceptability of the Group's accounting policies and financial reporting are discussed below.

Accounting policies

The 2011/12 accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards.

New accounting policies adopted by the Authority in 2011/12 include Heritage Assets and Carbon Reduction Commitment Scheme. There are no matters to bring to your attention from our review of these accounting policies.

Financial reporting

There are three uncorrected misstatements above our threshold in the current year of which two would impact the reported deficit on Provision of Services in the Comprehensive Income and Expenditure Account. Further details are provided in Appendix 1.

Two disclosure deficiencies have been identified that have not been amended by Officers:

- Related parties note – the Authority has not quantified the amount due as at 31 March 2012 to the Yorkshire Purchasing Organisation and the North Yorkshire Business and Education Partnership; and
- Financial instruments note – Officers have not calculated a reconciliation of movement between the opening and closing bad debt provision.

In relation to the two disclosure deficiencies identified we note that in respect of the both item, Officers consider that the amount of work to generate the disclosures is not justified.

5. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence

We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.

If the Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.

Non-audit services

We are not aware of any inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy.

There have been no non-audit fees charged during 2011-12.

Audit fees

The external audit fees in relation to audit services provided on behalf of the Audit Commission in the period from 1 April 2011 to 31 March 2012 are as follows:

Fees payable for the audit of the annual accounts (excluding VAT)	£209,978

The audit fee has been calculated in accordance with Audit Commission fee scale.

The fees for certification of claims and returns are estimated at £12,000 and will be confirmed in our Grant Annual Audit Letter.

International Standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the Internal Audit department, reviewed the findings of Internal Audit to inform the risk assessment and consider the impact on our audit approach as deemed appropriate. No adjustments were made to the audit approach as a result of our review of the work of Internal Audit.

5. Other matters for communication (continued)

Localism Act

The Department of Communities and Local Government (DCLG) has written to all councils to advise them of the introduction of new standards and conduct arrangements which apply from 1 July 2012. These arrangements are set out in the Localism Act 2011. They require authorities to:

- develop a local code of conduct dealing with the conduct of members and co-opted members of the authority;
- maintain and publish a register of interests; and
- appoint an independent person to provide advice to the council on any allegations it may be considering and to members who may be the subject of the allegation(s). Under transitional arrangements DCLG are allowing the appointment as an independent person of someone who has been an independent chairman or member of the authority's standards committee. A person appointed under the transitional arrangements can hold that office only until 30 June 2013.

Further information on this is contained on the DCLG website, together with an illustrative example of a local code of conduct.

6. Value for money (VFM) conclusion

From 2010/11 the Audit Commission introduced new requirements for local value for money ("VFM") audit work at councils. This year, there has been no change in the scope of our work and auditors are again required to give their statutory VFM conclusion based on the following two criteria:

- proper arrangements for securing financial resilience: work to focus on whether the Council has robust systems and processes to manage risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- proper arrangements for challenging how economy, efficiency and effectiveness are secured: work to focus on whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have determined our local programme of work based on our risk assessment, which is informed by a series of risk factors determined by the Audit Commission. There were no changes to our risk assessment as reported to the Audit Committee in June.

It should be noted that the work carried out was light touch, in line with Audit Commission guidance, focusing on updating our understanding of arrangements and controls in place. As arrangements have previously been assessed as adequate and we are not aware of any changes, we did not carry out detailed testing of the implementation of those controls in the current year.

Delivery of financial targets and the management of reduction in financial resources

Background

Following the Government's comprehensive spending review and the extent of the reduction in the funding settlement, the Council is facing severe financial pressures over the next few years. The first year of the four year medium term financial strategy (MTFS) was delivered successfully and savings proposals are in place for 2012/13. Work is on-going to develop further measures to address the financial funding gap in 2013/14 and 2014/15. The MTFS identifies specific risks in relation to the longer term financial position in relation to Adult Social Care.

Response

We have carried out a high level review of proposals within the MTFS, and have tested a sample of initiatives to assess the reasonableness of quantification of savings to be achieved and the identification and management of risks. During the course of this work, we have also considered the effectiveness of arrangements to assess the implications of savings measures and to manage their impact on the delivery of strategic priorities.

Of the sample of six savings initiatives selected for testing, the quantification of recurring savings brought on line in 2012/13 was found to be reasonable and costs of implementation / costs of alternative service provision have been recognised. However there were in some of the schemes selected for testing, delays in the timescales in which these budgeted savings were to be brought on line. As a result further savings needed to be found for the full savings budgeted to be realised. Those charged with planning for and realising the budgeted savings were aware of these timing differences and were actively managing the overall position.

We also noted some non-recurrent savings within the sample tested:

- £144k within the Corporate Miscellaneous (terms and conditions savings), impacting from 2013/14. Management anticipate further recurring savings to be identified to address this; and
- £2.6m within Health and Adult Services (reduction of in-house domiciliary care). These savings are no longer to be delivered as originally planned but additional recurring grant income is being received which addresses this shortfall.

Overall, the response of the Authority to the financial pressures is considered appropriate and the shortfalls and timing differences identified within our sample testing do not affect our value for money conclusion. At Quarter 1, the Authority is projecting an underspend and several savings, including One Council measures, being delivered ahead of plans.

6. Value for money (VFM) conclusion (continued)

Delivery of the One Council transformation programme	
Background	The One Council transformation programme will be critical to the achievement of financial savings within 2012/13 and the remaining period of the MTFS. Central project management arrangements are in place and based on our initial risk assessment appear appropriate. Successful delivery however involves several cross-cutting work streams impacting all directorates. Major changes in the ways in which the Council works increase the risk of corporate governance arrangements becoming out-dated or of non-compliance with existing arrangements. In response to this risk, the Audit Committee has requested an assurance mapping exercise be carried out in relation to the One Council transformation programme. We are providing support to Internal Audit who are carrying out this exercise.
Deloitte response	In line with our plan, we have held a series of meeting with directorates to further develop our understanding of the implications of the programme for the directorates and how these are being addressed with directorate plans and activities. No matters of concern were identified so no detailed audit work has been undertaken at this stage. We have discussed the assurance mapping exercise with Internal Audit and provided an example of how this can be documented. We have agreed the nature and timing of the support we will provide, which will primarily be a quality assurance review. Internal Audit work is now on-going.

Reduction in capacity resulting from the reduction in the financial settlement	
Background	As part of the savings proposals within the budget, the Council is reducing capacity across the organisation including key functions such as finance and performance management. Although we have not identified any specific risks in these areas, the adequacy of capacity and capability in both of these functions is particularly critical during the current period of change and financial pressures. Reduction in capacity also increases the risk of slippage in or non-compliance with the current control environment which has previously been assessed as strong. The Council has continued to make progress in each of these areas and no issues have been identified that would impact our vfm conclusion.
Deloitte response	No matters of concern arising from reducing capacity as a result of reducing resources have been identified during the course of our audit work. Similarly, no issues reported by Internal Audit relate to deteriorating controls as a result of reducing capacity.

6. Value for money (VFM) conclusion (continued)

The VFM conclusion

Under the Code, auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that, in all significant respects, the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The conclusion has regard to the criteria specified by the Commission and we do not consider all aspects of the Council's arrangements. This conclusion is given within our audit report on the Council's accounts.

We are required to report if, in our judgement, matters come to our attention which are significant enough to prevent us from concluding that proper arrangements are in place in the areas considered. In such a circumstance, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Council has put in place proper arrangements except for…) or in the form of an 'adverse' conclusion (i.e. the Council has not put in place arrangements in that…).

For 2011/12, we have assessed the Council for both criteria as having proper arrangements in place and we will be issuing an unqualified conclusion.

7. Annual Governance Statement (AGS)

In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives (“SOLACE”) published ‘Delivering Good Governance in Local Government: A Framework’. This framework replaced the previous CIPFA/SOLACE framework ‘Corporate Governance in Local Government – A Keystone for Community Governance: A Framework’ which was published in 2001.

The framework introduced, from 2007/08, an integrated Annual Governance Statement (“AGS”). The AGS covers all significant corporate systems, processes and controls, spanning the whole range of a Council’s activities, including in particular those designed to ensure that:

- the Council’s policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Council’s values and ethical standards are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and
- human, financial, environmental and other resources are managed efficiently and effectively.

Our review is directed at:

- considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
- identifying any inconsistencies between the disclosure and the information that we are aware of from our work on the financial statements and other work relating to the Code of Audit Practice.

We have reviewed the Council’s AGS in line with the requirements above. We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Council’s governance arrangements and internal controls derived from our audit work.

8. Responsibility statement

The Audit Commission published a ‘Statement of responsibilities of auditors and of audited bodies’ alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority’s system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors’ report.

We view this report as part of our service to you for use as Members of North Yorkshire County Council for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for controls over, and security of the website. You are also responsible for establishing and controlling the process for electronic distributing accounts and other information.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Leeds
20 September 2012

For your convenience, this document has been made available to you in electronic format. Multiple copies and versions of this document may therefore exist in different media. In the case of any discrepancy, the final signed hard copy should be regarded as definitive. Earlier versions are drafts for discussion and review purposes only.

Appendix 1: Audit adjustments and uncorrected misstatements

Recorded audit adjustments – correct misstatements

We report all individual identified recorded audit adjustments in excess of £150,000 and other identified misstatements in aggregate adjusted by management in the table below:

Current year Description	Assets DR / (CR) £	Liabilities DR / (CR) £	Reserve DR / (CR) £	Income Statement DR / (CR) £
Reduction in value of specialised property on to an instant build basis				
Dr Surplus on revaluation of non-current assets	-	-	-	36,100,000
Cr Property, plant and equipment	(36,100,000)	-	-	-
Total adjusted misstatements relating to current year items	(36,100,000)	-	-	36,100,000

In addition to the above a corrected misstatement has been recorded to reclassify £1,085,000 of bad debt provision from long term bad debt provision to the short term.

Prior year Description	Assets DR / (CR) £	Liabilities DR / (CR) £	Reserve DR / (CR) £	Income Statement DR / (CR) £
Reduction in value of specialised property on to an instant build basis				
Dr Revaluation reserve	-	-	33,500,000	-
Cr Property, plant and equipment	(33,500,000)	-	-	-
Total adjusted misstatements relating to current year items	(33,500,000)	-	33,500,000	-

Appendix 1: Audit adjustments and uncorrected misstatements (continued)

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our audit. We will obtain written representations from the Audit Committee confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the Statement of Accounts taken as a whole, no adjustments are required.

Description	Assets DR / (CR) £	Liabilities DR / (CR) £	Reserve DR / (CR) £	Income Statement DR / (CR) £
Adjustment to depreciation for schools valuation in 2010/11 and 2011/12				
Dr Property depreciation	3,433,000	-	-	-
Cr Cost of Services	-	-	-	(2,318,000)
Cr Capital adjustment account	-	-	(1,115,000)	-
Understatement of insurance provision in relation to failure of Municipal Mutual Insurance Limited				
Dr cost of services	-	-	-	331,000
Cr provisions	-	(331,000)	-	-
Grossing up of insurance provision fund by £220,000 which had been netted down for the resources used to finance the carbon fund				
Dr schools LMS earmarked reserve	-	-	220,000	-
Cr insurance reserve	-	-	(220,000)	-
Total uncorrected misstatements relating to current year items	3,433,000	(331,000)	(1,115,000)	(1,987,000)

The draft financial statements presented for audit did meet most of the disclosure requirements of the IFRS Code 2011/12. To improve compliance with the Code we recommended a number of additional disclosures. Two areas of non-compliance with the Code have been identified. (See Section 4).

Appendix 2: Draft Management Representation letter

We ask that the Audit Committee notes the format of the letter below, and recommends the Corporate Director – Finance and Central Services can sign the letter on behalf of the Council.

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Our Ref: **CDP/AJL/NYCC2012**

September 2012

North Yorkshire County Council – Audit of the annual accounts for the year ended 31 March 2012

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council, the consolidated financial statements and the North Yorkshire Pension Fund (hereafter collectively referred to as North Yorkshire County Council) for the year ended 31 March 2012.

This representation letter is given for the purpose of expressing an opinion as to whether the financial statements present a true and fair view of the financial position of North Yorkshire County Council as of 31 March 2012 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with applicable accounting framework and relevant statutory authorities.

We acknowledge our responsibilities under the relevant statutory authorities for preparing financial statements for North Yorkshire County Council which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the North Yorkshire County Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all County Council, Executive and Committee meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting North Yorkshire County Council involving:
   - (i) management and other employees who have significant roles in the system of internal accounting control
   - (ii) irregularities involving other employees or members that could have a material effect on the financial statements or
   - (iii) communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting North Yorkshire County Council financial statements communicated by employees, former employees or others.
6. We are not aware of any actual or possible instances of non-compliance with laws, regulations and code of practice the effects of which would likely have a significant effect on the finances or operations of the North Yorkshire County Council. North Yorkshire County Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Appendix 2: Draft Management Representation letter (continued)

7. We have considered the unadjusted errors and disclosure deficiencies detailed in the appendix 1 to this report. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.

8. Where required, the value at which assets and liabilities are recorded in the balance sheet and net asset statement is, in our opinion, the fair value or other value as required by the applicable accounting framework and relevant statutory authorities. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of North Yorkshire County Council. Any significant changes in those values since the balance sheet date have been disclosed to you.

9. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of members and other individuals who are in a position to influence, or who are accountable for the stewardship of the reporting entity and confirm that we have disclosed in the financial statements all transactions relevant to North Yorkshire County Council and we are not aware of any other such matters required to be disclosed in the financial statements, whether under IAS24 "Related party disclosures" or other requirements.

10. There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

    (i) no claims in connection with litigation have been or are expected to be received, other than those already disclosed in the financial statements

    (ii) there are no material commitments or contractual issues, other than those already disclosed in the financial statements

    (ii) no financial guarantees have been given to third parties.

11. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

12. Since the date of consideration of the financial statements by the Audit Committee on 28 June 2012, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements except as disclosed in the Statement of Accounts.

13. There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

14. We have properly recorded the bank balances of all school bank accounts in the financial statements.

15. We have evaluated the adequacy of the self-insurance reserve maintained and consider it to be appropriate.

16. We confirm that no amounts are expected to be paid in respect of any legal claims, which are being dealt with by our solicitors, other than those already provided in the annual accounts and no other legal claims have been received or are expected to be received that would have a material impact on the annual accounts.

17. We confirm that where grant income has been received that the income has been recognised in the appropriate period based on whether the grant conditions have been meet.

18. We confirm that no significant fixed assets have been sold or scrapped during the financial year other than those identified in the financial statements.

19. We have considered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost less residual value over the remaining useful lives.

Appendix 2: Draft Management Representation letter (continued)

20. We confirm that in relation to accounting and disclosures of the pension costs and liabilities in North Yorkshire Council's financial statements:

    - there are no schemes of which you have not been made aware or properly accounted for;
    - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
    - the actuarial assumptions underlying the valuation of the scheme liabilities accord with the management's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the Council; and
    - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology the amounts included in the financial statements derived from the work of the actuary are appropriate.

21. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your Auditors' report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of North Yorkshire County Council (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council