

NORTH YORKSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****27 SEPTEMBER 2012****STATEMENT OF FINAL ACCOUNTS including LETTER of REPRESENTATION****Report of the Corporate Director – Finance and Central Services****1.0 PURPOSE OF REPORT**

- 1.1 To approve a Letter of Representation that is required to be submitted to the External Auditor.
- 1.2 To approve a Statement of Final Accounts for 2011/12 following completion of the external audit of those Accounts.

2.0 BACKGROUND

- 2.1 A draft Statement of Final Accounts (SOFA) for 2011/12 was considered by this Committee on 28 June 2012 in advance of these accounts being audited by the External Auditor during July and August 2012. This SOFA incorporates the accounts of the North Yorkshire Pension Fund.
- 2.2 Members may recall that the requirement for ‘formal Member approval’ of the draft accounts by 30 June each year, in advance of their consideration and review by the External Auditor was removed last year as part of updated Accounts and Audit Regulations. Hence the version of the SOFA submitted to Members in June 2012 was for review/comment only, not formal approval. This approach followed both DCLG and CIPFA’s suggestion that it would still be good practice for the SOFA to be presented to Members for review and comment prior to audit and that this was an area where the Audit Committee could still add value.
- 2.3 The external audit of the 2011/12 Accounts is now complete with the report of the External Auditor being included as a prior item on this Agenda. Separate reports are issued by the External Auditor for the County Council and North Yorkshire Pension Fund accounts.
- 2.4 The External Auditor has indicated that he anticipates being able to issue an unmodified opinion on 27 September 2012.
- 2.5 The revised SOFA is provided as a separate booklet in the Agenda papers for this meeting.
- 2.6 To conclude the Final Accounts process (in advance of the External Auditor signing off the 2011/12 Accounts by the required statutory date of 30 September 2012), it is necessary for this Committee to

- (i) agree and countersign a Management Letter of Representation to the External Auditor (see **paragraph 4**)
- (ii) note the changes reflected in the Final SOFA compared to the version considered on 28 June 2012 (see **paragraph 5**), and
- (iii) approve the Final SOFA and authorise the Chairman to sign the Accounts on that basis (see **paragraph 6**)

3.0 INTANGIBLE ASSETS

3.1 A residual question on the draft accounts raised at the meeting on 28 June 2012 related to intangible assets and, in particular, how the period of expected life was assessed and how such assets were valued. This information is provided below.

3.2 The County Council disclosure note on intangible assets is on pages 69 and 70 (note 23) of the attached SOFA booklet with key points being as follows:

- (i) intangible assets relate to capital expenditure incurred on 'non current assets' that do not have physical substance but are controlled by the County Council through custodial or legal rights
- (ii) the sum included in the County Council's balance sheet at 31 March 2012 is £8.6m made up of

Item	£m
- Health and Adult Services partnership schemes where the County Council holds nomination rights to service	5.1
- other Health and Adult Services 'capital' schemes where the County Council receives an ongoing benefit through improved services	2.9
- other schemes, mainly ICT providing infrastructure services and ongoing benefit to the County Council	0.6
= total at 31 March 2012	8.6

3.3 In terms of valuation, all intangible assets are capitalised at historical cost in line with the Accounting Code of Practice.

3.4 Their useful economic life is determined based on the length of time that the benefit will accrue to the County Council. Based on this best estimate of the useful economic life, the intangible asset is charged to the relevant service line within the Comprehensive Income and Expenditure Statement and written down in the balance sheet on a straight line basis over the period. Thus HAS schemes have been written down over a 25 year period and ICT infrastructure / software over a 6 year period.

4.0 LETTER OF REPRESENTATION

- 4.1 The External Auditor requires a written representation from the County Council's management as an acknowledgement of its responsibility for the fair presentation of the SOFA and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.
- 4.2 The External Auditor has therefore requested that this Letter should be discussed and agreed by the Audit Committee (as the body charged with responsibility for governance) and then signed on their behalf by the Chairman, before approval of the SOFA. This is to ensure that Members of this Committee are aware of the representations on which the Auditor intends to rely when issuing his opinion.
- 4.3 This Letter, the text of which is unchanged from last year, is attached as **Appendix A** and has already been signed by management (ie the Chief Executive and the Corporate Director – Finance and Central Services). For security reasons the copy attached does not include the signatures of the two officers – the version to be signed at the meeting by the Chairman has already been signed by the two officers.
- 4.4 The Letter applies to the financial statements of both the County Council and North Yorkshire Pension Fund.
- 4.5 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to approve it on their behalf. The Letter will then be submitted to the External Auditor.

5.0 CHANGES REFLECTED IN THE FINAL SOFA

- 5.1 A number of changes have been made to the SOFA since it was considered by Members of this Committee on 28 June 2012.
- 5.2 These changes are explained in detail in **Appendix B** attached and arise from:-
- (i) refinements agreed with the External Auditor during their audit of the accounts
 - (ii) internally initiated refinements
 - (iii) inclusion of two sections in the final version of the SOFA that were not included in the draft document on 28 June 2012 - the Annual Governance Statement and the External Auditor's certificate

6.0 APPROVAL OF THE FINAL SOFA

- 6.1 The audited final SOFA is attached as a separate booklet. This incorporates all the changes to the draft version considered by Members on 28 June 2012, as set out in **paragraph 5** and **Appendix B**. These accounts will be re-signed by the Corporate Director – Finance and Central Services and the Chief Executive on 27 September 2012.

6.2 Members are therefore asked to approve the Final SOFA for 2011/12 following completion of the audit and authorise the Chairman to sign the accounts on behalf of the Audit Committee. A copy of the Balance Sheet (pages 34 and 35 of the SOFA) which the Chairman is asked to sign is attached as **Appendix C** with the wording

‘I confirm that these accounts were approved by the Audit Committee on 27 September 2012 following completion of the External Audit.’

6.3 As mentioned in **paragraph 2.4** the External Auditor has already indicated that he anticipates being able to issue an unmodified opinion on the accounts.

7.0 **RECOMMENDATIONS**

7.1 That in relation to the Letter of Representation

- (i) Members approve the Letter of Representation set out in **Appendix A**, and
- (ii) authorise the Chairman to sign the Letter on behalf of the Audit Committee

7.2 That in relation to the Statement of Final Accounts 2011/12

- (i) Members note the changes to the Final SOFA as set out in **paragraph 5 and Appendix B**, and
- (ii) Members approve the Final SOFA for 2011/12 (**paragraph 6.2**), and
- (iii) authorise the Chairman to sign the Balance Sheet as attached at **Appendix C**

JOHN MOORE
Corporate Director – Finance and Central Services

County Hall
Northallerton

There are no background documents

19 September 2012



Your ref: CDP/AJL/NYCC2012

Our ref: JSM/GJ

Please call: Mr J S Moore

27 September 2012

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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.
- 7. We have considered the unadjusted errors and disclosure deficiencies detailed in the appendix to this letter. 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
 - (iii) 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 met.
 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.
 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 and North Yorkshire Pension Fund

Name: R Flinton

Name: J S Moore

Position: Chief Executive

Position: Corporate Director – Finance and Central Services (S151 Officer)

Signed: _____

Signed: _____

Date: 27 September 2012

Date: 27 September 2012

Signed by the Chairman of the Audit Committee on behalf of that Committee as evidence that Members are aware of the representations on which the auditor intends to rely.

Signed: _____

Chairman of the Audit Committee

Date: 27 September 2012

Deloitte LLP
1 City Square
Leeds
LS1 2AL

APPENDIX TO LETTER OF REPRESENTATION

UNADJUSTED ERRORS AND DISCLOSURE DEFICIENCIES

The Auditors have identified the following unadjusted errors and disclosure deficiencies, but officers believe that no adjustment is required to be made in respect of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.

COUNTY COUNCIL'S ACCOUNTS

(1) Disclosure Deficiencies

- (a) Related Parties note – the amount due at 31 March 2012 to the YPO and North Yorkshire Business and Education Partnership has not been disclosed because this information is not readily available
- (b) Financial Instrument note – a reconciliation of the movement between the opening and closing bad debts provision has not been made

(2) Unadjusted Errors

- (a) Overstatement of property depreciation by £3,433k in relation to a late change to the basis of revaluation for the County Council's Primary and Secondary schools.
- (b) Understatement of provisions by £331k in relation to potential Insurance liability
- (c) Grossing up of Insurance Fund Reserve by £220k which had been netted down for the resources used to finance the Carbon Fund

NORTH YORKSHIRE PENSION FUND ACCOUNTS

None

CHANGES TO THE 2011/12 STATEMENT OF FINAL ACCOUNTS SINCE AUDIT COMMITTEE ON 28 JUNE 2012

1.0 Introduction

1.1 There have been a number of changes made to the Statement of Final Accounts (SOFA) since it was considered by the Audit Committee on 28 June 2012.

1.2 These changes are as a result of:

- (a) refinements agreed with the External Auditor during the Audit of Accounts
- (b) internally agreed refinements
- (c) inclusion of two sections of the SOFA in the final version that were not included in the draft document on 28 June 2012.

2.0 Changes made as a result of the final accounts audit

2.1 Deloitte commenced their auditing of the SOFA in early July 2012 and concluded their auditing process in early September 2012. During the audit process, the following amendments have been agreed with the Auditor:

- The most significant change relates to the revaluation of the County Council's schools in 2010/11 (Secondary) and 2011/12 (Primary) by Bruton Knowles (BK), the authority's appointed valuer. These valuations were undertaken in accordance with RICS (Royal Institution of Chartered Surveyors) standards which had always been aligned as the basis of valuation required in the CIPFA Code of Practice on Local Authority Accounting. From 2010/11 however a subtle difference was incorporated into the new IFRS based Code of Practice on Local Authority Accounting which required certain elements of cost (finance and planning costs) to be excluded from the 'Depreciated Replacement Cost' basis of valuation in order to achieve consistency with the approach adopted in other parts of the Public Sector. This subtle difference has recently been identified by Deloitte's valuation experts and has resulted in a review of the revaluation figures for schools as previously provided by BK. Based on BK reviewing a sample of schools and applying this to the full school portfolio, this has resulted in a reduced valuation of Secondary schools by £33.5m in 2010/11 (by 5.8% from £576.9m to £543.4m) and Primary Schools by £36.1m (by 8.6% from £417.5m to £381.4m). These significant valuation reductions of £33.5m in 2010/11 and £69.6m in 2011/12 (£33.5m + £36.1m) have now been reflected in the final SOFA, with the comparative figures shown for 2010/11 as approved by this Committee and signed off by Deloitte on 29 September 2011 now being re-stated to reflect this adjustment.

Besides reducing the Property, plant and equipment figures in the balance sheets (the opposite entry is against the non cash backed revaluation reserve) for both 2010/11 and 2011/12, consequential changes have been made to:

- supporting Disclosure notes in relation to Non Current Assets and the Revaluation Reserve
- inclusion of a new note in relation to prior period adjustments (Note 43)
- Group Accounts

- certain parts of the Comprehensive Income and Expenditure Statement
- movement in Reserves Statement
- insertion of a 3rd year (31 March 2010) in the main Balance Sheet

It should be noted that these ‘technical accounting’ figures and adjustments (along with others such as depreciation and pensions accounting) **do not affect the net expenditure to be funded from Government grants and Council Tax or the levels of working balances.** They are accounting figures only which have opposite entries in unusable reserves to ensure that they have no real cash or budgetary impact.

- The North Yorkshire Pension Fund (NYPF) Accounts included in the draft SOFA submitted to the Audit Committee on 28 June 2012 were based on draft accounts submitted to the NYPF Committee on 21 June 2012. Because of timing issues (particularly around information required from outside organisations) and there being a significant number of new disclosure requirements to comply with the IFRS code 2011/12, it was acknowledged that there would be changes made to these draft accounts throughout the audit process. The final NYPF accounts now reflected in the attached final SOFA do therefore reflect some significant presentational changes compared to the earlier draft in terms of:
 - the notes to the core statements have been reordered
 - certain investments have been reclassified to properly reflect their nature
 - additional information and analysis has been provided in some notes
 - a new note on related party transactions has been added

As mentioned all these changes are presentational with the figures in the Core Financial statements being unchanged.

- Inclusion of a new Disclosure Note (Note 42) on Heritage Assets which fully clarifies the County Council’s approach to identifying, valuing and disclosing Heritage Assets.
- Various other relatively amendments and adjustments, including:
 - insertion of 2 material Related Party Transactions involving County Councillors
 - amendments to Group Comprehensive Income & Expenditure Account and Balance Sheet to reflect; dividends paid by Yorwaste, gains made on disposals of non-current assets and re-classification of Finance Lease liabilities
 - adjustments to Group Cash-flow Statement to highlight Equity Dividends paid by Yorwaste, the net cash out-flow for the payment of Tax by Group companies and to ensure non-cash movements reflect Balance Sheet year-on-year movements
 - changes to supporting notes within Group Accounts
 - adjustments to Group Disclosure Notes around Provisions
 - renaming of certain CYPs specific grants in the relevant grant disclosure note
 - amendments to Accounting Policies to clarify that the County Council shall continue as a Going Concern, clarification on the definition of fair

- value in relation to valuations of property and further explanation to justify the valuation of investments in Yorwaste at historic cost
- reclassification of HAS bad-debt provisions from long-term to short-term
- amendments to lay-out of Disclosure notes on Finance Lease arrangements.

3.0 A number of internally generated refinements were also made to the SOFA:

- amendments to the Exit Package Disclosure Note
- corrections to Supporting Notes on the North Yorkshire County Council's share of Pension Fund Costs, liabilities and Assets
- adjustments to various Group Account Balance Sheet Control totals
- various minor presentational issues and rounding errors.

4.0 Inclusion of 2 sections of the SOFA not included in the draft document on 28 June 2012:

4.1 Two sections of the final SOFA which were not included in the earlier draft approved by the Audit Committee on 28 June 2012 as follows:-

- (a) the Annual Governance Statement was submitted as a separate report to the Audit Committee on 28 June and is now required to be incorporated into the final SOFA
- (b) inclusion of the External Auditor's Certificate in the final SOFA as a result of the Audit process having now been finalised

APPENDIX C

BALANCE SHEET AS AT 31ST MARCH 2012

31 March 2010 £000	31 March 2011 £000 Restated (note 43)		31 March 2012 £000
1,680,836	1,512,887	Property, Plant and Equipment (note 18)	1,501,349
26,724	28,235	Investment Property (note 24)	27,782
6,290	6,786	Intangible Assets (note 23)	8,593
3,518	3,518	Long Term Investments (note 27)	3,518
10,211	11,823	Long Term Debtors (note 28)	11,523
1,727,579	1,563,249	Long Term Assets	1,552,765
55,409	115,968	Short Term Investments (note 41a)	138,212
1,115	1,262	Inventories (note 30)	1,187
49,090	36,952	Short Term Debtors (note 31)	32,489
89,323	92,327	Cash and Cash Equivalents (note 26)	65,375
0	1,906	Landfill Allowances Trading Scheme (note 29)	494
2,119	2,139	Assets held for sale (note 25)	1,136
197,056	250,554	Current Assets	238,893
(39,940)	(46,189)	Short Term Borrowing (note 41a)	(47,571)
(95,724)	(94,300)	Short Term Creditors (note 32)	(72,786)
(178)	(194)	PFI Liability repayable within 12 months (note 12)	(211)
(50)	(53)	Finance Lease repayable within 12 months (note 13)	(25)
(21,949)	(16,724)	Capital Grant Receipts in Advance (note 8)	(10,812)
(157,841)	(157,460)	Current Liabilities	(131,405)
0	(303)	Long Term Creditors	(440)
(5,326)	(5,132)	PFI Liability repayable in excess of 12 months (note 12)	(4,921)
(1,185)	(1,131)	Finance Lease repayable in excess of 12 months (note 13)	(1,106)
(17,718)	(19,294)	Provisions (note 33)	(18,124)
(492,421)	(402,260)	Pensions Liability (note 35e)	(472,462)
(310,125)	(366,770)	Long Term Borrowing (note 41a & 41d)	(350,036)
(5,083)	(4,190)	Capital Grant Receipts in Advance (note 8)	(9,789)
(831,858)	(799,080)	Long Term Liabilities	(856,878)
934,936	857,263	Net Assets	803,375

BALANCE SHEET AS AT 31ST MARCH 2012 (continued)

31 March 2010 £000	31 March 2011 £000 Restated (note 43)		31 March 2012 £000
Usable Reserves			
17,569	23,949	General Working Balance (note 34a)	36,107
66,452	81,724	Earmarked Reserves (note 34b)	91,311
0	0	Capital Receipts Reserve (note 34c)	0
13,348	13,662	Capital Grant Unapplied Reserve (note 34d)	10,269
<u>97,369</u>	<u>119,335</u>	Total Usable Reserves	<u>137,687</u>
Unusable Reserves			
159,415	103,562	Revaluation Reserve (note 35a)	143,590
304	461	Council Tax Adjustment Account (note 35b)	248
0	0	Financial Instruments Adjustment Account (note 35c)	0
(11,378)	(10,072)	Accumulated Absences Account (note 35d)	(9,745)
(492,421)	(402,260)	Pension Reserve (note 35e)	(472,462)
1,181,647	1,046,237	Capital Adjustment Account (note 35f)	1,004,057
<u>837,567</u>	<u>737,928</u>	Total Unusable Reserves	<u>665,688</u>
<u>934,936</u>	<u>857,263</u>	Total Reserves	<u>803,375</u>

The Balance Sheet is a statement of the financial position of the County Council as at the Balance Sheet date. It shows the assets and liabilities of the authority; the net assets on the Balance Sheet are matched by reserves held by the County Council. The first category of reserves are usable reserves. These are reserves that the Authority may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of Unusable Reserves are those that arise from statutory accounting requirements and are not available to be used for service provision.

The restatement of the 2010/11 Balance Sheet reflects a change to the basis of revaluation of Secondary Schools with further information being provided in note 43. The purpose of showing Balance Sheet figures as at 31st March 2010 is to provide comparisons with the restated 2010/11 Balance Sheet.

I confirm that these Accounts were approved by the Audit Committee on 27th September 2012 following completion of the External Audit.

..... Date