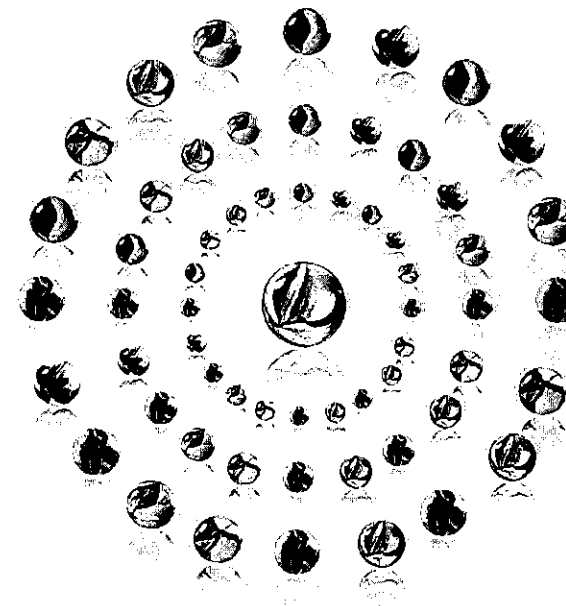


Deloitte.



Our Planning Report to the Audit Committee on the 2012/13 Audit



July 2013

Deloitte.

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5 July 2013

We have pleasure in setting out in this document our planning report to the Audit Committee of North Yorkshire County Council ("the Council") for the year ended 31 March 2013.

This plan has been prepared to inform the members and staff of the Council about our responsibilities as your external auditors and how we plan to discharge them. In this report we have set out the scope and approach of our audit including our initial view on what we consider to be your key audit risks.

Our audit risk assessment is continuously under review during the course of the audit period and should our assessment of risk fundamentally change we reserve the right to revisit the proposed work schedule. Any significant amendments to the Audit Plan will be reported to management and the Audit Committee.

We would like to take this opportunity to thank the management team for their on-going assistance.



For Deloitte LLP
Chartered Accountants
Leeds

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We have the pleasure in setting out in this document our planning report to the Audit Committee of North Yorkshire County Council (“the Council”) for the year ended 31 March 2013.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the planning of our audit work.

1. Strategic context

North Yorkshire County Council continues to face significant budgetary pressure as a result of public sector funding cuts that affect its income and due to its continued freeze on Council Tax. It is required to find circa £11m of savings in 2013/14. A balanced budget has been set for 2013/14 and management do not anticipate major difficulty in delivering the savings approved by members.

Going forward, however, the position is becoming increasingly difficult. There is increased uncertainty over the implications of central government decisions such as reductions in funding and changes to the funding mechanisms for local government. The current economic climate also continues to add pressure to budgets, with increasing demand for services such as social care, reducing income from sources such as interest and dedicated school grant as schools are being encouraged to move to academy status. In addition Department for the Environment, Food and Rural Affairs (DEFRA) has removed the waste infrastructure credits that were to be awarded with respect to the major waste recycling and processing project that the Council had been intending to undertake. On 20 May 2013 the Council, in conjunction with City of York Council, submitted an application to the High Court for leave to apply for a judicial review of the decision made by DEFRA.

A restructuring of senior posts that is currently still on-going and as a consequence changes will continue to be effected across the breadth of services that the Council provides as part of its drive to meet the necessary savings targets.

We look forward to working with the Council throughout our audit.

The Council has a good track record of delivering savings but the challenge to continue to achieve financial balance is increasing.

2. Scope of work and approach

Audit scope

We conduct our audit in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the statement of accounts in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”).

The Code requires that we:

- issue an opinion on the financial statements of the Council;
- issue an opinion on the financial statement of the local government pension fund which is administered by the Council;
- satisfy ourselves as to whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work; and
- issue an assurance report to the National Audit Office on the Council’s “Whole of Government Accounts” return.

We calculate materiality for the Council based on gross expenditure from the Cost of Services line reported in the Comprehensive Income and Expenditure Accounts. For the 2012/13 accounts materiality has been calculated to be £7,146,000 (2011/12: £7,500,000). The threshold we will use for report misstatements to the Audit Committee will be £142,900 (2011/12: £150,000) being 2% of materiality unless they are qualitatively material.

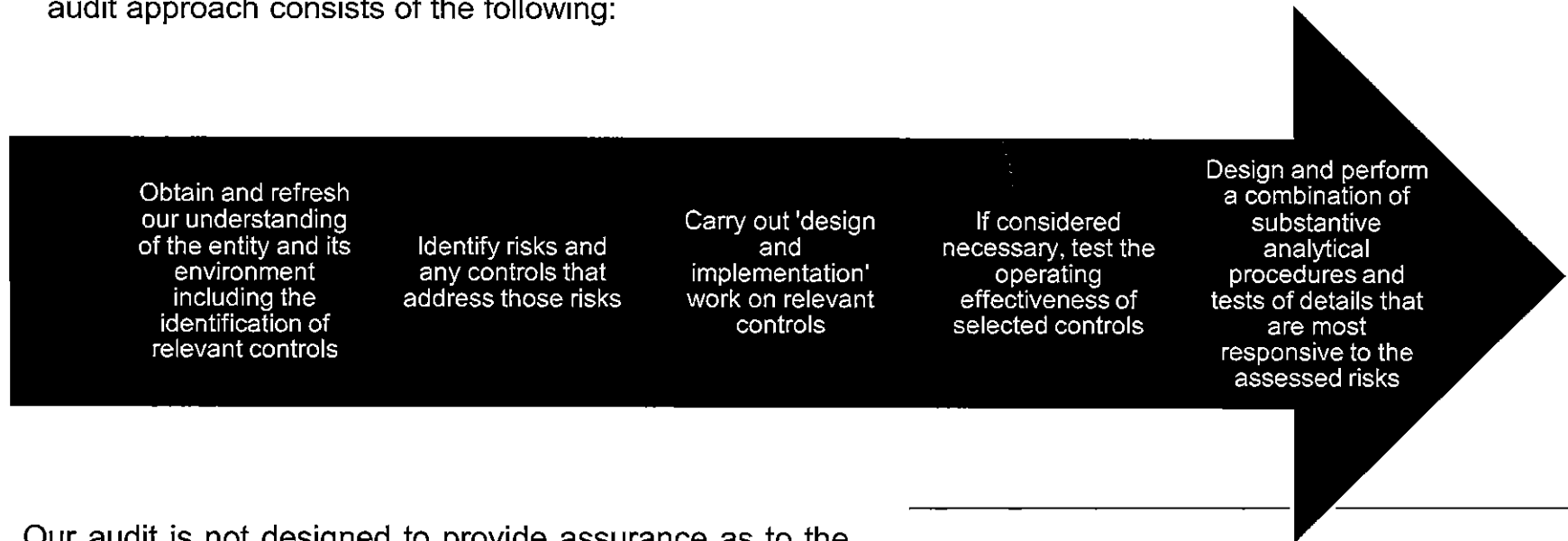
For the group accounts materiality has been calculated to be £7,445,000 (2011/12: £7,649,000) . The threshold we will use to report misstatements for the group will be £148,900 (2011/12: £153,000), being 2% of materiality unless they are qualitatively material.

*Our work is carried out under the Code of Audit Practice 2010,
issued by the Audit Commission*

2. Scope of work and approach (continued)

Controls

As set out in "Briefing on audit matters" circulated to you with this report, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). Our audit approach consists of the following:



Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

The results of our work in obtaining an understanding of controls will be considered in determining the extent of substantive audit testing required

2. Scope of work and approach (continued)

Scoping of material balances and liaison with internal audit

Scoping of material balances

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

In respect of intangible assets of £9,696,000 we determined that this account balance, did not require further audit procedures because our risk assessment, taking into account qualitative factors, resulted in us assessing the risk of material misstatement as remote as the asset is held at historic cost and the additions capitalised in the year are not significant.

Liaison with Internal Audit

We have and will continue to liaise with the Council's internal audit function, Veritau Limited, on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council's internal audit function, its systems documentation and risk identification during the planning of the external audit to the extent we determine we can rely on their work.

The audit team following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, will review the findings of any relevant internal audits on the Council and adjust the audit approach as is deemed appropriate. Where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that any new additional specific audit risks are covered by our work.

A risk focussed audit approach allows us to tailor our testing to your Council, placing greater emphasis on areas that are a greater source of risk and concern for the organisation

2. Scope of work and approach (continued)

Whole of Government Accounts

We will again be required to provide an assurance statement on the Council's consolidation pack for the purposes of the Whole of Government Accounts. The deadline for submission of the audited consolidation pack is 7 October 2013. The Audit Commission has expressed its intention again to name bodies where assurance statements are submitted late and/or are qualified.

We note that the National Audit Office instructions to us last year required us to qualify our report in relation to any unadjusted errors in excess of £1 million, a lower threshold than we apply for our opinion on the statutory accounts. We were additionally expected to qualify our opinion in respect of any unadjusted errors over £1 million in the accounts which were not subsequently adjusted in the consolidation pack. We are not aware of any proposed changes to these requirements for this year.

We have identified a number of areas where the Council could develop arrangements over the production and updating of its consolidation pack

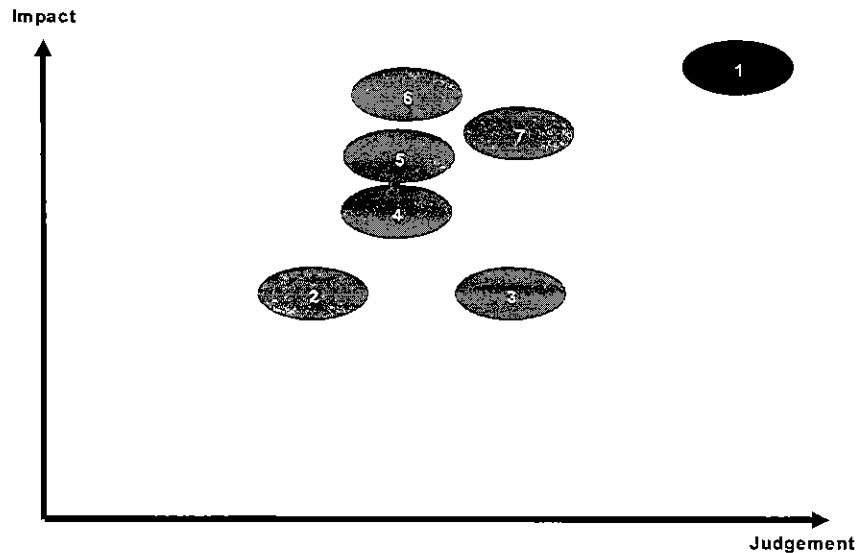
We expect the following changes to arrangements will be needed if the consolidation pack in 2012/13 is to be submitted on time and without qualification:

- a) Improving the quality of the initial draft of the statutory accounts on which the consolidation pack is based which will reduce the need for consequent changes to consolidation pack arising from changes made by Officers to the statutory accounts during the audit process.
- b) Allowing time within the closure process to enable improvement in the quality of the initial version of the consolidation pack.
- c) Setting aside time and resource to investigate differences in intergovernmental balances to those reported by counterparties, as identified in mismatch reports provided by the Treasury.
- d) Addressing areas which gave rise to issues in the prior year. In particular:
 - There should be a clear reconciliation between the WGA and the Revenue Account Outturn. In the prior year the Council could not provide evidence for why there was a shortfall of £4.4m within the WGA of other employee expenses when compared to the Revenue Account Outturn.
- e) Examine other opportunities for integrating the preparation of the statutory accounts and consolidation pack.
- f) Consider arrangements for processing unadjusted errors which remain in the statutory accounts above the £1 million reporting threshold through the consolidation pack.

3. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

We have plotted the key audit risks to show where we believe there is highest level of judgement and impact on the financial statements.



Accounting risks

1. Valuation of non-current assets
2. Accounting for interest in group companies and the recoverability of inter-organisational balances
3. Bad debt provision
4. Management override of controls
5. Revenue recognition

Value for Money risks

6. Financial planning and efficiency plans
7. Revision of the waste PFI project following withdrawal of PFI credits

3. Significant audit risks (continued)

	Risk	Deloitte response
<p>Valuation of non-current assets</p>	<p>The Council is required by the CIPFA Code of Practice on Local Authority Accounting 2012/13 based on IFRS (“the Code”) to revalue its assets over a 5 year period. The number and value of the non-current assets held by the Council is significant and due to the current economic climate the calculation of the valuation requires management to exercise a significant amount of judgment. Furthermore in previous two years we have identified material adjustments to the draft financial statements in relation to the treatment of school balances and errors in the valuation prepared by the Council valuer, Bruton Knowles. There is therefore a risk that the value of fixed assets may be materially misstated.</p>	<p>We will obtain a copy of the third party valuation report for the land and buildings prepared by Bruton Knowles. We will select a sample of revaluations within the year and will undertake an evaluation of the appropriateness and validity of the underlying assumptions used in reaching the valuations using our in-house property specialists.</p> <p>We will review the data extract supplied by the Council to Bruton Knowles, as at 31 March 2012, to determine if the valuation has been prepared based on information from the Council that is both accurate and complete. We will also review the fixed asset register as at 31 March 2013 to ensure the results of the valuation have been appropriately reflected in the underlying accounting records.</p> <p>We will review Bruton Knowles report for impairments and assess whether these will have an impact on other assets controlled by the Council that have not been revalued in the current year.</p> <p>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 of the Council and staff at Jacobs UK.</p>

3. Significant audit risks (continued)

	Risk	Deloitte response
Accounting for interest in group companies and the recoverability of inter-organisational balance	<p>There is a risk concerning the recoverability of inter-organisation balances made by the Council to its group companies. The Council holds 100% shareholding in NYnet Limited and an indirect 100% shareholding in its subsidiary NYnet 100 Limited, a 78% shareholding in Yorwaste Limited and a 50% shareholding in Veritau Limited and an indirect 25% in its subsidiary Veritau North Yorkshire Limited.</p>	<p>Recoverability of current trading balances with all group companies will be performed by a review of management's processes to agree inter-organisational balances as well as a review of post year cash receipts and payments. The recoverability of long term loans with all group companies will be assessed through review of current year trading profits and cash generation as a basis for assessing the future trading forecasts.</p> <p>We will obtain management's consolidation workings and review the accounting treatments adopted and whether they reflect management's ability to control the group entities.</p> <p>We will review the appropriateness of the accounting treatments adopted for the consolidation of the two new group companies. We will also review the accounting treatment adopted the 30% shareholding in the North Yorkshire Business and Education as management have historically excluded this from the consolidation on the grounds of materiality.</p>

3. Significant audit risks (continued)

	Risk	Deloitte response
Bad debt provision	<p>Given the current economic environment there is likely to be more pressure on the Council's residents financial resources. It therefore follows that there is likely to be a higher level of unpaid debts at 31 March 2013 and potentially more bad and or doubtful debts occurring.</p>	<p>We will review the level of the bad debt provision and the judgements used in arriving at the provision for debtors owed to the Council in relation to the Health and Adult Services Directorate and the North Yorkshire Credit Union.</p> <p>We will review a sample of the returns from District Councils to gain assurance over the recoverability of the Council Tax debt and the appropriateness of any bad debt provision.</p> <p>In forming an assessment of the adequacy of the provision we will consider the available evidence including the aging profile of debtors at the year end and at the time of audit, the history of bad debt exposure, recent changes in payment profile and post year-end cash receipts against year-end debtor balances.</p>

3. Significant audit risks (continued)

Risk	Deloitte response
Management override of controls	<p>International Standards on Auditing (UK and Ireland) 240 'The Auditor's responsibility to consider fraud in an audit of the financial statements' requires a presumption of management override of control as a significant audit risk. This is because management are in a position of power to influence and override controls and therefore there is a risk that the financial statements may be fraudulently misstated.</p> <p>We will perform the following procedures:</p> <ul style="list-style-type: none">• understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements. We will then test a sample of these journals entries and adjustments based on characteristics such as high value, posted at a weekend or on a bank holiday, round-sum amounts, unusual description or journal does not make commercial sense;• review accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates supported by evidence, even if individually reasonable, indicate a possible bias on the part of management;• a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and• obtain 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. <p>As part of this work we will obtain an update on the control observation raised in the prior year audits in relation to journal entries.</p>

3. Significant audit risks (continued)

	Risk	Deloitte response
Revenue recognition	<p>International Standards on Auditing (UK and Ireland) 240 requires a presumption of revenue recognition as a significant audit risk.</p> <p>For the Council, based on our knowledge gained from previous audits, we consider that the specific revenue recognition risk relate to accounting for grant income before the related conditions have been satisfied.</p>	<p>We will perform a review of all grant income that has been recognised in the Comprehensive Income and Expenditure account to test that the conditions of the grant have been met and the associated expenditure incurred.</p> <p>We will perform a review of a sample of grant income which has been deferred to future accounting periods (in either creditors or reserves) to test whether deferment of the grant is appropriate. Deferment would only be appropriate where the Council has either not meet the conditions of the grant, the grant is subject to claw back or the Council is still to incur the associated expenditure.</p>

3. Value for money conclusion

The approach to local value for money (VFM) audit work at councils is specified by the Audit Commission. Consistent with last year, auditors are 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 planned our local programme of work, which assesses the arrangements in place and not the decisions made, based on our risk assessment, informed by a series of risk factors determined by the Audit Commission.

The principal activities undertaken during our risk assessment include:

- meetings with key officers to update our understanding of the key risks and challenges faced by the Council;
- discussions with officers and review of documentation in relation to corporate processes including financial, performance and risk management;
- review of quarterly financial and non-financial performance information;
- review of relevant Council, Executive, and Committee minutes and associated papers; and
- review of benchmarking information provided by the Audit Commission (the VFM profiles and financial ratios tool) comparing the cost of services provided with those of other councils.

The key audit risks which we have identified as part of our overall audit strategy and our proposed audit response are detailed below. Our risk assessment is kept under review during the course of our audit and will be updated following review of the year end financial and performance outturn information.

3. Value for money conclusion (continued)

	Financial sustainability	Deloitte response
Financial planning and efficiency plans	<p>Following the Government's comprehensive spending review and the extent of reduction in the funding settlement, and major changes in Government policy such as Welfare reform, the Council continues to face severe financial pressures over the next few years. Savings of £22.9 million are required over the next two years.</p> <p>A medium term financial plan (MTFP) is in place covering 2013/14 and, at a more strategic level, 2014/15. Savings of £18.3 million have been identified to date and work is ongoing to address the remaining balance. In the meantime, the plan reflects the use of reserves to address the shortfall of £6.2 million over the next two years. A new four-year MTFP is to be developed during 2013/14, following the anticipated comprehensive spending review in 2013.</p>	<p>We will review the financial planning process including the reasonableness of the assumptions built into the budget and MTFP, and the assessment of risk in relation to the planned future level of reserves held.</p> <p>We will select a sample of budget reduction measures to assess the reasonableness of the quantification of the savings to be achieved, the risk assessment and the processes for identifying and addressing any costs of implementation.</p> <p>We will maintain a watching brief over the delivery of the savings plans and progress in the development of both the savings plans to address the remaining balance to be addressed of £6.2 million and the new MTFP.</p>

3. Value for money conclusion (continued)

	Waste PFI	Deloitte response
Revision of the waste PFI project following withdrawal of PFI credits	<p>The Council has, jointly with York City Council, been pursuing a Waste PFI project over several years and despite having reached an advance stage in the project, the Government recently announced that it was withdrawing the PFI credits that were critical to the affordability of the scheme. This announcement was unexpected and resulted from a re-assessment of expected performance against the national target in relation to waste disposal and carbon reduction, and did not reflect on the individual proposed scheme or the management of the planning process.</p> <p>The Council is currently re-evaluating the scheme.</p>	<p>We will review the progress of the re-evaluation of the scheme and, in due course, consider the affordability of the revised scheme and its impact on the Councils financial position and MTFP.</p>

3. Other accounting judgements

Other accounting judgments which have not currently been identified as audit risks are as follows

Valuation of pension scheme liabilities

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 Council.

We will document the process the Council 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.

3. Other area of focus for Value for Money

Other areas of focus where the auditor is maintaining a watching brief which have not currently been identified as Value for Money risks are as follows

Corporate performance management

The performance management arrangements in place are robust and have previously been assessed as satisfactory. There is, however, scope to simplify reports and focus performance monitoring more effectively and a revised report format is currently being developed by the Council.

Although no specific risk to our 2012/13 VFM conclusion has been identified, performance management arrangements are central to work in relation to our VFM responsibilities. We will review progress in the development of the revised reporting arrangements and provide constructive comment as these are developed.

Valuation of pension scheme liabilities

As part of the savings proposals within the budget, the Council has undertaken restructuring within key corporate areas such as Finance and is continuing to reduce capacity across the organisation, including key functions such as Internal Audit. Although we have not identified any issues arising during our 2011/12 audit and have not identified any specific risks in 2012/13, the adequacy of capacity and capability in these functions continue to be 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.

We will maintain a "watching brief" over the adequacy of the capacity within the Finance and Internal Audit functions during the course of our audit. We will review the work of Internal Audit to ensure the control environment is maintained to an acceptable level. This work will be carried out in conjunction with the accounts audit work.

4. Significant changes introduced by the Code in 2012/13

Topic	
Carbon Reduction Commitment ("CRC") scheme	As the obligation to meet CRC responsibilities arises during 2012/13, the obligation should be accounted for at 31 March 2013. Where any allowances are purchased prospectively (i.e. in respect of 2013/14), authorities will need to account for the allowances as assets. This is clarification of the guidance in relating to the CRC provision. The provision established last year was not material; therefore we do not consider this to be significant audit risk of material misstatement.
Exit packages	The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. The value of exit packages has historically not been material; therefore we do not consider this to be significant audit risk of material misstatement.
Explanatory forward	Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages local authorities to take into consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. Unlike the FReM, the Code does not include a specific requirement to prepare a sustainability report which would show the Council's use of finite resources, but neither does it prevent an authority from including such information in its Explanatory Foreword. Specific additional disclosures would include, but are not limited to, a brief history of the authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members, and sickness absence data.

5. Responsibility statement

This report sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to you and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

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 audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of North Yorkshire County Council'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.

We view this report as part of our service to you for use, as Members, for corporate governance purposes and it is to you alone that we owe a responsibility to its contents. We accept no duty, responsibility or liability to any other parties 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 the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP
Chartered Accountants
Leeds
July 2013

Appendix 1: Prior year uncorrected misstatements

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our prior year audit:

		(Credit) / charge to deficit on provision of services £000	(Increase) / decrease to General Fund £000	Increase / (decrease) in net assets £000	(Increase) / decrease in unusable reserves £000
Misstatements identified in prior year					
Provision for MMI that ought to have been made	[1]	330	330	(330)	-
Increase in provision for carbon fund deficit (nil net impact)	[2]	-	-	-	-
Estimate of depreciation impact on adjustment for instant build valuation	[3]	2,318	2,318	(3,433)	1,115
Total		2,648	2,648	3,763	1,115

[1] The adjustment was to provide the estimate cost to the Council of the failure of Municipal Mutual Insurance Limited.

[2] The adjustment would have been Cr Provision £220k, Dr Accruals £220k and so no net impact on the general fund or net assets.

[3] The adjustment was to provide for the estimated impact of depreciation on the primary and secondary school assets impacted by the instant build adjustment made in 2011/12 accounts.

We obtained written representations from the Council confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of both the consolidated and authority only financial statements taken as a whole, no adjustments were required.

Appendix 1: Prior year uncorrected misstatements (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we considered required consideration by the committee in the prior year. Our initial review of draft accounts shows that these disclosure deficiencies have not been addressed as part of the preparation of the current year accounts. As part of our 2012-13 audit we will discuss with management whether they intend to address these comments in the final accounts that will be re-presented to the Audit Committee in September 2013.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Related parties	The Council had not quantified the amount due as at 31 March 2012 to the Yorkshire Purchasing Organisation and the North Yorkshire Business and Education partnership	The deficiency was not considered to be either quantitatively or qualitatively material
Financial Instruments	Officers have not calculated a reconciliation of movement between the opening and closing bad debt provision	The deficiency was not considered to be either quantitatively or qualitatively material

Appendix 2: Independence and fees

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 confirmation	We confirm we are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2013 in our final report to the Audit Committee.
Fees	Details of the audit services fees proposed for the period have been presented separately in the appendix.
Non-audit services	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.</p> <p>We have not undertaken any non-audit work in 2012/13 (2011/12 – none).</p>

Appendix 2: Independence and fees (continued)

The table below details our proposed audit fees and non audit fees for the year ending 31 March 2013:

	Current year £	Prior year £
Audit of Council under Audit Commission Code of Audit Practice Audit Commission scale fee (Note 1)	125,987	209,978
Total audit	125,987	209,978
Certification of grants and returns	1,300	1,600

Notes:

1. The 2012/13 scale fee set by the Audit Commission reflects a reduction of 40% on 2011-12 fees. The fee excludes:

- any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
- any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately.
- any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
- value added tax which will be charged at the prevailing rate.

We have also assumed that:

- Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided by the agreed start date for the interim audit visit;
- good quality working papers and records will be provided to support the financial statements by the agreed start date for the final audit visit; and
- good quality working papers will be available by the deadline for submission of the WGA return to auditors to support the WGA return.

Appendix 3: Fraud considerations

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware the management has the following processes in place in relation to the prevention and detection of fraud:
 - Internal audit
 - Policies covering hospitality, gifts and inducements and whistleblowing
 - Standards of conduct for members and officers
 - Counter-fraud arrangements within the Benefits service.

Responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Process and documentation

- We will make the enquiries on the previous page between the date of this report and our final audit visit. Our preferred approach is to schedule a short meeting or phone call to discuss each person's perception of the risk and occurrence of fraud and to facilitate this discussion with a short checklist of consideration points which we would ask participants to review, consider and respond to before our meeting.

Concerns

- As set out in the significant risks and accounting judgements section, we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation.
- No other concerns have been identified from whistle blowing procedures or by management about quality of management in any service area.

Appendix 3: Fraud considerations (continued)

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments</p> <p>Management's process for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud and status reports on fraud cases during 2012/13</p>	<p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity</p>

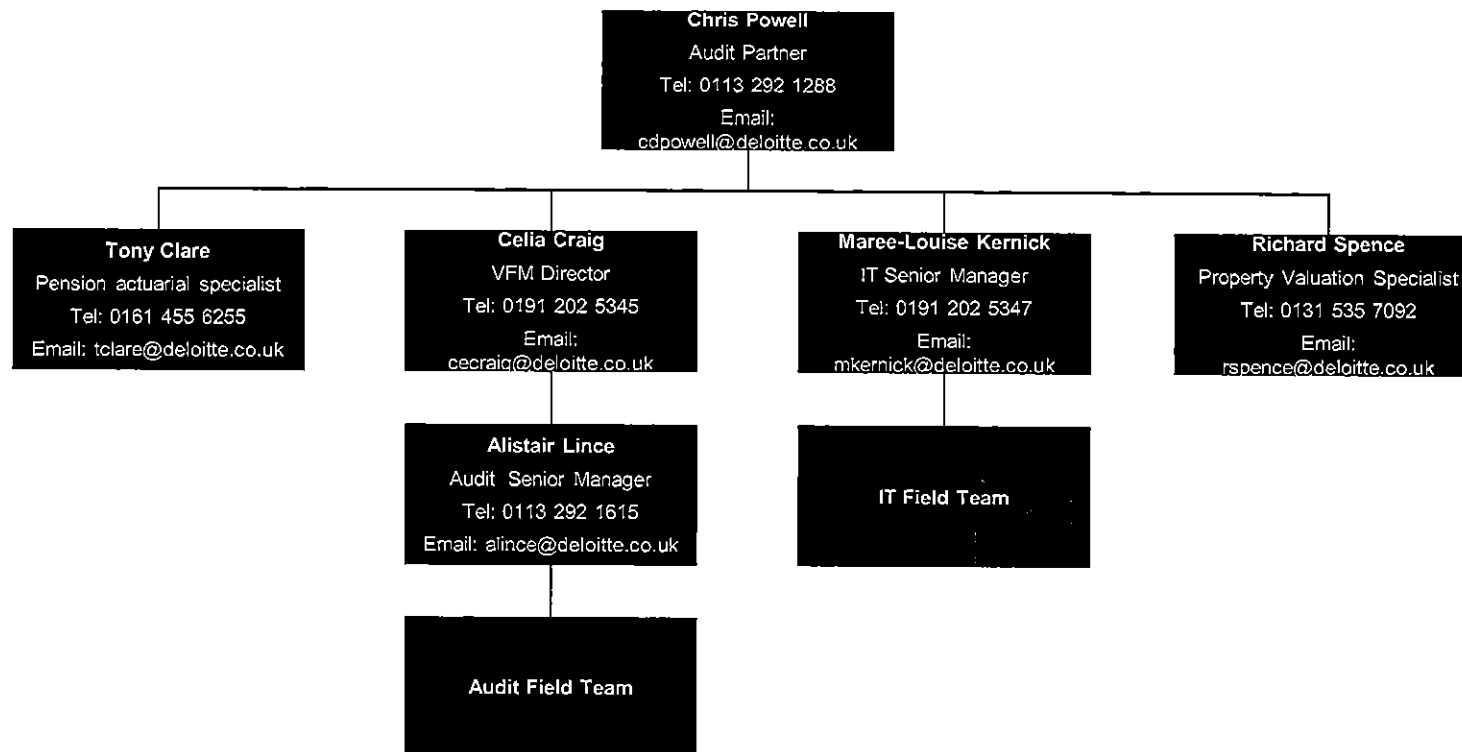
Appendix 3: Fraud considerations (continued)

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

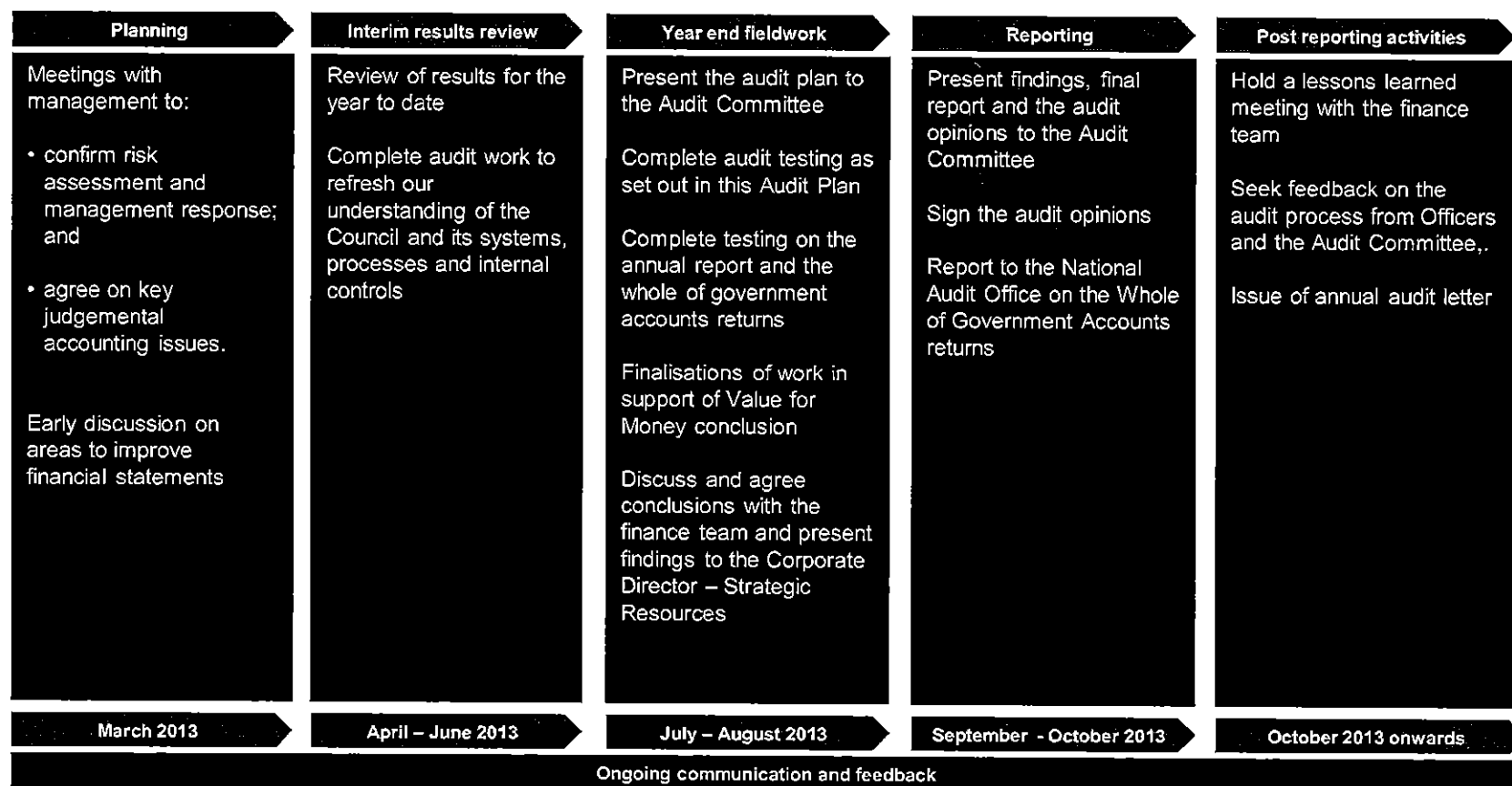
Appendix 4: Audit team

We set out below our audit engagement team. We manage our audit on a basis that mirrors the Group's management structure and which draws on the expertise of our public sector group.



Appendix 4: Communication timetable

Set out below is the approximate expected timing of our reporting and communication with the Council



Appendix 5: Proposed changes by the Code for the 2013/14 accounts

Topic	
Changes proposed by the 2013/14 Code	<p>IFRS 13: Fair value accounting</p> <p>The 2013/14 Code will introduce the requirements of IFRS 13 <i>Fair Value Measurement</i> as adapted for public sector circumstances. Non-financial non-profit generating assets are taken out of the scope of this standard and will be carried at a 'public sector valuation', which is presumed to reflect the assets' service potential.</p> <p>As a result of the adaption the Council would not be required to measure property, plant and equipment in accordance with IFRS 13; however in order to meet the disclosure requirements of the standard the Code makes it necessary for authorities to consider which level of the fair value hierarchy the valuation technique they have used will apply.</p> <p>The Council will need to ensure that the valuer is made aware of the introduction of IFRS 13 and the Code's adaption of it. Where the change is expected to be material to the accounts, the Council will need to disclose in its 2012/13 financial statements:</p> <ul style="list-style-type: none">• the title of the new or amended standard;• the nature of the change of accounting policy;• the date at which the change of accounting policy is required; and• a discussion of the impact that initial application of the IFRS is expected to have on the financial statements. <p>Other amendments</p> <p>Other changes include:</p> <ul style="list-style-type: none">• amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 <i>Presentation of Financial Statements</i>;• amendments to IAS 19 <i>Employee Benefits</i> including changes to definitions and terminology, changes to the recognition requirements and clarification of the disclosure requirements;• a number of clarifications and augmentations of the provision of the Code as a result of the CIPFA/LASAAC IFRS post implementation review;• amendments to IAS 12 <i>Income Taxes</i>;• new definitions and clarification for service concession arrangements that are assets under construction or intangible assets;• clarification on the treatment of overdrafts; and• amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> requiring information that will enable users to evaluate the potential effect of netting arrangements.

Appendix 5: Changes for the 2013/14 accounts (continued)

Topic	
Accounting for non-current schools' assets	The CIPFA/LASAAC board is still considering the accounting for non-current schools' assets. It intends to issue guidance to authorities to improve the consistency of the accounting for these assets and a potential accounting treatment was consulted on as part of the 2013/14 code. Since CIPFA/LASAAC is not able to issue guidance for 2012/13, the situation remains the same as for the 2012/13 year. There is no change in guidance and no issues were noted from testing in the prior; therefore accounting for schools' non-current assets is not considered a significant audit risk

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