Deloitte.

North Yorkshire County Council

Report to the Members on the 2013 Audit

Final Report

September 2013

Deloitte LLP
1 City Square
Leeds
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United Kingdom

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

18 September 2013

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 2013, for discussion at the meeting scheduled for 26 September 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

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 26 September 2013 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 Gary Fielding, Corporate Director – Strategic Resources, and his team for their assistance and co-operation during the course of our audit work.

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 2013. We have issued a separate document which contains details of our audit of North Yorkshire Pension Fund for the year ended 31 March 2013.

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:

- sundry other minor testing to complete;
- receipt of signed assurance letter over share of assets held by North Yorkshire Pension Fund;
- 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 4 October 2013).

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 Authority'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:	
• **financial planning and efficiency plans:** although the Authority continues to face significant financial pressures, the approach to financial planning and management of the reduction in financial resources continues to be appropriate;	●
• **revision of the waste PFI project following withdrawal of the PFI credits:** the project has been reviewed by management and the affordability of the project confirmed. Progression to financial close is however dependent on the conclusion of the planning judicial review which was decided in the Authority's favour but it is not yet clear whether the decision to refuse leave to appeal will be accepted. Work is on-going to determine the funding arrangements and assess the value for money of the scheme so we will review this as part of our 2013/14 audit;	●
• **revision of the corporate performance management reports:** arrangements continue to be assessed as robust but given the performance management framework is central to our VFM work, we have kept up to date with the changes being made to the reporting arrangements. No issues have been identified; and	●
• **potential impact on the internal control environment due to reducing resources:** no matters of concern have been identified during the course of our audit and Internal Audit have not reported any such issues.	●
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:	
• **valuation of non-current assets:** we have reviewed the valuation of Authority's property and identified that the valuation produced by Bruton Knowles was reasonable and appropriate and compliant with the requirements of the Code;	●
• **accounting for interest in group companies and recoverability of inter-organisational balances:** 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 2013;	●
• **bad debt provisions:** we have reviewed collection of debtors post year end to gain assurance over the recoverability of the balances. 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;	●
• **management override of control:** there have been no instances of management override of control noted from our testing.	●
• **presumed risk of revenue recognition fraud:** grant income was found to have been recognised in the appropriate period.	●
Further details are given in Section 1	

Executive Summary (continued)

Other accounting judgements

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.

Whilst the salary increase assumption is within an acceptable range, we note that no allowance has been made for current pay increase controls within the public sector. The impact of this is not deemed to be currently significant.

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 although this assurance is currently outstanding.

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 2012/13.

The draft financial statements presented for audit met the disclosure requirements of the IFRS Code 2012/13. To improve compliance with the Code we recommended a number of additional disclosures.

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 a number of opportunities to improve and enhance existing controls.

We have also documented an update on the journals control and information technology controls points identified in prior years.

Further details are given in Section 3.

Identified misstatements

Audit materiality was calculated as £7,146,000 as set out in our audit plan. The threshold for reporting misstatements was £142,900.

We have identified one misstatement in respect of the authority results, however there is £nil impact on either the income and expenditure account and the balance sheet. The adjustment relates to the cash flow statement and has been adjusted for in the revised financial statements.

Identified uncorrected misstatements, if adjusted, would decrease the deficit on provision of services by £275,000 and increase net assets by £275,000. Officers have concluded that the total impact of uncorrected misstatements, both individually and in aggregate, is 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.

As at the date of preparation of this report we have still to conclude on the group misstatements and a verbal update will be provided to the Audit Committee.

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 Authority's governance arrangements.

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

Further details are given in Section 7.

1. 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

Valuation of non-current Assets

2012/13 ● 2011/12 ●

Background

The Authority 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 Authority 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 Authority valuer, Bruton Knowles. There is therefore a risk that the value of fixed assets may be materially misstated.

Deloitte response

We reviewed the data extract supplied by the Authority to Bruton Knowles, as at 31 March 2012, to assess whether this agreed to the fixed asset register audited as part of our prior year audit.

We have discussed the valuation process with Officers to understand how the work of the valuers is scoped by the Authority - Bruton Knowles inspect a proportion of the properties and the remainder are known to them through previous visits. We 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 assets within the Health and Adult Services directorate as at 1 April 2012. Our review of the Bruton Knowles work papers indicated that the valuations produced are compliant with the requirements of the Code.

As part of testing for the 2011/12 audit we noted that the valuation of school assets produced by Bruton Knowles were not fully compliant with the Code as it did not prepare on an instant build basis. For the 2011/12 audit a desk-top exercise was undertaken by Bruton Knowles to quantify the impact for the accounts and an adjustment of £69.6m was made. During 2012/13 a full review of schools assets was undertaken which has identified a further £2.9m and £20.6m of impairments for the 2010/11 and 2011/12 accounts respectively. A prior period adjustment has been made to the accounts and is disclosed in Note 1. Our internal property team have reviewed a sample of updated valuation work paper for school assets produced by Bruton Knowles in 2012/13 and our review of these working papers indicate that the valuations produced are compliant with the requirements of the Code.

We have obtained the valuation certificate produced by the valuer which confirms that there are no other impairments in the Authority's property which have not been revalued during 2012/13.

As part of our audit of fixed assets we have also considered the accuracy of the report produced by NYCC's property consultants, Jacobs which is used to assess the valuation of some of the additions. All testing in these two areas was completed with no issues noted.

1. Significant audit risks (continued)

Accounting for interest in group companies and the recoverability of inter-organisational balance

2012/13 ●	2011/12 ●
Background	There is a risk concerning the recoverability of inter-organisation balances made by the Authority to its group companies. The Authority 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.
Deloitte response	**NYnet Limited:** At 31 March 2013 the Authority had provided loans to this subsidiary of £4.6m. NYnet Limited had at 31 March 2013 unaudited net liabilities of £8.9m. From our review of the long term projections for NYnet Limited the subsidiary company is anticipated to generate sufficient profits in the medium terms to enable loans to be repaid. As a cash pooling arrangement exists between NYnet Limited and the Authority (where the Authority pools NYnet's cash in it (the Authority's) accounts we are satisfied that all current trading balances, being a trading creditor of £98,000 and a trading debtor of £22,000, between the Authority and NYnet Limited will be recoverable. **Yorwaste Limited:** At 31 March 2013 the Authority had provided loans to this subsidiary of £3.7m. The results to 31 March 2013 show a loss before and after taxation of £0.3m and £0.4m respectively and net assets of £12.2m. 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. In addition we have reviewed the cash generation of Yorwaste and its historic cash balances at year ends, and as such no concerns were identified over the recoverability of trading balances between the Authority and Yorwaste Limited. At 31 March 2013 the trading balances between the Authority and Yorwaste were £1,652,000 and a trading debtor of £146,000. **Veritau Limited:** The Authority has not provided any loans to this entity. The trading creditor with Veritau Limited as at 31 March 2013 was considered to be trivial and there was no trading debtor. **Other group companies:** On 2 February 2012 a subsidiary of NYnet Limited was incorporated, NYNET 100 Limited, to develop a next generation broadband infrastructure. From our review of the consolidation working papers we are satisfied that the results of NYnet 100 Limited have been appropriately consolidated within the group results. On 1 February 2012 a subsidiary of Veritau Limited was incorporated, Veritau North Yorkshire Limited, to provide internal audit services to the district councils in the North Yorkshire area. From our review of the consolidation working papers we have noted that the results of this entity have not been consolidated. We have discussed this with management and note that the investment in Veritau North Yorkshire Limited has not been included as an associate on the grounds of materiality. As the investment is £5,000 we are satisfied that this is not material. 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 account for its investment in NYBEP as an associate. However, as the Authority share of the net assets NYBEP are £103,000 we are satisfied that this is not material. Based on the above we are satisfied that management has appropriately accounted for its interest in other group companies.

1. Significant audit risks (continued)

Bad debt provision	
2012/13 ●	2011/12 ●
Background	Given the current economic environment there is likely to be more pressure on the Authority'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.
Deloitte response	We reviewed the level of the bad debt provision and the judgements used in arriving at the provision for debtors owed to the Authority in relation to the Health and Adult Services Directorate and the North Yorkshire Credit Union. We reviewed 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. In forming an assessment of the adequacy of the provision we considered 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. Our testing of the above indicated that the bad debt provision was adequate and not materially misstated.

Management override of controls	
2012/13 ●	2011/12 ●
Background	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.
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 became 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 update on the observation in relation to journals has been raised in Section 3.

1. Significant audit risks (continued)

Revenue Recognition	
2012/13 ●	2011/12 ●
Background	International Standards on Auditing (UK and Ireland) 240 requires a presumption of revenue recognition as a significant audit risk. For the Authority, based on our knowledge gained from previous audits, we consider that the specific revenue recognition risk is that which relates to accounting for grant income before the related conditions of those grants have been satisfied.
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

2. Key areas of estimation uncertainty

Pension scheme assumptions

2012/13 ● 2011/12 ●

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 2013 by the Authority in valuing their share of pension fund liabilities are as follows:

	2013	**2012**
Rate of inflation (CPI)	2.4%	2.5%
Rate of increases in salary	4.2%	4.3%
Rate of increases in pensions	2.4%	2.5%
Rate of discounting scheme liabilities	4.2%	4.9%
Mortality assumptions. Life expectancy of a male (female)		
- future pensioner aged 65 in 20 years' time	24.4 (27.2)	23.6 (26.4)
- current pensioner aged 65	22.6 (25.3)	22.2 (24.8)

Whilst the salary increase assumption is within an acceptable range, we note that no allowance has been made for current pay increase controls within the public sector. We conclude though that the impact of this would not be significant.

All other assumptions are within the normal range of assumptions we are observing as at 31 March 2013. 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 provide assurance over the Authority's share of the underlying assets in the pension fund. As at the date of preparation of this report this assurance is outstanding pending completion of our testing on the North Yorkshire Pension Fund.

3. Risk management and internal control systems

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

Authorisation of credit notes		2013	2012
Background	The majority of credit notes under £30,000 are authorised by the credit control manager and not service line finance managers. There is a risk that inappropriate or fraudulent credit notes could be raised and then authorised by the credit control manager due to his limited knowledge of whether the credit notes are pertinent and appropriate as he is not directly involved in the services that are credited.	Requires improvement	N/A
Recommendation	Directorate finance managers with a clear understanding of the circumstances resulting in the need for a credit note should authorise the credit notes produced.		
Management response	The current arrangements are used for expediency and efficiency purposes. Acknowledging the Auditor's point however, arrangements will be made that all future credit notes above £5,000 will only be effected after authorisation by relevant Directorate Finance Managers who are on the approved authorisation list.		

Review of fixed asset register		2013	2012
Background	Within the asset register around 50% of PPE land and buildings have a net book value of nil. This suggests that either the assets need to be disposed of as they are no longer used by NYCC or the depreciation policy is incorrect and the Authority are writing assets off faster than they are consuming them. The depreciation policy currently at NYCC is to charge a full year of depreciation in both the year of acquisition and disposal. This means that a large proportion of 'extra' depreciation could be charged on assets depending on the acquisition and disposal dates (since they might be acquired or disposed of at a mid-point in the year but for that year a full year's depreciation would be charged) causing incorrect carrying value of assets.	Requires improvement	N/A
Recommendation	A review of the asset register to see if any assets which are no longer in use can be sold which may generate a gain on assets, or revalue the useful life of the asset to ensure the correct depreciation policy is used and the appropriate rate of depreciation charged if the items are still in use. Depreciation should either be charged in the year of acquisition or the year of disposal if a full year charge is to be used. This would mean the NBV accurately reflects the value of the item due to NYCC not pro-rating the depreciation charge.		
Management response	Land and Buildings which the County Council do not have control over such as voluntary controlled schools are included on the asset register at nil NBV as an internal management tool in the closure of accounts process. These properties have not been fully depreciated, but are included as a record in order to help identify the correct accounting treatment of capital expenditure. The asset register will be reviewed in 2013/14 to ensure entries included as a record are clearly identified and tagged as such. The recommendation relating to the charging of depreciation is noted and depreciation will be charged in the year of acquisition only from 2013/14, with no charge in the year of disposal.		

3. Risk management and internal control systems (continued)

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

Disposal of infrastructure assets		2013	2012
Background	Within the infrastructure asset category, disposals are not recognised when sections of the roads are replaced. This will lead to the overstatement of cost and historic depreciation brought forward. We recognise that it is in practice difficult to identify the historic cost of an infrastructure asset that has been replaced and that consequently some judgement will need to be applied in calculating an appropriately indexed depreciated historic cost. Management have provided an estimate of the cumulative net effect on the balance sheet carrying values arising from this for the three years since year ended 31 March 2011 – this was less than £2million.	●	N/A
Recommendation	From 2013/14, disposals and elimination should be recognised for replacement of infrastructure assets. The value of disposal should be based on replacement value as adjusted for inflation and depreciation already charged. We recognise that some Local Authorities do not currently do this, however others do and so to be in line with best practice and to be consistent with how the Code of Practice on Local Council Accounting states that such disposals ought to be treated in accordance with this recommendation.		
Management response	We accept the principle raised by the Auditors and that going forward in 2013/14 a disposal should be recognised where infrastructure assets are replaced in order to ensure best practice. This recommendation will be considered and a revised approach devised and implemented from 2013/14.		

3. Risk management and internal control systems (continued)

Update on prior year observations

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

Authorisation of journals		2013	2012
Background	In previous audits it was noted that 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 always authorised by more senior members of the finance team. In September 2012 Officers undertook a review of the number of users that have access to input or authorise journals within Oracle. Officers have determined there are 11 Oracle Authorisers and 55 Oracle super-users. Following the recommendation made in our 2011/12 audit a discussion was held between central finance and the out-posted finance colleagues to try and reduced the number of super-users. However no changes were made to the existing arrangements as the out-posted finance team considered that practical resource issues would prevent this. As part of our testing in 2012/13 we have specifically tested a sample of journals prepared and authorised by super-users to consider whether these are leading to management override of control. From the testing performed no concerns in relation to management override of controls were identified.	Requires improvement	Requires improvement
Recommendation	A report should be developed so that management can obtain and review the journals input by super-users on a regular basis to determine on an on-going basis whether self-authorisation of journals is leading to management override of control.		
Management response	We will investigate producing a report, to determine the level of self-authorisation of journals by staff which will be used to determine whether this constitutes “management override of controls”, and if so identify appropriate actions. We will also investigate the possibility, within the current and future upgraded version of Oracle of forcing all journals to be approved in Oracle by the inputter’s line manager or another super-user, regardless of whether the inputter is also a super-user. There will be a cost attached to this within the current version of Oracle and a cost benefit analysis needs to be done of implementing such a change given that we are planning to upgrade Oracle from 2015/16.		

3.Risk management and internal control systems (continued)

IT Recommendations – update on prior year observations and current year

IT recommendations	
Background	For financial audit planning purposes we have held discussions with IT management to gain an understanding of the IT environment and IT governance arrangements. Whilst not performing any validation work, from these discussions we have identified a number of findings which have been verbally discussed with IT management, the key points discussed relate to the following (of which points 1 to 4 are carried over from our prior year IT audit work): 1. Password parameters on the Oracle database are not enforced. In addition the password to the two default database administrator accounts ("SYS" and "SYSTEM") are not periodically changed. 2. The process to remove access or amend access for movers in Oracle FI is reliant upon line managers to notify the relevant system administrators of the change. This is not always adhered to or performed in a timely basis. 3. Weak password parameters noted in the Windows domain, in particular password lockout is not aligned to good industry settings. 4. For the Swift Financials - Oracle interface the organisation was unable to evidence that all rejections had been manually re-raised or actioned. 5. The allocation of a new starter within the AxisE system is informal. There is no authorisation form or retention of emails evidence that the new account was appropriately authorised. 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.
Management response	1. The SYSadmin password is only known by two people. However it is the intention to review and implement a change policy for the SYS and SYSadmin password when Oracle is reimplemented when we move to Version 12. 2. Agreed. Work is on-going to improve and automate the leavers' process to include notifying the relevant system owner when a user has left that needs removing from the system. In the interim a monthly leavers report will be requested from HR Services. 3. Following the migration from Novel to Microsoft we now use complex password settings for the network login. (Minimum 7 characters long and include 3 of the following 4, Uppercase letters, Lowercase letters, numbers, special characters). The lockout settings have also been strengthened.

3.Risk management and internal control systems (continued)

IT recommendations (continued)	
Management response (continued)	4. Further logs have been put in place detailing when the interface has failed. The current swift system is being replaced and a further review will be undertaken on the controls around the interface with the new system. 5. This relates solely to access to the AxisE system by the Pensions Administration Team. Although we acknowledge the comment made, the process is closely monitored and controlled by the Pensions Manager and we perceive the level of risk to be small. Nevertheless, the Pensions Manager has investigated implementing a documented authorisation process and will henceforth put this in place.

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 Gary Fielding, Corporate Director – Strategic Resources, 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 2012/13 accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards.

New accounting policies adopted by the Authority in 2012/13 include Carbon Reduction Commitment Scheme. There are no matters to bring to your attention from our review of these accounting policies.

Financial reporting

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

As at the date of preparation of this report we have still to conclude on the group misstatements and a verbal update will be provided to the Audit Committee.

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 2013 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.given the value to the users of the accounts.

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 2012/13.

Audit fees

The external audit fees in relation to audit services provided on behalf of the Audit Commission in the period from 1 April 2012 to 31 March 2013 are as follows:

Fees payable for the audit of the annual accounts (excluding VAT)	£125,987

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

The fees for certification of claims and returns are estimated at £1,300 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.

6. Value for money (VFM) conclusion

The approach to local value for money ("VFM") audit work at Authorities 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 Authority 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 Authority 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 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 July.

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.

Financial Sustainability – Financial Planning and Efficiency Plans	
Background	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 Authority continues to face severe financial pressures over the next few years. Savings of £22.9 million are required over the next two years. 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 budget shortfall of £4.6m recurrent savings which equate to a total of £6.2 million savings required over the course of the next two years. A new four-year MTFP is to be developed during 2013/14, following the anticipated comprehensive spending review in 2013. Subsequent to our planning, the Government announced its spending review for 2015/16 the the result that the increasing the financial challenge, most notably a reduction in core funding (estimated by the Authority to be £11.2 million per annum) and uncertainties over the impact of a number of other funding streams.
Deloitte response	We have reviewed the Authority's Budget 2 report which was presented to the Executive and County Council in July 2013. In addition to the previously identified shortfall, Budget 2 also addressed an additional shortfall of £1.5 million arising from the Chancellors Budget announcement in March 2013. Additional savings schemes have been identified to reduce the shortfall to £0.4 million in 2013/14 and £1.9 million in 2014/15. We have carried out a high level review of proposals within the MTFP, 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 five savings initiatives selected for testing, the quantification of recurring savings brought on line in 2013/14 was found to be reasonable and costs of implementation / costs of alternative service provision have been recognised. The savings we selected for testing were to be delivered in the time-frame that they had been budgeted for and were recurrent. One of the savings tested (£1.4 million) was contingent upon future funding being received from NHS England. We have reviewed letters from NHS England that signal the intent for this funding and are satisfied that there is a strong likelihood of this being received at the level required to achieve the savings budgeted. We note, however, that in the event of

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

Financial Sustainability – Financial Planning and Efficiency Plans (continued)	
Deloitte response (continued)	funding decisions or policy with respect to this changing or to not going in the way predicted then there would be a risk about the achievement of these savings. 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.

Waste PFI - Revision of the waste PFI project following withdrawal of PFI credits	
Background	The Authority has, jointly with York City Council, been pursuing a Waste PFI project over several years and despite having reached an advanced stage in the project, the Government recently announced that it was withdrawing the PFI credits that contributed 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 EU targets on landfill, and did not reflect on the individual proposed scheme or the management of the planning process. The Authority is currently re-evaluating the scheme.
Deloitte response	We have discussed progress of the re-evaluation of the scheme. There are two judicial reviews still in process: • judicial review to challenge the granting of the planning permission – although the Authority was successful in defending this action, it is not yet clear whether further action will be taken in response to the decision to refuse leave to appeal; • action taken by the Authority to challenge DEFRA's decision to withdraw the PFI credits. The Authority has reviewed the scheme and concluded that it is still affordable. Discussions are ongoing with the contractor, AmeyCespa, on the details of the scheme and funding arrangements, and as part of that the Authority will reassess and demonstrate that value for money is achieved from the scheme. The timescales for progressing the scheme are largely dependent on the planning judicial review but it is unlikely that developments will take place before the 2012/13 accounts are signed off. Financial close was previously planned for Autumn 2013 but, assuming the scheme does progress, this is now expected to be March 2014.The current appeals process could however result in this being a later date although this is not yet clear. Given the anticipated timescales, we will consider the affordability of the revised scheme and its impact on the Authority's financial position and MTFP as part of our 2013/14 audit.

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

Corporate performance management	
Background	The performance management arrangements in place are robust and have previously been assessed as satisfactory. At the time of our planning, however, there was scope to simplify reports and focus performance monitoring more effectively and a revised report format is currently being developed by the Authority This process is not considered to be an audit risk but as corporate performance management arrangements are central to our VFM work, we have kept up to date with the development of the reports.
Deloitte response	No matters of concern in relation to the new reporting arrangements have been identified.

Reduction in capacity	
Background	As part of the savings proposals within the budget, the Authority 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.
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.

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 Authority’s arrangements. This conclusion is given within our audit report on the Authority’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 Authority has put in place proper arrangements except for…) or in the form of an ‘adverse’ conclusion (i.e. the Authority has not put in place arrangements in that…).

For 2012/13, we have assessed the Authority 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 Authority's activities, including in particular those designed to ensure that:

- the Authority's policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Authority'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 Authority'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 Authority'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
Chartered Accountants
Leeds
18 September 2013

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 mistatements

Recorded audit adjustments – corrected misstatements

We report all individual identified recorded audit adjustments in excess of £142,900. There were no such adjustments that affected assets, liabilities, reserves or the income statement.

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) £
Overstatement of the accumulated absence provision				
Dr accumulated absence provision	-	275,280	-	-
Cr cost of services	-	-	-	275,280
	-	275,280	-	275,280

The draft financial statements presented for audit did meet most of the disclosure requirements of the IFRS Code 2012/13. 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 – Strategic Resources can sign the letter on behalf of the Authority.

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Our Ref: CDP/AJL/NYCC2012 3

September 2013

North Yorkshire County Council – Audit of the annual accounts for the year ended 31 March 2013

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 2013.

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 2013 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 18 July 2013, 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