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North
Yorkshire County Council

Planning Report to the Audit Committee
31 March 2014

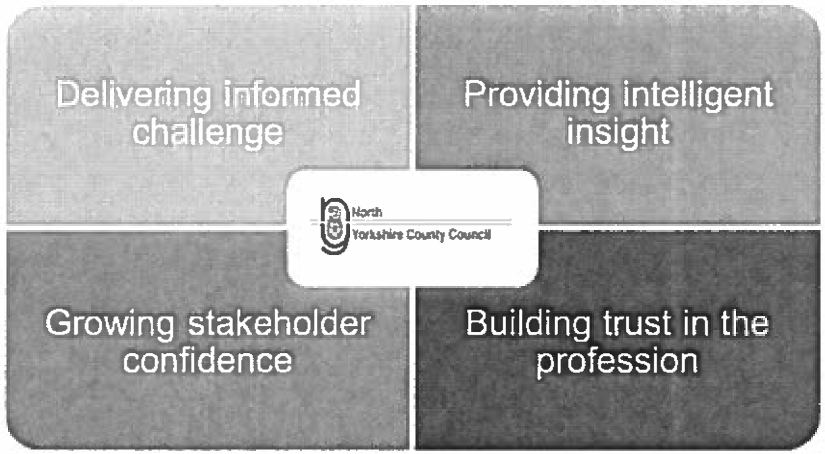
8 July 2014

the Distinctive audit

Contents

I am delighted to present this planning report for the 2013/14 audit of North Yorkshire County Council. This report sets out our audit approach and the more significant areas where we will focus our attention this year.

Chris Powell, Audit Partner



The big picture

The big picture

We have set out below an overview of the key developments at the Council and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

Relevant developments

- Continuing budgetary pressure means that savings of £19.3m have been agreed for 2014/15 and a further £73.4m will be required over the following four years.
- Following the withdrawal of the PFI credits for the Waste project, the Council is still working with the appointed contractor, AmeyCespa to achieve financial close.
- As part of the savings proposals within the budget, the Council has undertaken restructuring within key corporate areas such as Finance.

Key measures from the FY13 Accounts

General Fund Net Expenditure **£342.9m**

Earmarked Reserves **£101.3m**

General Fund Capital Expenditure **£72.0m**

Materiality
Our materiality is based on our assessment of risk and calculated on the basis of gross expenditure, we estimate materiality to be £16m for the current year.

Key developments in financial reporting requirements

- Clarification regarding the frequency of revaluations for properties which clarifies previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.
- Changes to Code requirements in respect of the classification, recognition, measurement and disclosure of post-employment benefits.
- The national Council Tax Benefit scheme has been replaced by a local Council Tax Reduction scheme, which the District Councils have implemented from the start of the year, and which will impact on the income received under the precept arrangements.
- There are changes to the accounting requirements arising from the localisation of business rates in England from 1 April 2013 as well as other smaller changes to presentation and disclosure matters in the financial statements.

Significant Accounting Risks

- Valuation of non-current assets
- Accounting for interests in group companies and the recoverability of inter-organisational balances
- Management override of controls
- Revenue recognition

Value for Money Risks

- Financial planning and efficiency plans
- Reduction in capacity resulting from the reduction in the financial settlement
- Revision of the waste project following withdrawal of PFI credits

In March 2014 the Audit Commission announced the results of their procurement of audit services for 2015/16 onwards. Deloitte was not successful in being awarded a contract, but we remain your auditors for the 2013/14 and 2014/15 audits, and we will therefore continue to work with you for these years and provide a high quality service. The Audit Commission is currently undertaking the appointment process for new auditors, with new appointments being made by the end of 2014 for the 2015/16 audit onwards.

Our audit quality promise

Our audit quality promise

Our new quality standard

"The quality of our audit delivery is of great importance to us. In order to ensure we deliver excellent service to you we have developed our Audit Quality Promise.

Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit.

This document sets out our commitments to management and officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussion with you and with other Local Government Bodies, we know that you value an integrated audit approach which encompasses the main financial statements audit, whole of government accounts and value for money conclusion.

We have developed a deep understanding of the Council during our appointment as auditors and we have identified a team with continuity to deliver the 2013/14 audit. We will supplement this team with skilled, experienced and knowledgeable individuals to ensure the timely and effective delivery of our audit. We pledge to take the same approach with a consistent audit team, drawing on experts as necessary."

Chris Powell
Audit Partner

Our commitment to you

Communication

We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

Year round communication

We will hold regular meetings with Richard Flinton and Gary Fielding to discuss strategic developments of the Council and in-year performance. We will also hold regular meetings with Peter Yates and officers to discuss accounts and audit related issues.

Senior members of the audit team will attend the Audit committee where updates on the audit process are to be provided.

We will make ourselves available through the year for ongoing discussions as necessary.

During the main audit period

We will hold regular progress updates with Peter Yates and Katy Riley to discuss findings and any emerging issues on the financial statement audit.

We will hold a close meeting with Gary Fielding and Peter Yates ahead of drafting our Audit Committee papers.

Responding to queries and requests

We will always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution.

We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the council as soon as we become aware of them.

We will make ourselves available to discuss issues as they arise, in advance of the year end to assist the efficiency and effectiveness of the closedown and accounts production process.

Open feedback process

We will carry out debrief meetings with Katy Riley and the finance team to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will respond to this feedback with agreed actions and timescales.

We will also seek direct feedback through regular meetings during the year.

We are also happy to hear and act upon informal feedback at any point during the year.

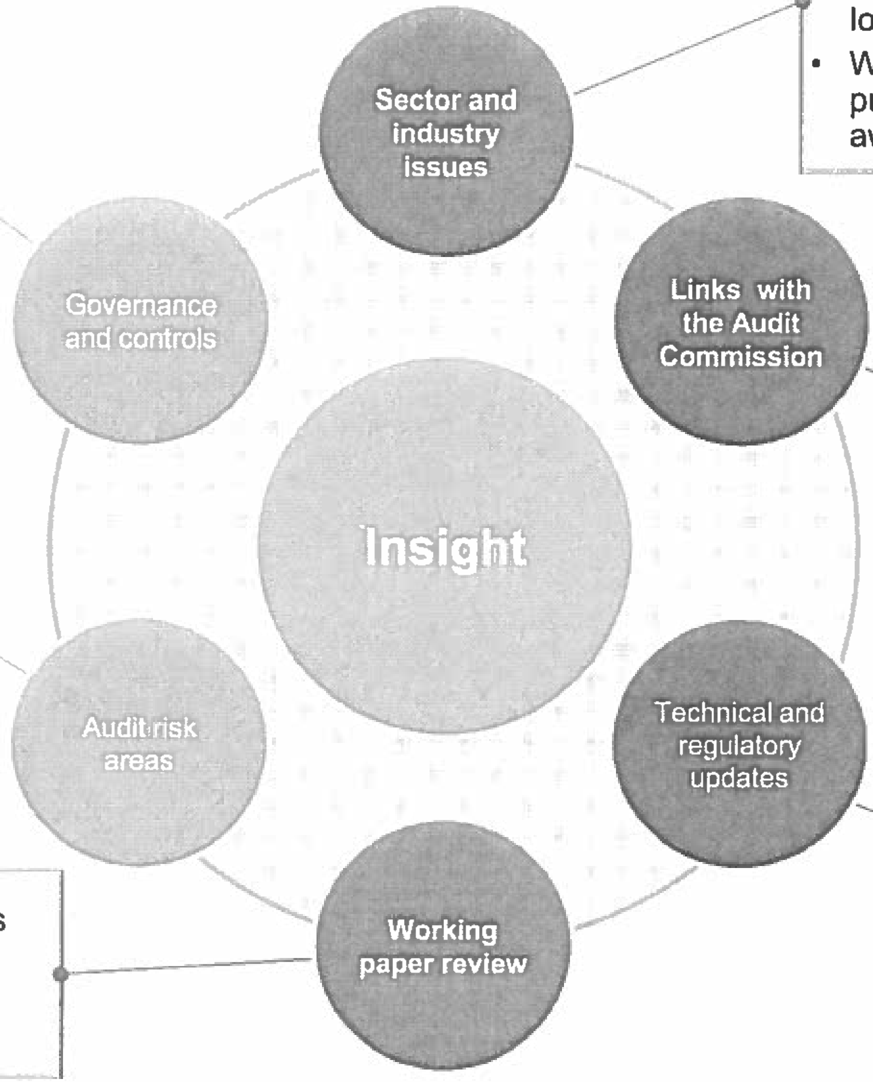
Bringing you insight as part of the audit

Agreed areas of insight

Sharing knowledge of sector developments, for example:

- We have attached at Appendix 4 a summary of our research into the state of local public services
- We will discuss relevant Deloitte publications with senior staff to raise awareness of sector issues

- Feedback comments from our financial statements audit and VFM conclusion work



- Share emerging issues with officers
- Open discussion over the emerging regulatory environment

- Use of data analytics for risk based journal testing covering period end postings using our Audit Analytics software.

- Early discussion of Code changes, their expected impact on the Council and proposed response
- Early review of draft financial statement
- Invitations to relevant public sector seminars

- Meetings with Peter Yates to discuss audit requirements and Council provision of information to improve efficiency

Changes in your Statement of Accounts

Changes in your Statement of Accounts

New reporting requirements

We welcome this opportunity to set out for the Audit Committee a summary of the latest developments in financial reporting which will impact this year end.

Change in Code of Practice on Local Authority Accounting requirements	Impact on the Council
Presentation of Financial Statements – The Code makes amendments to the format of the Comprehensive Income and Expenditure Statement resulting from changes to IAS 1. This is in respect of items that are potentially reclassifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have transactions that include amounts that are reclassifiable in the Surplus or Deficit on the Provision of Services, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that: a) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and b) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.	Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be reclassifiable and amounts that are not.
Accounting for business rates retention: the Code provides guidance on the accounting requirements arising from the localisation of business rates in England from 1 April 2013.	This will require a change in the form of accounting for the 2013/14 Statement of Accounts.
Dedicated Schools Grant (DSG) – there is a change in the disclosures for DSG.	Changes will be needed to the format of the note to bring into line with the latest guidance.

Changes in your Statement of Accounts

New reporting requirements

Revaluation of properties - Clarification regarding the frequency of revaluations for Property, Plant and Equipment which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.	This is considered in more detail in the next section.
Post-employment benefits – changes have been made to the Code in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to IAS 19.	This will require a number of changes to the calculation and presentation of entries.
The Carbon Reduction Commitment (CRC) Energy Efficiency scheme – The Code has been updated for changes in the scheme applicable to 2013/14. In particular, as 2013/14 is the end of the introductory phase, there is no option to carry forward allowances for use in respect of emissions in 2014/15 with any remaining unused allowances at the end of the introductory phase become invalid. Guidance on any allowances purchased prospectively for 2014/15 is pending.	Management should consider whether this has a material impact.

Scope of work and approach

This section sets out our planned scoping for the audit of the Council's financial statements. We discuss our estimated materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.

Value for money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

Pensions Audit

Our audit of the pension fund is planned in accordance with the Code of Audit Practice and additional guidance in relation to the audit of pension funds issued by the Audit Commission.

Based on this guidance, auditors are required to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

Annual Governance Statement

We are required to 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.

We will also review reports from regulatory bodies and any related action plans developed by the Council.

Assurance report on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's WGA return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority.

The appointed auditor carries out work on individual claims and returns as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

Scope of work and approach (continued)

Approach to controls testing

As set out in "Briefing on audit matters" circulated to you within Appendix 6 of 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:

- Obtain an understanding of the entity and its environment including the identification of relevant controls;
- Identify risks and any controls that mitigate those risks;
- Carry out 'design and implementation' work on relevant controls;
- If considered necessary, test the operating effectiveness of selected controls; and
- Design and perform a combination of analytical procedures and tests of details that are responsive to the assessed risks.

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

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 and those charged with governance any recommendations on controls that we may have identified during the course of our audit work.

Liaison with Internal Audit

We continue to rely on the work of Internal Audit to inform our risk assessment. The Auditing Standards Board has issued a revised version of ISA 610 (UK & Ireland) 'Using the work of Internal Audit' which prohibits the use of Internal Audit to provide direct assurance to the audit. Our current approach to use the work of Internal Audit to inform our risk assessment is compatible with the new requirements. We plan to hold a discussion with the Head of Internal Audit to understand the work performed and findings identified. Where weaknesses in the control environment have been identified we will consider the impact on our risk assessment and consider adjusting our audit response as required.

Materiality and error reporting threshold

For the 2013/14 financial statements, we will calculate materiality on the basis of gross expenditure. An initial indication of materiality based on the Council's draft financial statements is £16 million. We will report to the Audit Committee on all unadjusted misstatements greater than 2% of our calculated materiality and other adjustments that are considered qualitatively material.

Whole of Government Accounts

Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's Whole of Government Accounts return. We will review the return to check consistency with the audited statutory accounts.

Value for money conclusion

Value for money conclusion

Our work will focus on the extent to which the Council has proper arrangements in place to secure value for money.

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Council has put in place proper arrangements to secure financial resilience and economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the Council's system of internal control as reported in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Preliminary assessment

We have carried out a risk assessment, involving consideration of common risk factors for local authorities identified by the Audit Commission, our prior year audit findings, and our understanding of corporate management arrangements in place for risk, performance and project management, and concluding on whether they represent risks for the purpose of our VFM conclusion on the Council.

We have undertaken this preliminary work through review of relevant documentation, including Executive and Committee papers, the Council's strategic risk register and financial and non-financial performance management information, and discussion with officers as necessary. We will update our detailed risk assessment from April to take account of the outturn financial and performance information for 2013/14, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Value for money risks

This section sets out the nature of the Value for money risks identified from our initial assessment and discussions with management. As well as the specific work we will undertake to address these risk.

1. Financial planning and efficiency plans

Efficiency plans are still being developed to address the medium term financial pressures.

Nature of risk

The Council continues to face severe financial pressures over the next few years. A medium term financial strategy (MTFS) with financial projections to 2018/19 is in place.

Savings of £19.3m have been agreed for 2014/15 and a further £73.4m will be required over the following four years. Proposals for £22.5m are in place for 2015/16 and high level proposals totalling £38.7m have been identified for the subsequent years, leaving a current gap of £12.2m to identify.

The 2020 North Yorkshire programme will be critical to the achievement of the financial strategy and addressing the savings.

Audit work planned to address the significant risk

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.

We will maintain a watching brief over the delivery of the savings plans and progress in the development of the savings plans to address the remaining balance to be addressed.

Given the Council's strong track record in delivering the One Council, we do not at this stage anticipate undertaking any detailed audit work in relation to 2020 North Yorkshire programme. We will, however, carry out a high level review of project management arrangements to develop our understanding and consider the implications for our VFM risk assessment.

2. Reduction in capacity

The Council must deliver significant change in response to financial pressures at a time when resource has and continues to reduce.

Nature of risk

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 2012/13 audit and have not identified any specific risks in 2013/14, 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.

Audit work planned to address the significant risk

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 liaise with Internal Audit and consider the implications of any concerns identified from their work. This will be carried out in conjunction with our audit work on the accounts.

3. Withdrawal of Waste PFI credits

The withdrawal of the waste PFI credits has a significant impact on the feasibility of the scheme.

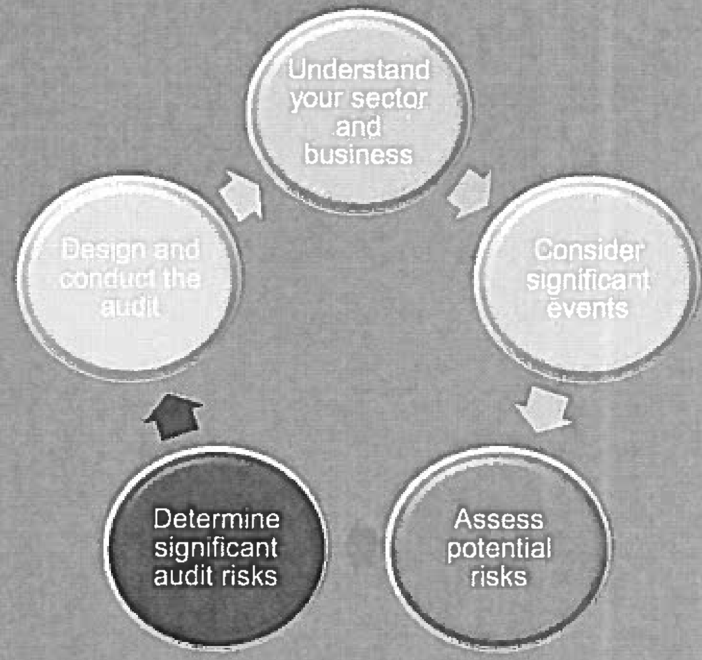
Nature of risk

Following the withdrawal of the PFI credits for the Waste project, the Council is still working with the appointed contractor, AmeyCespa to achieve financial close. At the time of our risk assessment, the Council was waiting for AmeyCespa to pull together the funding package.

Audit work planned to address the significant risk

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 Council's financial position and MTFS.

Significant audit risks



This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

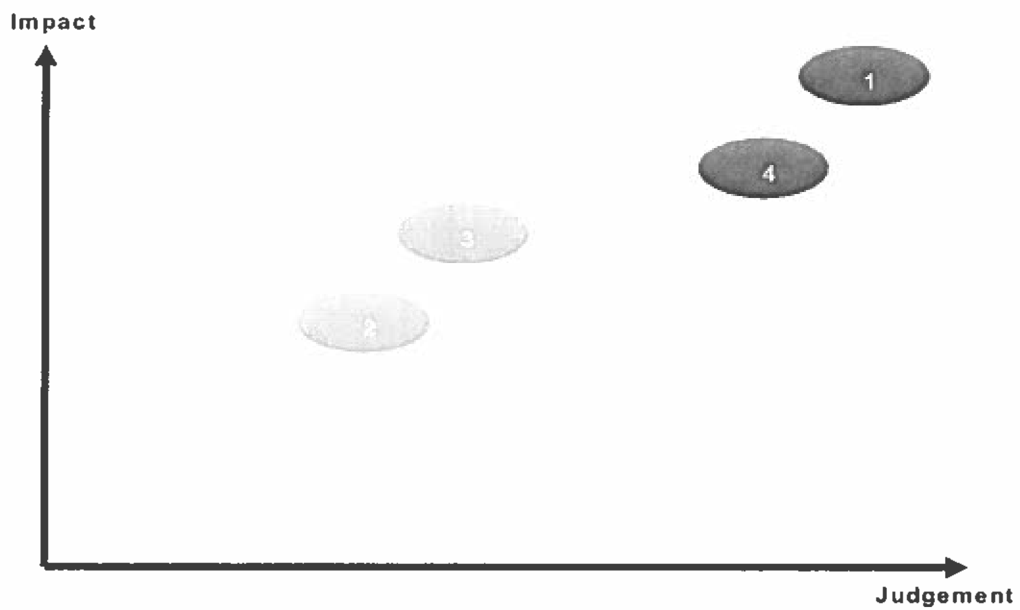
We will perform an assessment of risks which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you in due course any significant findings from our scoping work.

Significant audit risks

Risk Assessment

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. Management override of controls
4. Revenue recognition

1. Valuation of non current assets

This is a key accounting estimate, which can result in large movements within the accounts.

Nature of risk

There has been a clarification of the Code of Practice for 2013/14, the Council is required to revalue property, plant and equipment with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The council 's approach has been to value land and buildings on a 5 year rolling basis with a selection of categories being revalued each year, so that all categories are valued each cycle. To comply with the change in the requirement in the current year they have obtained a valuation of a sample of assets from each category that has not been revalued in full to ensure that they are not materially different to their fair value.

The key judgement areas and their potential impact on the financial statements

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.

Audit work planned to address the significant risk

We will obtain a copy of the third party valuation report for the full categories revalued in the year as well as the sample of land and buildings from the remaining categories 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.

We will review the data extract supplied by the Council to Bruton Knowles, as at 31 March 2013, 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 2014 to ensure the results of the valuation have been appropriately reflected in the underlying accounting records.

We will review managements consideration of the 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.

2. Group companies

Accounting for interests in group companies and the recoverability of inter-organisational balances can require significant judgment from management.

Nature of risk

Accounting for interests in group companies and the recoverability of inter-organisational balances can require significant judgment from management to determine the appropriate accounting treatment for each group company.

The key judgement areas and their potential impact on the financial statements

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, a 50% shareholding in Veritau Limited and an indirect 25% in Veritau's subsidiary Veritau North Yorkshire Limited and a 30% shareholding in North Yorkshire Business and Education.

Audit work planned to address the significant risk

We will review the accounting treatment adopted for the 30% shareholding in the North Yorkshire Business and Education as management have historically excluded this from the consolidation on the grounds of materiality.

We will consider the recoverability of current trading balances with all group companies by reviewing management's processes to agree inter-organisational balances as well as reviewing 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.

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.

3. Management override of controls

This is a presumed risk under auditing standards, given management's unique position to perpetrate fraud.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The significant risk in relation to management override and its potential impact on the financial statements

Management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Management may override controls through:
- recording fictitious journal entries;
- applying inappropriate judgment;
- omitting, advancing, or delaying recognition of events and transactions;
- engaging in complex transactions that are structured to misrepresent financial position or financial performance;
- omitting disclosure of related parties and transactions; and
- altering records related to significant and unusual transactions.

Audit work planned to address the significant risk

We shall design and perform audit procedures to:
- test the appropriateness of journal entries and other adjustments recorded through use of our Audit Analytics software to analyse journal data as a basis for focusing our testing on higher risk journals;
- review accounting estimates for evidence of bias;
- test the related parties balances and disclosures for accuracy and completeness; and
- review the business rationale of significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual given our understanding of the organisation and its environment.

4. Revenue Recognition

Evaluating whether recognition is consistent with the Code can involve significant judgement.

Nature of risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The key judgement areas and their potential impact on the financial statements

For the Council, based on our knowledge gained from previous audits, we consider that the specific revenue recognition risk relates to accounting for grant income.

The key judgment relating to grant income is the timing at which revenue is recognised with reference to the relevant standards, including IAS 20: *"Accounting for Government Grants and Disclosure of Government Assistance"*. It can be complicated to determine the timing of the recognition of the grant income revenue, and require management's judgment to determine that there is reasonable assurance that the entity will comply with the conditions attached to them and that the grants will be received.

Audit work planned to address the significant risk

We will perform a review of a sample of 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.

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 the accounting treatment of the grant is appropriate based on whether the Council has met the conditions of the grant, the grant is subject to claw back if the conditions are not met or the Council is yet to incur the associated expenditure.

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit; and
- Key accounting updates, relevant to you

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" which has been included at Appendix 6.
- 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 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.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Leeds

8 July 2014

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of North Yorkshire County Council.

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 North Yorkshire County Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2014 in our final report to the Audit Committee. Audit Commission standing guidance on the rotation of audit partners means that a new engagement lead should be appointed for the 2014/15 audit. As 2014/15 will be our last year of appointment we have requested and received permission from the Audit Commission to a one year extension. As a safeguard a review of our independence will be performed by a partner who is not associated with the audit.
Fees	Our audit fees are set by the Audit Commission in line with national scale fees. Details of audit fees, for the year ending 31 March 2014, for those services for which we have been engaged or proposed for as at the date of this report are presented in the table below. We confirm that we have not performed any non-audit work for the year ending 31 March 2014.

	Current year £	Prior year £
Audit of Council under Audit Commission Code of Audit Practice		
Audit Commission scale fee	125,987	125,987
Audit of the Pension Fund	24,943	24,943
Total Audit	**150,930**	**150,930**

Non-audit services	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.

Appendix 2: Fraud: responsibilities and representations

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.

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

Responsibilities

Your 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.

Our responsibilities

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant audit risk section above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risks for your organisation.

Appendix 2: Fraud: responsibilities and representations (continued)

We make enquiries of Management, internal audit and those charged with governance regarding fraud.

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Managements assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Managements process for identifying and responding to the risks of fraud in the entity Managements communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Managements communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	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	How those charged with governance exercise oversight of managements 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 Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

We will request the following to be stated in the representation letter signed on behalf of the Council:

- 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 entity or group and involves:

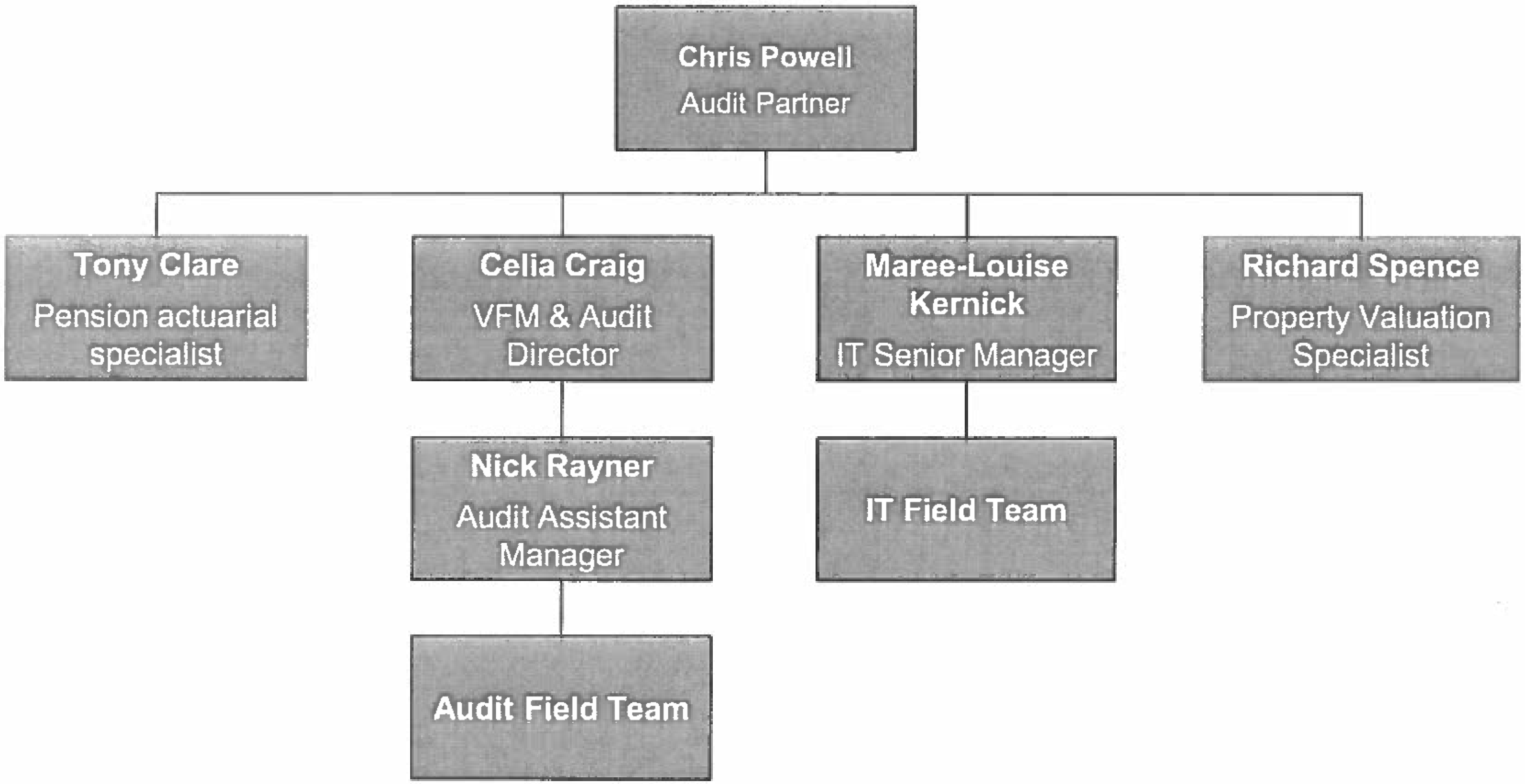
  (i) management;

  (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 3: Your audit team

A senior team, with continuity from last year, that incorporates specialists to perform audit work over pensions and property valuations and also provide insight and add value to the Council in those areas.



Appendix 3: Timetable

Timing of our work and communication

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

Planning	Interim results review	Year end fieldwork	Reporting	Post reporting activities
Meetings with management to: • confirm risk assessment and management response; and • agree on key judgemental accounting issues Early discussion on areas to improve financial statements	Review of results for the year to date Complete audit work to refresh our understanding of the Council and its systems, processes and internal controls	Present the audit plan to the Audit Committee Complete audit testing as set out in this Audit Plan Complete testing on the annual report and the whole of government accounts returns Finalisations of work in support of Value for Money conclusion Discuss and agree conclusions with the finance team and present findings to the Corporate Director – Strategic Resources	Present findings, final report and the audit opinions to the Audit Committee Sign the audit opinions Report to the National Audit Office on the Whole of Government Accounts returns	Hold a lessons learned meeting with the finance team Seek feedback on the audit process from Officers and the Audit Committee Issue of annual audit letter
March 2013	April – June 2013	July – August 2013	September - October 2013	October 2013 onwards

Ongoing communication and feedback

Appendix 4: State of local public services

We summarise the outcome of our research which provides further context for our audit.

During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in children's' services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges.

Appendix 4: State of local public services (continued)

Insight

The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with the private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including exposure to new ideas and new delivery models, efficiency and quality from private sector and local knowledge and niche services from the third sector. But many also recognised that commissioning and partnerships outside the public sector brought new, critical risks that needed to be managed.

Appendix 5: Prior Year Uncorrected Misstatements

The following uncorrected misstatement was identified during the course of our audit in the prior year.

The Audit Committee considered that the uncorrected misstatement was immaterial in the context of the Statement of Accounts taken as a whole, and therefore no adjustments was required.

Description	**Liabilities DR / (CR) £**	**Income Statement DR / (CR) £**
Overstatement of the accumulated absence provision		
Dr accumulated absence provision	275,280	-
Cr cost of services	-	(275,280)
Total	275,280	(275,280)

Appendix 6: Briefing on Audit matters

Published for Those Charged With Governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives	We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Financial Reporting Council ("FRC") and the Code of Audit Practice as established by the Audit Commission. Our statutory audit objectives are: • to express an opinion in true and fair view terms to the members on the financial statements; • to express an opinion as to whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting; • to satisfy ourselves that the entity has put in place appropriate systems and processes to secure economy, efficiency and effectiveness in its use of resources, we are required to report any matters that prevent us being satisfied that the audited body has put in place such arrangements; and • to express an opinion as to whether the Annual Governance Statement, is consistent with the financial statements and our knowledge of the Council.
Other reporting objectives	Our reporting objectives are to: • present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and • provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Appendix 6: Briefing on Audit matters (continued)

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Appendix 6: Briefing on Audit matters (continued)

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Audit Committee whilst minimising a "box ticking" approach.

Our audit methodology is designed to give officers and members the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

Appendix 6: Briefing on Audit matters (continued)

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities related to other information in documents containing audited financial statements

Appendix 6: Briefing on Audit matters (continued)

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the Auditing Practices Board ("APB"), there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

In the UK, statutory oversight and regulation of auditors is carried out by the FRC. The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

Appendix 6: Briefing on Audit matters (continued)

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Ethical Standards

The APB issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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