ITEM 4(b)

Deloitte.

North Yorkshire County Council

North Yorkshire County Council

Final Report to the Audit Committee

For the year ending 31 March 2014

the Distinctive audit

September 2014

Deloitte LLP
1 City Square
Leeds
LS1 2AL
United Kingdom

Audit Committee
North Yorkshire County Council,
County Hall,
Northallerton,
DL7 8AD

15 September 2014

Dear Sirs

We have pleasure in setting out in this document our report to the Audit Committee of North Yorkshire County Council (“the Authority’’). The report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

In summary:

- The matters arising during our audit, which are summarised in this report, 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 this report. We will be in attendance at the Audit Committee meeting on 25 September 2014 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

Chris Powell

Engagement Lead

Contents

A reminder of our audit plan:

- Materiality £16.0m
- Significant risk areas:
  - Revenue recognition;
  - Management override of controls;
  - Accounting for interests in group companies and the recoverability of inter-organisational balances; and
  - Valuation of Non-Current Assets.
- VFM areas of focus:
  - Financial planning and efficiency plans;
  - Affordability and value for money of the Waste project; and
  - Reduction in resources.
- There have been no changes to the audit plan or scope since our planning report dated July 2014.

The Big Picture

Subject to completion of the outstanding items of testing, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements, and an unqualified value for money (vfm) conclusion.

Overall View

- The audit is expected to be completed in line with the agreed timetable;
- We plan to sign the accounts on 25 September 2014 following the Audit Committee meeting;
- We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements; and
- Our work to date supports the issue of an unqualified vfm conclusion.

Audit work

- We have discussed our initial comments on the draft financial statements with management.
- Audit adjustments identified have not impacted the General Working Balance or other usable reserves – see Appendix 1.
- Disclosure deficiencies have been corrected by management – see Appendix 1.
- We have identified no significant deficiencies in internal control.
- The Whole of Government (WGA) consolidation pack was submitted by the Council after the national deadline. We were required to report this delay to the Audit Commission but we do not anticipate this causing any problems in our being able to complete the audit submission in line with the deadline of 3 October 2014.

Outstanding Items

- Review of final accounts, annual report and annual governance statement;
- Final review and closedown procedures;
- Checks of the final amendments to pension fund accounts to be reflected within the annual report;
- Receipt of assurances from the auditors of Group companies NYnet (Deloitte);
- Receipt of the letter of representation (draft attached in Appendix 6 – final to be provided on 25 September 2014);
- Completion of WGA audit;
- Receipt of Legal letter;
- Completion of the review of the process to assess value for money of the waste project;
- Update of the subsequent events review to the date of signing the accounts.
- Receipt of a few outstanding audit information requests.

Our Audit Quality Promise

Year round communication

- We have held regular meetings with Richard Flinton and Gary Fielding to discuss strategic developments of the Authority and in-year performance. We have held regular meetings with Peter Yates and officers to discuss accounts and audit related issues.
- Senior members of the audit team have attended the Audit Committee where updates on the audit process have been provided.
- We have made ourselves available through the year for ongoing discussions as necessary.

During the main audit period

- We have held regular progress updates with Peter Yates and Katy Riley to discuss findings and any emerging issues on the financial statement audit.
- We held a close meeting with Gary Fielding and Peter Yates to discuss findings ahead of issuing our report to the Audit Committee.

Open feedback process

- We will hold a debrief meeting 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 have sought direct feedback throughout regular meetings during the year.

Responding to queries and requests

- We have responded to queries and requests on a timely basis;
- We have held meetings to discuss technical accounting and regulatory developments which have an impact on the Authority;
- We have made ourselves available to discuss issues as they arise.

Significant Audit Risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/ or disclosure matters within the financial statements.

1. Revenue Recognition

From work performed, no instances of improper grant income recognition were noted in the current year.

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 area(s), its impact on the financial statements and our audit challenge

For the Authority, 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, 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 completed to address the significant risk

- We have reviewed management's process for identifying and assessing the conditions attached to each grant;
- We have performed substantive testing over a sample of grants recognised as income, in order to assess the reasonableness of management's determination that any attached conditions for the receipt of the grant money have been satisfied; and we have also agreed the grants to third party source documentation; and
- We have also focused our testing on grant income deferred to future periods to ensure that the deferral is appropriate, based on whether the Authority has met the conditions of the grant, the grant is subject to claw back if the conditions are not met or the Authority is yet to incur the associated expenditure.

Deloitte view

No evidence has been identified that would indicate management bias in the revenue recognition policies adopted or the decisions made in relation to the recognition of grant income.

The revenue recognition policies are in line with other Local Government entities and the CIPFA Code.

2. Management override of controls

No indications of management override of controls have been noted during the course of our audit.

Nature of risk

International Standards on Auditing require 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, its impact on the financial statements and our audit challenge

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 judgement;
- omitting, advancing, or delaying recognition of events and transactions;
- engaging in complex transactions that are structured to misrepresent the financial position or financial performance;
- omitting disclosure of related parties and transactions; and
- altering records related to significant and unusual transactions.

Audit work completed to address the significant risk

We have performed the following:

- Gained an understanding 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 recorded through use of our Audit Analytics software to analyse the journal data as a basis for focusing our testing on higher risk journals;
- 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;
- Carried out a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements;
- Obtained an understanding of the business rationale of significant transactions that we are aware of that are outside the normal course of business or that otherwise appeared to be unusual given our understanding of the organisation and its environment;
- Reviewed related parties disclosures and considered completeness in light of prior year disclosures and our knowledge of the organisation. We also tested a sample of Member declarations against disclosures.

Deloitte view

No indication of management override of control as been noted during the course of our audit. We do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias.

3. Group Companies

From work performed no issues were noted regarding the recoverability of inter-organisational balances.

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 significant risk in relation to related party transactions, its impact on the financial statements and our audit challenge

There is a risk concerning the recoverability of inter-organisation balances between the Authority and 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, 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 completed to address the significant risk

We have performed the following:

- Reviewed the accounting treatment adopted for the 30% shareholding in North Yorkshire Business and Education. This has been excluded from the consolidated Group Accounts on the grounds of materiality which is consistent with our testing.
- Considered the recoverability of the current trading balances with all group companies by reviewing management's processes for agreeing the inter-organisational balances as well as reviewing post year-end cash receipts and payments. The recoverability of long term loans with all group companies was assessed through review current year trading profits and cash generation as a basis for assessing the future trading forecasts. In addition, the going concern work as part of the NYnet audit will include review of the budgets and forecasts to 2019/20.
- Obtained management's consolidation workings and reviewed the accounting treatments adopted and assessed whether they reflect management's ability to control the group entities.

Deloitte view

We are satisfied that management has appropriately accounted for its interests in other group companies.

No issues have been noted regarding the recoverability of inter-organisational balances or management's decisions over accounting treatment.

4. Valuation of Non-Current Assets

Overall the quality of valuation information has improved.

Nature of risk

There has been a clarification of the Code of Practice for 2013/14 and the Authority 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 Authority ‘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 management 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 significant risk in relation to valuation of Non-Current Assets, its impact on the financial statements and our audit challenge

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 judgement. The categories of assets that have been revalued in the year are special schools, outdoor education centres, education dwellings, youth centres, children’s day centres, gypsy and traveller sites, administration offices, and children’s centres. All other categories of land and buildings have been subject to the desktop valuation exercise.

Audit work completed to address the significant risk

- We have reviewed the data extract supplied by the Authority 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, and that this agreed to the fixed asset register audited as part of our prior year audit.
- Our internal property team have reviewed the assumptions and a sample of valuation work papers produced by Bruton Knowles as part of their revaluation of assets. Our review of the Bruton Knowles work papers indicated that the valuations produced are compliant with the requirements of the Code.
- We have reviewed the fixed assets register as at 31 March 2014 to ensure the results of the valuation have been appropriately reflected in the underlying accounting records.
- We have reviewed management’s consideration of the Bruton Knowles report for impairments and assessed whether these will have an impact on other assets that have not been revalued in the current year but are controlled by the Authority.
- We have also considered the accuracy of the report produced by the Authority’s property consultants, Jacobs which is used to assess the valuation of some of the additions.

Deloitte view

An error was noted on the Bruton Knowles report for the valuation of the County Hall. This was reported as £4.1m in the report but the value should be £5m based on the working papers. Bruton Knowles have, at our request, checked and confirmed that this was an isolated error. An adjustment has been raised in Appendix 1, however this has not been corrected as it is immaterial and, due to the technical accounting treatment of revaluations, does not impact usable reserves. The readers’ interpretation of the accounts will not therefore be affected.

The results of all other testing were satisfactory with the valuation exercise being completed in line with the requirements of the Code.

Value for Money (VFM) Conclusion

This section sets out our comments regarding our approach to local value for money (VFM) audit work at councils as specified by the Audit Commission. We explain the nature of the risk itself, how these risks have been addressed by our audit work.

Work completed supports an unqualified VFM conclusion

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Authority 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 Authority'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.

Risk assessment

We 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.

We undertook this preliminary work through review of relevant documentation, including Executive and Committee papers, the Authority's strategic risk register and financial and non-financial performance management information, and discussion with officers as necessary. We updated 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. No matters impacting our initial risk assessment were identified.

Value for Money (vfm) Conclusion (continued)

Financial planning and efficiency plans

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.

Our approach:

We selected 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 maintained 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 did not at the planning stage of our audit anticipate undertaking any detailed audit work in relation to 2020 North Yorkshire programme. We have, however, carried out a high level review of project management arrangements to develop our understanding and consider the implications for our VFM risk assessment.

Deloitte response:

No major concerns have been identified in our testing of a sample of savings. Further work is required to address some of the schemes and there is some variation in the detailed delivery of the savings programme. One of our sample of 2014/15 schemes was found to be undeliverable: £0.7m savings to be achieved through providing financial product advice to self-funders (residential placements – assurance schemes) within Health and Adult Services is not being delivered as demand has been lower than expected. Alternative measures are in place to address the short term shortfall and work is ongoing to address the longer term impact. Focus continues to be maintained on the risks and potential impact of savings initiatives.

Within the savings programme overall, we would expect to see some variation in delivery but the Authority is continuing with the approach of achieving savings early where possible so the impact of any slippage and the overall position is managed. The monitoring arrangements for the delivery of the savings has been strengthened in the year with a regular schedule being included within 2020 North Yorkshire project management reporting. Our high level review of the 2020 project management arrangements did not identify any areas of concern that would impact our risk assessment or VFM conclusion.

At Quarter 1, the Authority is projecting a saving against operational budgets of £4.9m (after taking into account performance against savings plans) and £21.9m of non-recurring funding being available within the Pending Issues Provision (PIP) to fund investments.

Overall, the response of the Authority to the financial pressures is considered appropriate and any shortfalls and timing differences identified within our sample testing do not affect our value for money conclusion.

Value for Money (vfm) Conclusion Continued

Withdrawal of Waste PFI credits

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

Our approach:

We have reviewed the progress of the re-evaluation of the scheme and our work to consider the affordability of the revised scheme and its impact on the Authority's financial position and MTFS is currently ongoing. We are also performing a review to assess management's approach to determining whether the project still demonstrably provides value for money. To inform our work we have reviewed reports from Ashfords LLP for legal implications in relation to the procurement process and independent financial advice on affordability and value for money obtained by management from Ernst & Young LLP (EY). We have not audited the financial model for the project.

Deloitte response:

EY concluded from their independent review that the estimated cost of the project was within the current total projected budget of both Councils (the Authority and its partner York City Council) and also less than Market Proxy comparator. Our work is still ongoing but based on work to date, the approach adopted by management is considered reasonable and there are no indications that the arrangements in relation to this project would impact our value for money conclusion.

Reduction in capacity

As part of the savings proposals within the MTFS, 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 did not identify 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.

Our approach:

We maintained a "watching brief" over the adequacy of the capacity within the Finance and Internal Audit functions during the course of our audit. We have also considered the results and implications of Internal Audit work.

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, we noted no issues reported by Internal Audit which indicate deteriorating controls as a result of reducing capacity.

Insight - Internal Control and Risk Management

We highlight a number of observations from our audit procedures although none are considered significant issues.

Area	Observation/Finding	Recommendation	Management Comment
Cost of services	Invoices have historically been included within the wrong financial period. The expenditure figure for library software charges was recorded within the wrong financial period although as this has been done historically the in year cost is correct.	Invoices should be included within the financial year that they relate to through use of prepayments and accruals to recognise the expense in the correct year.	The library expenditure account has a full year charge going through each year therefore is consistent and the differences between the invoice values are immaterial. This will be corrected in the next year.

Update on prior year observations

Area	Observation/Finding	Recommendation	Update
Authorisation of credit notes	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.	Directorate finance managers with a clear understanding of the circumstances resulting in the need for a credit note should authorise the credit notes produced.	Actioned. There is an updated process for authorisation of credit notes, the limit for the Credit Control Manager has now been reduced to £5,000 and any identified above this which he would previously sign off are now signed off by finance managers.
Disposal of infrastructure assets	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.	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.	Actioned. During 2013/14 changes have been made so that disposals and elimination are recognised for replacement of infrastructure assets.

Update on Prior Year observations (continued)

Area	Observation/Finding	Recommendation	Management Comment
Review of Fixed Asset Register	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 the Authority or the depreciation policy is incorrect and the Authority is writing assets off faster than they are consuming them. The depreciation policy currently at the Authority 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.	Review 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	Actioned. Land and Buildings which the Authority do not have control over such as voluntary controlled schools are included on the assets register at nil NBV as an internal management tool in the closure of the accounts process. These properties have not been fully depreciated, but are included to identify the correct accounting treatment of capital expenditure. A review of the asset register was undertaken in 2013/14 and those records held for management purposes are now clearly highlighted. Depreciation is now charged in the year of acquisition but not in the year of disposal.
Schools Bank Reconciliation	An error was identified between the reconciled balance produced by the individual schools for CYPS and the balance input into the schools bank position file by the CYPS team. This was due to human error and there being no review conducted of the schools position file before it was included in the total cash position.	The schools bank position file produced by CYPS should be checked by another member of staff to ensure that there are no incorrect inputs from the schools bank reconciliations and that any errors are picked up in a timely manner. If the balances are entered correctly it will save time and reduce the time spent correcting manual errors in the next periods.	Actioned. The schools bank reconciliation file is completed by one member of staff and is then reviewed by a further 3 members of the CYPS team. This time with the error being small, it was not picked up but controls are in place to ensure any material errors would be found quickly.

Other areas of responsibility

The Annual Governance Statement

Requirement

We are required to review the Annual Governance Statement (AGS) for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Authority.

Background

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an 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.

Audit work completed

We have performed the following work in relation to the AGS:

- ensured that it complies with the requirements as set out in Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; and
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, Board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

Deloitte view

We are satisfied that the Annual Governance statement is consistent with the prescribed format and our understanding of the Council.

Other areas of responsibility (continued)

Challenge work

Requirement

In accordance with the Audit Commission Act 1998 (the Act), we are required to give electors the opportunity to raise questions on the accounts and to consider and decide upon objections received in relation to the accounts.

Background

Questions and objections can only be raised in relation to the year under audit and up until the time the audit is certified as completed, at which point the accounts are closed for audit purposes.

Questions must relate to fact and not opinion or policy.

Objections must comply with the requirements of Section 16 of the Act and regulation 17 of the Accounts and Audit Regulations 2003, and must request the auditor to:

- issue a report in the public interest; and / or
- apply to the courts for a declaration that an item of account is contrary to law.

Audit work completed

We have responded to three matters raised by electors in relation to 2013/14:

- Whitby Park and Ride Scheme: concerns were raised by an elector that throughout the life of the project, and especially more recently as the commitment to the project increases there has not been a thorough consideration of financial risks associated with both the construction of the site (capital) and the longer term running costs of the site and service (revenue) and the timetable for delivery required by the grant payer funding the scheme which, if not achieved, exposed the Authority to the risk of losing grant funding.

  We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, there was no information before us that would indicate any immediate concern over the delivery of the project within the timetable allowed by the Department for Transport funding.
- Waste project: an objection was lodged on the basis that the disclosures in the accounts were not sufficient to enable the reader to understand the financial risks in relation to the waste project.

  We rejected the objection as it did not meet the statutory requirements but we did consider the concerns raised by the elector and concluded that the accounting and disclosures were in accordance with the Accounting Code.
- Approach to achieving value for money: concerns were raised by the same elector on the waste project relating to the Authority's definition of Value for Money and the role of the Audit Committee in relation to VFM.

  The letter was addressed to the Chairman of the Audit Committee and we considered the response from the Chairman addressed the matters raised so we undertook no further work.

Deloitte view

No matters have been brought to our attention that impact our opinion on the accounts, VFM conclusion or that require the exercise of our other statutory powers.

Purpose of our report and Responsibility Statement

Our report is designed to help you meet your governance duties

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 report 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.

What we report

Our report is designed to help the Audit Committee discharge its governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements;
- Other insights we have identified from our audit; and
- 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.

What we don’t report

- As you will be aware, our audit was 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.
- 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
- Finally, our views on internal controls and risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our Audit Quality Promise.

Purpose of our report and Responsibility Statement
(continued)

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated July 2014.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

Leeds

15 September 2014

We view this report as part of our service to you for use as Members of North Yorkshire County Council or 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.

Appendix 1: Identified Misstatements

Disclosure misstatements

Disclosure misstatements

Auditing Standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights the disclosure deficiencies we have identified during the course of this year's audit which have been corrected by management in the final version of the accounts. A number of other more minor presentational items were also brought to the attention of management and corrected.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Long term bad debt provision misstated - Note 32	£937k of Health and Adult Service bad debt provision appears in long term debtors when it should appear in Note 34 Short term debtors. This has been corrected by management for the final version of the accounts.	Quantitative
Contingent Liabilities - Note 40 and Explanatory Foreword	Several immaterial disclosures were included within the accounts. Detail of the contingent liabilities was included within the Explanatory Foreword and not the accounts. These have been corrected by management for the final version of the accounts.	Qualitative
Pension Disclosures - Note 11	Various minor errors were noted in the Pensions Disclosure note. These have been corrected by management for the final version of the accounts.	Qualitative
Accounting Standards Issued not yet Adopted - Note 2	The disclosures in Note 2 included IAS 1 – Presentation of Financial Statements, which was not included within the Code. This has been corrected by management for the final version of the accounts.	Qualitative

Appendix 1: Identified Misstatements (continued)

Corrected misstatements

No reportable corrected misstatements were identified. Minor audit adjustments were identified as part of our audit procedures and also through management processes, none of which were above the determined clearly trivial threshold of £320k.

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which, as required by International Standards on Auditing (UK & Ireland), we request that you ask management to correct.

We will obtain written representations from the Authority setting out management's reasons for not correcting misstatements brought to their attention and confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no further adjustments are required.

	(Credit)/ Charge to Income & Expenditure £m	(Increase)/ Decrease to General Fund £m	Increase/ (Decrease) in net assets £m	(Increase)/ Decrease in unusable reserves £m
County Hall Valuation (note 1)				
Dr Fixed Assets			0.9	
Cr Unusable reserves				(0.9)
Total			**0.9**	**(0.9)**

Note 1: numerous double entries would be required to process this adjustment but to assist in understanding the impact of the error, they have not been reproduced in full.

Appendix 2: Fraud: responsibilities and representations

Required representations	We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of.
Concerns	No concerns have been noted during the course of our audit.
Audit work performed	In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation and our findings are detailed within the Significant Audit Risks section of this report.
	During the course of our audit, we have had discussions with management and internal audit.

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

Appendix 3: Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	The fees charged by Deloitte for the period from 1 April 2013 to 31 March 2014 were: £125,987 (2012/13 £125,987) in relation to external audit services. In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to the Authority was £17,241. Our work on the certification of claims is still ongoing but the fees are anticipated to be in line with the fee set by the Audit Commission of £1,600 and will be reported in our annual report on this work to be issued in February 2015. We have been asked to certify one grant claim that falls outside the Audit Commission regime but the grant payer has not yet clarified requirements so we cannot at this stage estimate the potential fee. We will report this information to the Committee when it is available.
Non-audit services	No non audit services have been provided.

Appendix 4: Our approach to audit quality

Recognition of and further impetus for our quality agenda

The Financial Reporting Council ("FRC") issues an Annual Report on Audit Quality Inspections, providing an overview of the activities of its Audit Quality Review ("AQR") team for the year.

"The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures…

The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. However, issues continued to arise in some of these areas."

AQR Report on Deloitte for 2013/14

https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2014-Deloitte.pdf

Deloitte response

- The report provides a balanced view of the focus and results of the AQR's inspection and its recognition of the emphasis we place on our overall systems of quality control is welcome.
- We are committed to audit quality and this is demonstrated by the AQR's assessment that, over the last 5 years, 67% of our audits were "good, with minor improvements required", the highest proportion amongst our peers.
- The external inspection process provides further impetus to our quality agenda and we give careful consideration to each of the FRC's comments and recommendations, as well as findings arising from our own regular quality review procedures. In many cases we have already taken concrete steps to respond to the themes arising.
- Deloitte's Audit Transparency Report provides further information regarding our approach to delivering quality and is available on our website: http://www.deloitte.com/view/en_GB/uk/about/annual-reports/index.htm

The Audit Commission monitors the performance of all the audit firms delivering work on its behalf covering:

- **the quality of audits: an annual quality review programme assessing the firm's quality control procedures and reviewing a sample of the firm's quality monitoring reviews; and**
- **regulatory compliance: monitoring the firm's compliance with the Commission's regulatory requirements and performance against key performance indicators.**

Quarterly compliance reports and an annual Regulatory Compliance and Quality Report are published on the Commission's website.

Twelve of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. We were disappointed that one audit was assessed as requiring significant improvements in relation to the testing of the collective and individual loan loss provisions although this did not cause the AQR to doubt the validity of our audit opinion. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 67% of audits achieving the top grade from the AQR, the highest proportion amongst our peers.

Appendix 5: Additional resources available to you

How we keep you up to date

UK Accounting Plus

Deloitte has launched ukaccountingplus.co.uk, a UK-specific version of its acclaimed news and comment service, iasplus.com. For everyone from CEOs and CFOs to auditors and students it provides a free source of news, information and insight as well as a vast archive of background to provide context

Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

Stay tuned online:
Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via www.deloitte.co.uk/audit.

Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, www.deloitte.co.uk/audit. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

Appendix 6 : Draft Management Representation Letter

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of North Yorkshire County Council as of 31 March 2014.

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

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to the report to the Audit & Constitutional Committees.

6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for any future actions.

7. We confirm that in our view the provision in relation to debt is adequate.

Appendix 6 : Draft Management Representation Letter (continued)

Information provided

8. We have provided you with:
   - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - additional information that you have requested from us for the purpose of the audit; and
   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

11. 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.

12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:

    (i) management;

    (ii) Members of the Council;

    (iii) employees who have significant roles in internal control; or

    (iv) others where the fraud could have a material effect on the financial statements

13. 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.

14. We are not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.

15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

16. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.

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

Appendix 6 : Draft Management Representation Letter (continued)

18. Pension Scheme:

    - all retirement benefits and schemes have been identified and 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 value of scheme liabilities accord with the members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with the members' knowledge of the business;
    - the actuary's calculations have been based on complete and up-to-date member data (as far as is appropriate regarding the adopted methodology); and
    - the amounts included in the financial statements derived from the work of the actuary are appropriate.

19. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. 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 the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.

20. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.

21. We are not aware of any potential claw back by grant payers of grants that have been released to income.

22. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto that have not been fully disclosed. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (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