ITEM 3(a)

Deloitte.

North Yorkshire County Council

Planning Report to the Audit Committee
For the year ended 31 March 2015

July 2015

the Distinctive audit

Contents

I am delighted to present this planning report for the 2014/15 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

© 2015 Deloitte LLP. Private and confidential.

The big picture

The big picture

Our plan for the 2014/15 audit

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.

The financial challenge

- The medium term financial strategy (MTFS) includes detailed proposals for 2015/16 and projections for the subsequent four years to 2019/20. Having delivered £91.1m of savings in the four years to 2014/15, further savings required over the next five years are estimated to be £75.4m.
- Proposals are in place to address the £17.6m savings required in 2015/16, with proposals exceeding target to enable investment in services. Savings of £36.4m have been identified at high level for 2016-20, leaving a gap to be addressed of £14.2m. The Council continues to address the savings targets through the 2020 North Yorkshire Programme, ensuring a fully co-ordinated long term approach is taken to financial, corporate and service planning.
- Balances of £1m are planned to be utilised in 2015/16 to enable investment in services. The General Fund at £64.7m forecast at 31 March 2015, is currently significantly above the risk-assessed minimum level of 2% plus £20m (equates to £27.5m as at 31 March 2015). The MTFS forecasts the balance reducing to £41.2m by the end of the five years.
- The Council is therefore in a strong position but delivery of the budget reductions remains very challenging.

Key areas of audit focus for 2014/15

Significant audit risks to our opinion on the accounts

- Recognition of grant income;
- Management override of key controls;
- Valuation of Property, Plant & Equipment (PPE); and
- Accounting for interests in group companies and the recoverability of inter-organisational balances.

The risks have been identified based on our understanding of the Council, its objectives and the environment in which it operates.

Further details on each of the identified significant risks are presented later in this report.

Significant audit risks to our value for money conclusion

- Financial resilience, with a focus on financial planning, efficiency plans and 2020 North Yorkshire; and
- Potential impact of continued reductions in capacity on the internal control environment.

Materiality

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

© 2015 Deloitte LLP. Private and confidential.

Our audit quality promise

Our audit quality promise

Our new quality standard

Audit Quality Promise

"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 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 2014/15 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

Transition to the new auditors

2014/15 is the final year of our appointment as external auditors to the Council. The Audit Commission has an established protocol in place for the handover of audits between auditors. We will work with KPMG, the Council's new auditors from 2015/16, within the guidance set out in the protocol to ensure as smooth a handover as possible.

Closure of the Audit Commission

The Audit Commission ceased to exist on 31 March 2015. An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) is now responsible for overseeing the external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It will manage the contracts and exercise statutory powers to appoint auditors and set and determine fees. The National Audit Office is now responsible for issuing guidance to auditors and has confirmed that the Commission's guidance for 2014/15 audits remains in place and is unchanged. We will ensure we comply with that guidance in the delivery of the audit.

© 2015 Deloitte LLP. Private and confidential.

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 be in regular contact with the Finance team to ensure we remain up to date with the developing issues at the Council throughout the year, and will discuss, in advance, any papers we wish to present to the Audit Committee.

Either Chris Powell as the Audit Partner or Celia Craig as the Audit Director, will continue to attend every Audit Committee. In these meetings we will provide updates on our findings to date, and any relevant regulatory / technical updates.

We will also meet regularly with and make ourselves available throughout the year for ongoing discussions with Gary Fielding and the Audit Committee Chair as necessary.

During the main audit period

During the audit period we will work closely with the Finance team including Karen Iveson and Katy Riley.

We will ensure we summarise our findings on the financial statements audit, and raise any issues with the Finance team early as they emerge.

We will work with Michael Leah as our key point of contact for the Value for Money conclusion.

We will hold a close meeting with management to discuss the contents of our report to the Audit Committee.

Open feedback process

We will carry out debrief meetings with Gary Fielding, Peter Yates, Karen Iveson and Katy Riley 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.

Responding to queries and requests

We will always endeavour to respond to queries and requests on a timely basis 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 smooth the closedown and accounts production processes.

© 2015 Deloitte LLP. Private and confidential.

Bringing you insight

Audit Quality Promise

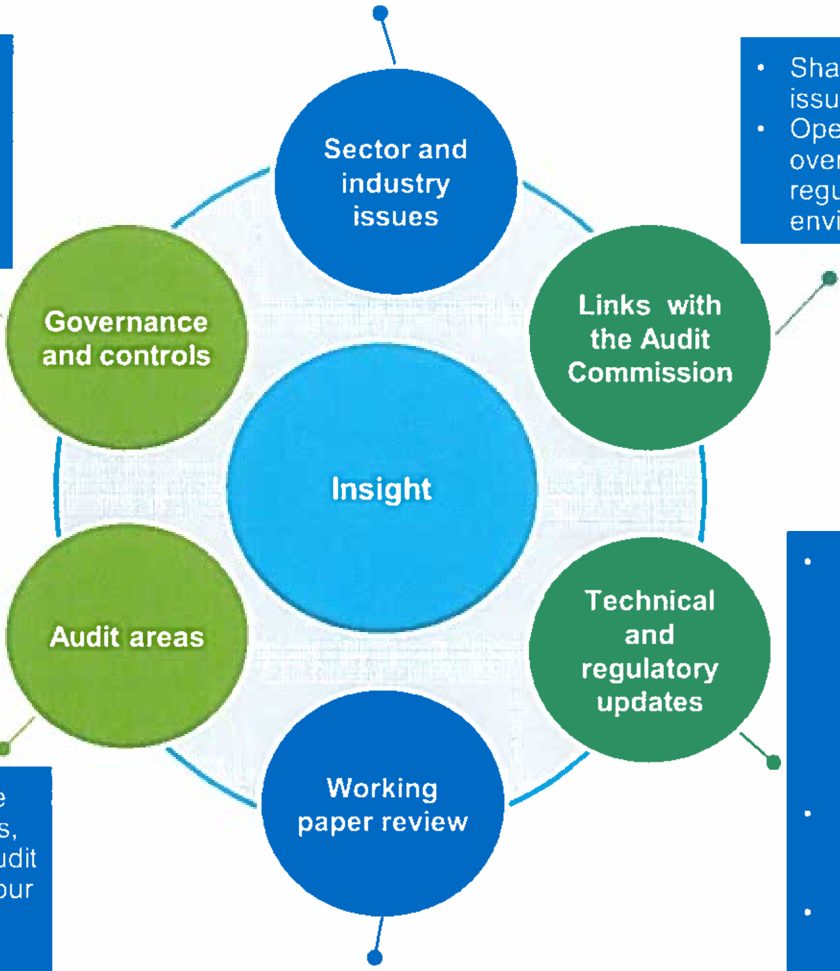
We have summarised below some of the ways we will provide the Council with insight during 2015

Sharing knowledge of sector developments, for example:

- We have attached at Appendix 6 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 accounts audit and VFM conclusion work

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



We will utilise data analytics, to improve audit efficiency in our testing of journals.

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

Open and early communication with Peter Yates and Katy Riley to discuss audit requirements and Council provision of information to improve efficiency

© 2015 Deloitte LLP. Private and confidential.

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.

For the Council's 2014/15 financial statements, we have calculated materiality based on gross expenditure for the year ended 31 March 2015, to be £15.5m (prior year £16m). We will report to the Audit Committee on all unadjusted misstatements greater than the clearly trivial threshold and other adjustments that are qualitatively material. The threshold for the 2014/15 audit is £310k (prior year £320k).

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.

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.

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. At this stage we do not anticipate any grant certification work being required.

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; and
- 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.

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.

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.

© 2015 Deloitte LLP. Private and confidential.

Scope of work and approach (continued)

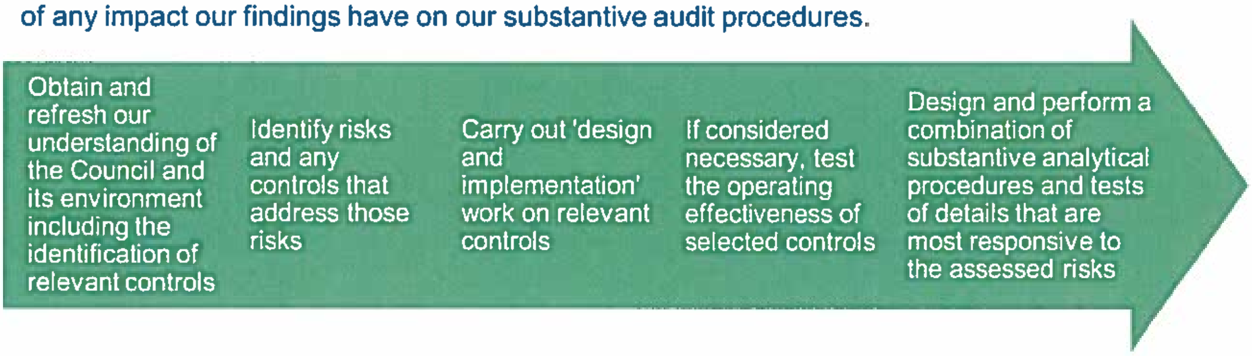
Independence

We confirm we are independent of the Council. We will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2015 in our final report to the Committee. Appendix 2 sets out proposed fees for the year.

Approach to controls testing

As set out in "Briefing on audit matters" included as Appendix 7, 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").

We will consider the results of our procedures in respect of the Council's controls and the extent of any impact our findings have on our substantive audit procedures.



Scoping of material account balances, classes of transactions and disclosures

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

Liaison with Internal Audit

We continue to rely on the work of the Internal Audit function to inform our risk assessment. The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide direct assistance to the audit. Our current approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and will not change the existing scope of Internal or External Audit's work. However, this will prevent us from further increasing the extent of our use of Internal Audit's work in future.

We have recently met with Internal Audit to discuss their work to date for 2014/15 and the plans for the year ahead. We will arrange further meetings and review relevant internal audit reports prior to, and during, the main audit period.

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. Work in this area is carried out in line with instructions from the National Audit Office. We will consider the requirement to review the WGA return and undertake appropriate procedures accordingly.

© 2015 Deloitte LLP. Private and confidential.

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.

1. Revenue recognition

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

Nature of risk

International Standards of Auditing (UK and Ireland) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to presume that there is a risk of fraud with respect to the recognition of revenue.

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 judgement 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 judgement to determine that there is reasonable assurance that the entity will comply with the conditions attached to the grants and that the grants will be received.

Audit work planned to address the significant risk

We will test the design and implementation of controls that management has in place to ensure income is recognised in the correct period.

We will test a sample of grant income that has been recognised in the Comprehensive Income and Expenditure Account to determine whether the conditions of the grant have been met and the associated expenditure incurred.

We will test a sample of grant income which has been deferred to future accounting periods (in either creditors or reserves) to assess 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.

© 2015 Deloitte LLP. Private and confidential.

2. 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 occupy 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 planned to address the significant risk

We will update our understanding of the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.

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;
- review managements assumptions, particularly those in relation to the pension liability to consider 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.

© 2015 Deloitte LLP. Private and confidential.

3. Valuation of property, plant and equipment

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

Nature of risk

CIPFA guidance provided clarification over the frequency of valuations required in relation to property, plant and equipment, confirming that all assets within a category must be revalued at the same time and that five years is an acceptable timeframe for a rolling programme but within this, it is necessary to ensure 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 requirement to consider material differences between carrying value and fair value at the balance sheet date, the Council obtains a valuation of a sample of assets from each category that is used to index the carrying value.

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

The Council's approach is compliant with the guidance but 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 judgement.

Audit work planned to address the significant risk

We will test the design and implementation of controls put in place to carry out and record valuations.

We will obtain a copy of the third party valuation report for the categories revalued in full in the year and 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 undertake an evaluation of the appropriateness and validity of the methodology and 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 2014, 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 2015 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.

© 2015 Deloitte LLP. Private and confidential.

4. Group companies

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

Nature of risk

Accounting for interests in group companies and the recoverability of inter-organisational balances can require significant judgement 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;
- 78% shareholding in Yorwaste Limited;
- 50% shareholding in Veritau Limited and an indirect 25% in Veritau's subsidiary Veritau North Yorkshire Limited; and
- 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.

© 2015 Deloitte LLP. Private and confidential.

Value for money 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 and how these risks will be addressed by our audit work.

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.

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 2014/15
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 any challenge work undertaken in response to questions or objections received from electors;
- 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 2014/15; 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 2014/15, 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.

© 2015 Deloitte LLP. Private and confidential.

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 2019/20 is in place.

Savings in place for 2015/16 together with other improvements in the financial position exceed the requirement by £7.2m which, together with £1m from General Balances will be invested in specified priority areas. High level proposals totalling £36.4m and improvements in the financial position of £3.3m have been identified for the subsequent years, leaving a current gap of £14.2m to identify.

The 2020 North Yorkshire programme is critical to the achievement of the financial strategy and addressing the savings. Project management arrangements are well established and monitoring of savings has been further strengthened over recent months.

Progress in rationalising the estate has been slower than preferred but increased priority is now being attached to this work stream, with proposals due to be prepared by September 2015. While savings on running costs of £1.5m are included in the MTFS to be achieved by 2020, we understand that the project is focusing on wider considerations and is now being linked to the Service reviews within the 2020 Programme. It is essential that decisions made are driven by Service needs and work is currently ongoing to identify and collate those needs in order to identify how those needs can be met. Implementation of proposals will inevitably take some time so it is essential that momentum in this area is maintained.

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 and our assessment in our 2013/14 audit that the project management arrangements are appropriate, we do not at this stage anticipate undertaking any detailed audit work in relation to 2020 North Yorkshire programme. We will, however, update our understanding of project management arrangements and maintain a watching brief over progress.

We will maintain a watching brief over progress in developing the proposals for rationalising the estate.

© 2015 Deloitte LLP. Private and confidential.

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 2013/14 audit and have not identified any specific risks in 2014/15, 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.

© 2015 Deloitte LLP. Private and confidential.

3. Challenge work

Where relevant, the results of any work undertaken in response to questions or objections received from electors will be taken into account for our VFM conclusion.

Background

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.

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.

Whilst questions must relate to a financial transaction in the accounts in the year under audit, matters raised may lead to consideration of arrangements relevant to our VFM conclusion.

Audit work to respond to questions and objections

Audit work is responsive to matters raised by electors so cannot be planned. To date we have considered four questions raised in relation to:

- library services in Scarborough;
- a new pedestrian crossing in Scarborough;
- street lighting in Hungate; and
- the construction of the new primary school at Bentham.

Work to date has not identified any additional risks in relation to our VFM conclusion.

© 2015 Deloitte LLP. Private and confidential.

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. We enhance this reporting with observations arising from our audit work which are designed to help the Audit Committee discharge its governance duties. Our report includes:

- our audit plan, including key audit judgements and the planned scope and timing of our audit; and
- key regulatory and corporate governance 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 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" circulated to you with this report.

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

July 2015

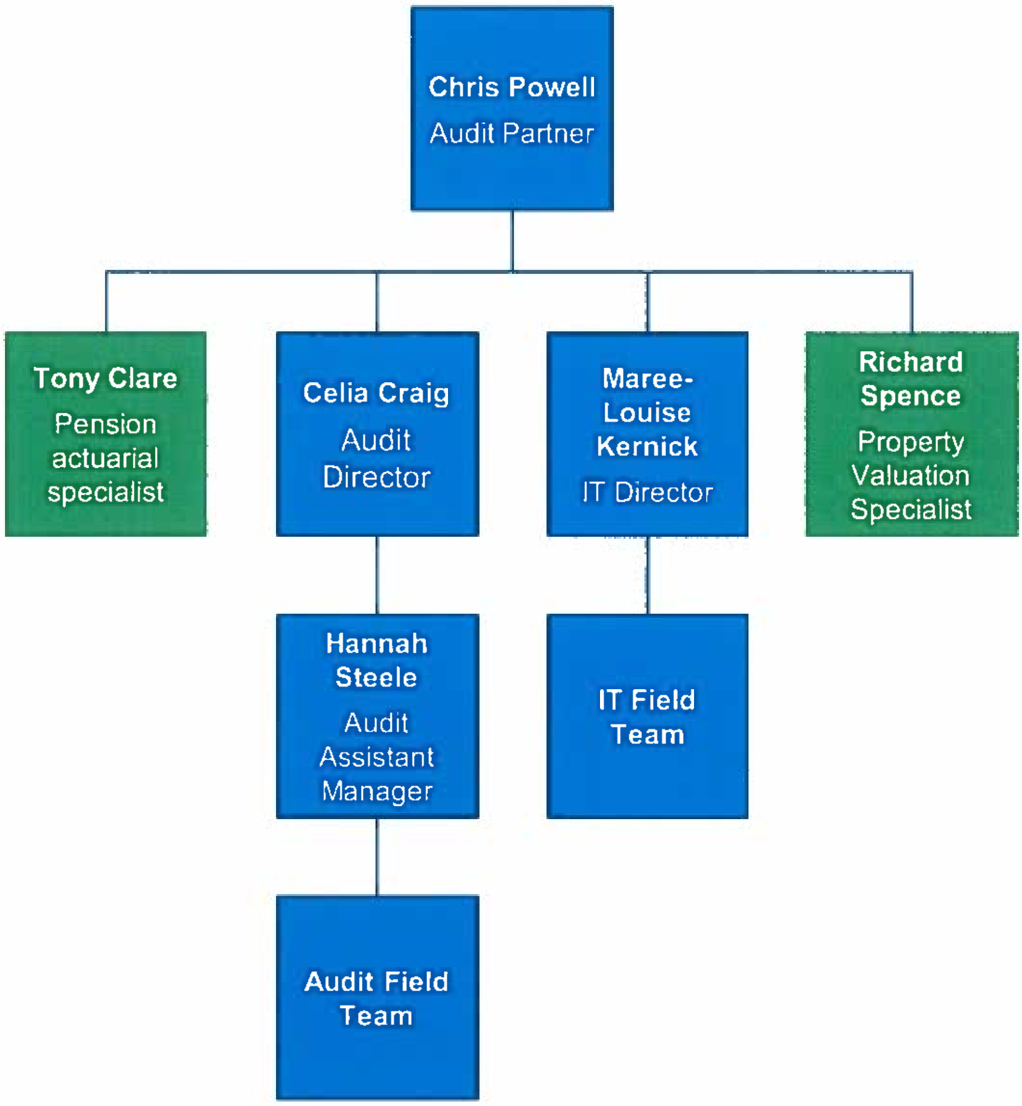
This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where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

© 2015 Deloitte LLP. Private and confidential.

Appendices

Appendix 1: 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.



© 2015 Deloitte LLP. Private and confidential.

Appendix 1: Timetable (continued)

Set out below is the approximate expected timing of our reporting and communication with Management and those charged with governance.

Planning	Interim audit	Year end fieldwork	Reporting	Post reporting
Planning meetings to: • perform risk assessment • agree on key judgemental accounting issues • agree the audit plan	Update discussions of key audit and business risks and testing of controls to mitigate significant risks Review of relevant internal audit work Document and test design and implementation of key controls Update understanding of systems, controls and developments in the business Present audit plan to Audit Committee	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit close meeting	Audit 'close meeting' with Management Final Audit Committee meeting Issuance of: • audit report and opinion • value for money conclusion • assurance opinion on the WGA return	Audit feedback meeting Issue of annual audit letter
March – April 2015	March – June 2015	July – Sept 2015	August – Sept 2015	September – Oct 2015

Ongoing communication and feedback

© 2015 Deloitte LLP. Private and confidential.

Appendix 2: 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 2015 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 and are presented in the table below.

We confirm that we have not performed any non-audit work for the year ending 31 March 2015.

	2014/15* £	2013/14 £
Fees payable in respect of our work under the Code of Audit Practice in respect of:		
Council's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion	125,987	125,987
2013/14 challenge work	-	3,000
Audit of the Pension Fund	24,943	24,943
Total Audit fees	**150,930**	**153,930**

* Excludes fees for challenge work due to uncertainty of requirements.

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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 3: 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

Our responsibilities and those of the Council are explained in the Audit Commission's publication, 'The Responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010.

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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 3: 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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 4: Prior year audit adjustments

The following uncorrected audit adjustments were identified during the course of our audit in the prior year.

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

Description	Net assets DR / (CR) £000	Unusable reserves DR / (CR) £000
County Hall valuation	900	(900)
Pension asset overstatement		
Factual differences in valuations	(2,352)	2,352
Extrapolated difference in valuations	(1,112)	1,112
Total	(2,564)	2,564

© 2015 Deloitte LLP. Private and confidential.

Appendix 5: Changes in your statement of accounts

Audit Reporting

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 North Yorkshire County Council
• The revised Code includes extensive revisions for Group Accounts to reflect the introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011.	• IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* are relevant to the Council and should be considered when preparing the Group accounts.
• The Code incorporates amendments to IAS 1 in respect of the new requirements for specific comparative information and clarification regarding the complete list of financial statements.	• The Council should consider the changes in the Code when preparing the statement of accounts.
• The Code now incorporates CIPFA's updated How to Tell the Story, which is intended to help CFOs and other senior staff present the financial statements to members and other key stakeholders, by explaining how the formats can be used to convey key information in these areas, and covers the main financial statements.	• The Council should consider the guidance within the Code when preparing the statement of accounts to be ensure financial information is best presented to the users of the accounts.
• The Code has been updated for the consequences of the accounting requirements for the second phase of The Carbon Reduction Commitment Energy Efficiency Scheme, which runs from April 2014 until March 2019.	• The Council should consider whether this has a material impact on the accounts.
• The Code adopts amendments made to IAS 32 *Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities)*, December 2011. This includes amended disclosures for certain types of specific financial instruments.	• The amended disclosures should be considered when preparing the statement of accounts.
• The 2014/15 Code Guidance Notes include new requirements to consider Local Authority maintained schools as entities over which the Council has control. This may have an impact on the Council's group accounts and associated disclosures such as related parties.	• The Finance team has concluded that there is no impact of this guidance on the accounts. We are currently considering the review carried out by the Finance team.

© 2015 Deloitte LLP. Private and confidential.

Appendix 6: 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 2014, 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.

Pride and pragmatism

Faced with unprecedented budget reductions, public sector organisations have adapted significantly since 2010. Many Executives confirmed they had managed to maintain standards in service delivery and in some cases make improvements.

Interviewees told us the most common changes in recent years included cutting headcount numbers, reducing lower priority services and collaborating more effectively with other sectors.

A significant number spoke about pushing accountability down, which they felt improved efficiency but made management roles more challenging.

Risk, uncertainty and crises

A number of executives expressed concerns over the ability of public sector services to cope with future austerity measures.

Most recognised that the cuts to come would be more challenging that those already achieved and that the changes they expect to make will have increasingly profound implications for their organisations.

Many interviewees also spoke about increased demand for services due to cuts in other areas of the public sector including welfare reform. A significant number also commented that local politics or economics presented additional barriers to initiatives for dealing with budget cuts.

Constructive political narrative

Our research suggests that those running our public services believe that national politicians could do more to lead a national debate on what citizens should expect from public services and local politicians could do more to engage citizens in what they should expect locally. There is a current perception that politicians often criticise public services but rarely help citizens appreciate that spending reductions may lead to reduced levels of service. As a result, citizens have unrealistic expectations about state provision. In addition, public sector employees feel exposed and unsupported by political leadership, exacerbating recruitment and retention challenges.

© 2015 Deloitte LLP. Private and confidential.

Appendix 6: State of local public services (continued)

Talent management

Our interviews found that people issues have begun to preoccupy many public sector Chief Executives. They told us about difficulties in attracting, recruiting and retaining people for a range of key jobs.

Some interviewees described specific recruitment difficulties for nurses, teachers, social workers and public health analysts. The most-often cited causes were that the area struggles to attract people, that some professionals are in limited supply and the public sector cannot compete with the private sector on pay and conditions.

Many Chief Executives told us that workforce reductions had lowered staff churn and they were beginning to feel the effects of not having new staff to bring new perspectives and ideas. Others commented that morale had been affected by cuts and continued criticism of the public sector. A further specific issue raised by many interviewees was the need for more training in change-management for middle managers.

The three most commonly-cited factors influencing retention were stress, weak career progression opportunities and pay and conditions.

Technology, estates and ways of working

Our interviews suggest that attitudes to technology, ways of working and estate management differ across local public services.

Most executives felt their organisations had started to make progress with technology and that technology which enabled front line delivery, such as mobile working for social workers tends to have been prioritised. Budgets, inflexible IT contracts and concerns over data security were cited as barriers to effective use of technology.

Some said they were reticent to introduce flexible working patterns while others recognised they could have a role to play in attracting and retaining talented staff.

A number of chief executives felt they had reduced their organisation's estate as far as they could, but others felt there was more they could do. Typical activities undertaken in recent years include the closure of unviable schools, consolidation of office space and sale of unused buildings. Some told us that the potential for cost reductions were more limited in their areas, where land and property is less expensive. Political issues were also cited as barriers to change, noting that closing police stations and hospitals is invariably unpopular.

The full report, *The State of the State 2014-15* is available on our website at www.deloitte.co.uk . We would be happy to discuss the report in more detail, including how the major themes identified affect the Council.

© 2015 Deloitte LLP. Private and confidential.

Appendix 7: 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 express an opinion as to whether the entity has put in place appropriate systems and processes to secure value for money in its use of resources; 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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 7: 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 member 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.

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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 7: Briefing on audit matters (continued)

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 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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 7: 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

© 2015 Deloitte LLP. Private and confidential.

Appendix 7: 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.

© 2015 Deloitte LLP. Private and confidential.

Appendix 7: 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.

© 2015 Deloitte LLP. Private and confidential.

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

© 2015 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu Limited