ITEM 4(b)

Deloitte.

North Yorkshire County Council

North Yorkshire County Council

Final Report to the Audit Committee

For the year ended 31 March 2015

the Distinctive audit

September 2015

Deloitte.

Deloitte LLP
1 City Square
Leeds
LS1 2AL
United Kingdom

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

14 September 2015

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 2015.

In summary:

- The matters arising during our audit, which are summarised in this report, have been addressed and our conclusions are set out in our report.
- 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.

This is our final year as the external auditor of the Authority following the transition of the Audit Commission contract in 2015/16. We would like to take this opportunity to thank you for your assistance and co-operation during our time as your external auditors. We would particularly like to take this opportunity to thank Gary Fielding, Corporate Director- Strategic Resources, and his team.

Yours faithfully

Chris Powell
Engagement Lead

Contents

A reminder of our audit plan:

- Materiality £15.5m
- 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 audit risks:
  - Financial planning, efficiency plans and 2020 North Yorkshire; and
  - Reduction in resources.
- There have been no changes to the audit plan or scope since our planning report dated July 2015.

The Big Picture

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 will be completed in line with the agreed timetable;
- We anticipate signing the auditors' report on the accounts following the Audit Committee meeting on 24 September 2015 and before the national deadline of 30 September 2015;
- We expect to issue an unmodified audit opinion on the truth and fairness of the financial statements;
- Our work supports the issue of an unqualified vfm conclusion.

Financial position of the Authority

- An overall saving of £40m was achieved in 2014/15, representing a significant over-achievement against plan, and an increase in the General Fund was reported, giving a balance at 31 March 2015 of £68.3m (£40.8m above the minimum risk-assessed level of £27.5m).
- At Quarter 1, the Authority is projecting a saving against 2015/16 operational budgets of £4.8m (after taking into account performance against savings plans. This includes early achievement of budget and 2020 savings of £0.9m, additional income of £0.7m from business rates income/relief grants and £2.6m of other windfalls and savings across the organisation. £24.4m of non-recurring funding is available in 2015/16 within the Pending Issues Provision (PIP) to fund investments, £4.4m of which has been earmarked to date.
- The financial position going forward continues to be a challenge but the response of the Authority continues to be robust and appropriate.

Audit work

- Audit adjustments identified to date are immaterial – see Appendix 1.
- Disclosure deficiencies have been corrected by management – see Appendix 1.
- We have identified no significant deficiencies in internal control.

Outstanding matters

- Review of final accounts, annual report and annual governance statement;
- Completion of WGA audit;
- Receipt of legal letters from internal and external solicitors;
- Completion of pension audit work and assurance from the pension fund auditors over the valuation of pension fund assets;
- Completion of our internal review processes and closedown procedures; and
- Update of our subsequent events review to the date of signing the accounts.

Our Audit Quality Promise

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.
- We have worked with Trevor Clilverd, and subsequently Michael Leah, as our key point of contact for the VFM conclusion.

During the main audit period

- We have held regular progress updates with Katy Riley to discuss findings and any emerging issues on the financial statement audit.
- We held a close meeting with Gary Fielding and Karen Iveson 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 Anne Simpson and the Finance team to discuss how the audit process went.
- 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.

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, which includes the provision of information to the new auditors and access to our files. KPMG, the Council's new auditors from 2015/16, have not yet been in contact to advise us as to how they would like to apply the protocol in practice and their preferred timetable. We will work with KPMG within the guidance set out in the protocol to ensure as smooth a handover as possible.

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) and its 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 Authority will comply with the conditions attached to the grants 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 and its impact on the financial statements

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

Management may override controls through:

- recording fictitious journal entries;
- applying inappropriate 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 review of management's judgements and assumptions relating to significant estimates in the financial statements, including involving our in-house actuaries to review management's assumptions for the pension liability;
- 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; and
- 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.

2. Management override of controls (continued)

Deloitte view

No indication of management override of control has 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.

The judgement which would have the most significant effect on the accounts would be management's assumptions for the pension liability. DTRB have reviewed the assumptions and concluded that they are reasonable and within the reasonable range. We can therefore conclude that the assumptions are reasonable and would have no material impact on the financial statements.

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 judgement from management to determine the appropriate accounting treatment for each group company.

The significant risk in relation to related party transactions and its impact on the financial statements

There is a risk concerning the recoverability of inter-organisation balances, and the accounting for these 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.

Audit work completed to address the significant risk

We have performed the following:

- 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 of 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; and
- 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, and that the investments held are fully recoverable.

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

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 significant risk in relation to valuation of Non-Current Assets and its 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 completed to address the significant risk

- We have reviewed the design and implementation of controls over the valuation process through review of a sample of valuations from the Bruton Knowles report through to the Fixed Asset register.
- We have reviewed the data extract supplied by the Authority 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, 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 2015 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

We are satisfied that management have complied with the Code regarding property valuations. No issues have been noted in regard to the treatment of property valuations.

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".

Following the dissolution of the Audit Commission on 31 March 2015, the National Audit Office confirmed that the scope of work specified and guidance issued by the Commission continued to apply to the 2014/15 audits.

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 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 2014/15; 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 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. No matters impacting our initial risk assessment were identified.

Value for Money (vfm) Conclusion (continued)

Financial planning, efficiency plans and 2020 North Yorkshire

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 exceeded 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.

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:

An overall saving of £40m was achieved in 2014/15, representing a significant over-achievement against plan, and an increase in the General Fund was reported (£40.8m above the minimum risk-assessed level of £27.5m).

The savings programme over the five years to 2020 reflects cumulative shortfalls in 2016/17 (£1.6m), 2017/18 (£1.8m) and 2018/19 (£0.4m). This position is, however, recovered by the end of the five years with a small over-achievement of £0.3m projected and the Authority has adequate reserves to manage the position in the intervening years. No major concerns have been identified in our testing of a sample of savings. Focus continues to be maintained on the risks and potential impact of savings initiatives.

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.

Progress has continued to be made with the rationalisation of the estate and we have not identified any concerns over the Authority's approach in this area.

At Quarter 1, the Authority is projecting a saving against operational budgets of £4.8m (after taking into account performance against savings plans whereby £0.9m of budget and 2020 savings have been achieved early) and £24.4m of non-recurring funding being available within the Pending Issues Provision (PIP) to fund investments, £4.4m of which has been earmarked to date.

Overall, the response of the Authority to the financial pressures is considered appropriate and no issues impacting our VFM conclusion have been identified.

Value for Money (vfm) Conclusion Continued

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 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.

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
Payments / Income in Advance	For HAS Payments and Income in Advance, 4-weekly payment cycles were run pre-year end and related to pre and post year end. However they have been fully included as income/expenditure for the following year, when part should have been accounted for in the current year. This is the same treatment year on year therefore each financial year has little impact as a full 4 week payment run is included in each year. To correct the issue the full impact would have to be taken in one financial year, therefore an adjustment has been proposed for the current year.	Payments and Income should be included within the financial year that they relate to through use of prepayments and accruals to recognise the income and expense in the correct year.	A full amount is included within each financial year, the prior year comment was in relation to a central services issue and was rectified in the current year.

Update on prior year observations

Area	Observation/Finding	Recommendation	Update
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.	Actioned for central services, however this has been raised again in the current year in relation to HAS.

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, Executive minutes, the Internal Audit Annual Report and Opinion, and our audit work and knowledge of the organisation.

Deloitte view

We are satisfied that the Annual Governance statement is consistent with the requirements 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 five matters raised by electors in relation to 2014/15:

- Library services in Scarborough: concerns were raised by an elector that the proposed cuts in library services, in addition to previous cuts that have been implemented, resulted in the service being so depleted that it no longer complies with law.

  We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, there was no evidence before us that would indicate that the Council was in breach of its statutory powers or procedures.

- A new pedestrian crossing in Scarborough: concerns were raised by an elector over the consultation process undertaken, the lack of information available on the scheme, leading to questions over how the scheme was being managed and whether value for money was being achieved.

  We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, although there had been weaknesses in the consultation process (for which the Authority issued an apology), the scheme had been approved as part of the capital programme and, in the absence of any evidence indicating weaknesses in the processes for developing and approving the capital programme, any further external audit work would not be appropriate.

- Street lighting in Hungate: concerns were raised by an elector that the maintenance of a street light outside his property was a misuse of public funds.

  We obtained a response from the Authority and considered the concerns raised in light of the rights and duties set out in the Highways Act 1980. Based on information before us, we concluded that no further action was required.

- The construction of the new primary school in Bentham: concerns were raised by an elector over the increase in costs for the new school, the project management arrangements and whether the project represented a good and prudent use of taxpayers' money.

  We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, whilst problems were encountered during the course of the project, there was no evidence before us that the Council breached procedures or failed to achieve value for money.

  The decision to go ahead with the project was a political one which cannot be challenged by the auditor so our work focused on the arrangements in place to tender for and manage the project, the changes in the costs over the course of the project, and the adequacy of the information provided to the Executive on which to base their decisions. Problems encountered during the project resulted in

Other areas of responsibility (continued)

increased costs, including delays in acquisition of the land, additional planning and highways requirements as a result of the location of the preferred site and changes to the design required by Sport England. Costs were, however, closely monitored and reported to the Executive, options were revisted at various stages in the project, and a review to identify any lessons to be learnt was carried out.

- The Section 106 agreement in relation to the Allerton Waste Recovery Park: concerns were raised by an elector over the terms of the S106 agreement and whether this was fair to the wider public within the area impacted by the AWRP.

  We considered the matters raised to fall outside our responsibilities as auditors 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 2015.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants

Leeds
14 September 2015

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.

All disclosure deficiencies have been updated in the final version of the accounts.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Cash Flow Statement	Disclosure of cash receipts and repayments of short and long term borrowings not separated in the cash flow statement.	Quantitative
DSG Note 42	Narrative had not been updated for the current year to reflect updated CIPFA wording.	Qualitative
Grant Income Note 10	To include Capital Grants Credited to Services within the Grant note.	Quantitative

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 £310k.

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 £000	(Increase)/ Decrease in General Fund £000	Increase/ (Decrease) in net assets £000	(Increase)/ Decrease in unusable reserves £000
Payments in Advance (Note 1)				
Dr Prepaid Expenditure			319	
Cr Cost of sales	(319)			
Payments in Advance (Note 2)				
Dr Prepaid Expenditure			1,249	
Cr Cost of sales	(1,249)			
Total	**(1,568)**		**1,568**	

Note 1: Error relating to the incorrect recognition of payments and income in advance outside of 4 weekly payment runs.

Note 2: Error relating to the incorrect recognition of payments and income in advance for 4 weekly payment runs.

We are also aware of an adjustment that will be raised in relation to the pension asset which is consistent with prior year, however the pension team are still performing work to quantify the adjustment. The pension asset adjustments arise during the audit of the Pension Fund accounts and relate to:

- Pricing differences identified in relation to the Baillie Gifford Life Investments arising from the time of day that independent pricing information was obtained by Bloomberg and other independent sources. This issue is consistent with the prior year;
- Pricing difference identified in relation to Standard Life Diversified Growth Fund arising from quoted broker price published on 31 March 2015; and
- Cut-off difference arising on benefits paid arising from using actual benefits owed as opposed to 52 week approximation.

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. As part of our planning report we noted and discussed with members that the engagement partner has a "long association" with North Yorkshire County Council, having already worked on the Council audit for seven financial years. We confirm that we have implemented the additional safeguards that were set out in our planning report being the inclusion of a Strategically Focussed Second Partner. The additional review has provided a robust and independent challenge to the work conducted on our audit of the Council for the year ended 31 March 2015, and there are no concerns arising from the "long association" that we want to bring to the attention of those charged with governance.
Fees	The fees charged by Deloitte for the period from 1 April 2014 to 31 March 2015 were: £125,987 (2013/14 £125,987) in relation to external audit services. We have certified the teachers pension claim with a fee of £2.5k in 2014/15 (£2.5k 2013/14). This falls outside the Audit Commission regime. Additional audit fees were also incurred in 2013/14 in relation to challenge work of £3k.
Non-audit services	No non audit services have been provided.

Appendix 4: Our approach to audit quality

AQR team report and findings

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

In May 2015 the Financial Reporting Council ("FRC") issued its Annual Report on Audit Quality Inspections which provides an overview of its activities of its Audit Quality Review ("AQR") team for the year ended 31 March 2015. It also issued individual reports on each of the four largest firms, including Deloitte. We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm. We consider that the AQR's report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.

We value the regulator's inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to fully identify the underlying cause. This then drives our careful consideration of each of the FRC's comments and recommendations, as well as findings arising from our own review to provide further impetus to our quality agenda.

Fifteen of the audits reviewed by the AQR were performed to a good standard with limited improvements required and five audits required improvements. No audits were assessed as requiring significant improvements. 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 68% of audits reviewed by the AQR assessed as good with limited improvements required and, at 5%, the lowest level of audits being assessed as significant improvement required, with none in this category in 2014/15.

We have already taken action to respond to the key themes of the report and will continue to undertake further activities to embed the changes into our practice.

The AQR's conclusion on Deloitte

"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. These are set out in this report. Our findings relating to reviews of individual audits largely relate to the application of the firm's procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. 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. Certain aspects of the guidance could, however, have been issued on a more timely basis."

2014/15 Audit Quality Inspection Report on Deloitte LLP

Appendix 4: Our approach to audit quality (continued)

AQR team report and findings

Areas identified for particular attention	How addressed in our audit
Ensure that audit teams focus more on the audit of valuations and accounting estimates, including appropriate challenge of management and enhancing the quality of audit evidence relating to the key assumptions.	This area is covered by our significant audit risk around management override of control and is addressed in the Significant audit risks section of this report.
Improve the testing of management reports and other system generated information to obtain assurance on its reliability for audit purposes.	Where we have relied upon management reports or other system generated reports as part of our audit testing, we have tested a sample to the underlying documentation to confirm that it is sufficient and reliable for audit purposes.
Improve the testing of controls, including the assessment of the effectiveness of monitoring controls and how identified weaknesses in IT controls are addressed.	In relation to our audit of the County Council we have taken a substantive approach to testing the financial statements, as the controls based audit approach has not been considered appropriate for the current year. However, we have undertaken design and implementation work on the controls the Council has in place in relation to the significant risks identified above.
Ensure that audit planning discussions are held with Audit Committees on a more timely basis to enable their input to be reflected appropriately in the audit plan.	Our audit plan was presented to the Governance Committee in July which allowed sufficient time for any amendments to be incorporated into our audit approach.
Ensure more timely development of enhanced guidance when addressing internal and external quality review findings.	While this does not directly affect our audit plan, we will ensure that our engagement team always utilise the most recent expert advice and guidance.

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 2015 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 2015.

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 Committee.

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