



Ryedale District Council

Report to the Overview and Scrutiny Committee  
on the 2012 Audit

Final Report

Overview and Scrutiny Committee  
Ryedale District Council  
Ryedale House  
Malton  
North Yorkshire  
YO17 7HH

Dear Sirs

We have pleasure in setting out in this document our report to the Overview and Scrutiny Committee of Ryedale District Council (“the Council”) for the year ended 31 March 2012, for discussion at the meeting scheduled for 25 September 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The matters arising during our audit, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable and issue an unmodified audit report.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Paul Thomson

Engagement Lead

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# Executive Summary

We have pleasure in setting out in this document our report to the Overview and Scrutiny Committee of Ryedale District Council (“the Council”) for the year ended 31 March 2012 for discussion at the meeting scheduled for 25 September 2012. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2012. The main audit visit took place during July and we are happy with the way that the audit has progressed. Audit working papers were of a good standard. We would like to thank those officers involved in the audit.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

## Completion of the audit

The status of the audit is as expected at this stage of the timetable agreed in our audit plan.

At the time of writing this report, certain procedures are still outstanding and need to be finalised before we can finalise our audit:

- Final review of the accounts and Annual Governance Statement to be completed
- Receipt of Letter of Representation
- Receipt of report from Pension Scheme auditors to support the valuation of Pension Scheme Assets
- Final review and close down procedures
- Completion of VFM review

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements and value for money conclusion.

The matters that we have taken into account in forming our overall view are described in the following sections.

## Significant audit risks

### Status

We discuss within Section 1 the results of our work in relation to audit risks which have been identified as significant to the financial statements. In summary these are:

- |   |   |
|---|---|
| • Valuation of non-current assets, including heritage assets and reliability of the new asset register system – “Real Asset Management” software; | 1 |
| • Collection of debt and the adequacy of bad and doubtful debt provisioning;  | 1 |
| • Pension scheme assumptions;   | 1 |
| • Presumed risk of revenue fraud; and   | 1 |
| • Presumed risk of management override of controls  | 1 |

1 Risk appropriately addressed    1 Risk satisfactorily addressed but with unadjusted errors identified    1 Material unresolved matter



# Executive Summary (continued)

## Risk management and internal control systems

Our audit findings did not identify any significant deficiencies in the financial reporting systems. Section 2 sets out the minor risk management and control observations arising from our audit procedures.

## Value for money audit – Financial resilience and prioritisation of resources

Under the Audit Commission Code of Audit practice, as appointed auditors, we are required to draw a positive conclusion regarding the organisation's arrangements to secure economy, efficiency and effectiveness of its use of resources (the value for money (VFM) conclusion). We have considered the financial standing of the Council for 2011/12 in respect of our VFM conclusion. We have reviewed the current and on-going expenditure demands, expected grant income and the current cash position of the Council. We have also reviewed the risk assessments for the savings proposals in the 2012/13 budget and arrangements for the on-going management of those risks. Whilst the government's funding cuts have caused a reduction in expected grant income in the future, the Council has drawn up plans on how to deal with these, and any anticipated future reductions. Based on our work we expect to issue an unqualified VFM conclusion.

More details are given in Section 4.

## Identified misstatements and disclosure misstatements

Audit materiality was £385,612 (2011: £361,677).

A number of audit adjustments have been made to the financial statements, the most significant of which is an additional £138k of flood defence grant income and related creditor to be recognised on the balance sheet in 2011/12. This has a nil impact on the Comprehensive Income and Expenditure Statement (CI&E). More details of this adjustment can be found in Section 1 and Appendix 2.

Identified uncorrected misstatements, if adjusted, would have no impact on the deficit on provision of services or the net asset position. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole.

Details of the audit adjustments and uncorrected misstatements are included in Appendix 2.

## Significant representations

A copy of the representation letter to be signed on behalf of the Council has been included in Appendix 3.

# 1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

1 Risk appropriately addressed   1 Risk satisfactorily addressed but with unadjusted errors identified   1 Material unresolved matter

## Valuation of non-current assets, including heritage assets

1

### Background

In the current climate the property market is still volatile and there is the potential for valuations of property and other assets to have fallen. There is also a new financial reporting standard (FRS 30) this year requiring valuation and enhanced disclosure of heritage assets.

### Deloitte response

We have obtained a copy of the latest third party valuation report and considered whether there is indication of any impairment from the third party valuations and whether any noted impairment should be applied more widely to other assets that have not been valued in the current year.

We have reviewed the Council's approach to identifying heritage assets and confirmed whether appropriate disclosures are made in the financial statements as necessary.

As part of our work on fixed assets we have reviewed the outputs of the new fixed asset register software and determine whether it accurately reflects the position of the Council's fixed assets at the balance sheet date.

The results of our testing were satisfactory.

## Collection of debt and the adequacy of bad and doubtful debt provisioning

1

### Background

In the current climate there is likely to be more pressure on the Council's rate-payers' financial resources. It therefore follows that there is likely to be a higher level of unpaid debts at the balance sheet date and potentially more bad and/or doubtful debts occurring.

### Deloitte response

We have documented the processes the Council has in place for reviewing and providing against bad and doubtful debts owed to the Council at the balance sheet date. We have reviewed the calculation of the year end provision and considered the adequacy of the provision in the light of available evidence including the aging profile of debtors at the year end and at the time of the audit, the history of bad debt exposure, recent changes in payment profile and post year-end cash receipts against year-end debtor balances.

The adequacy of provisioning appeared reasonable and sufficient.

# 1. Significant audit risks (Continued)

## Pension Scheme Assumptions

1

### Background

In the current climate the choice of pension inflation, discount and yield assumptions will be both difficult and judgemental. Small and apparently insignificant changes to these key assumptions can have material consequences for the actuarial assessment of the liability included within the financial statements of the Council.

### Deloitte response

We have documented the processes the Council has put in place to determine the assumptions and used our in-house pension and actuarial department to review these assumptions for reasonableness based upon prevailing market factors. The assumptions were found to fall within an acceptable range, and were generally prudent except for the use of a more optimistic discount rate.

The results of our testing were satisfactory.

## Presumed risk of revenue recognition fraud

1

### Background

International Standards on Auditing (UK and Ireland) 240 – “The auditor’s responsibility to consider fraud in an audit of financial statements” requires the auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a key audit risk.

For the Council we consider that the specific revenue recognition risk relates to the non-recognition of cash receipts as income, or their recognition in the wrong accounting period

### Deloitte response

We have performed testing by selecting a sample of cash receipts, both before and after the balance sheet date, and confirming that all income received was correctly recognised as income in the financial statements in the appropriate period. In addition, testing of grant income has been performed to ensure that the provisions of the Code of Practice on Local Authority Accounting based on IFRS has been consistently applied.

We identified one grant, in relation to the flood defence scheme, which had been received after the year end, but which related to the 11/12 period as per the grant letter, therefore we have adjusted for this. See Appendix 2 for further details.

All other testing performed was satisfactory.



# 1. Significant audit risks (Continued)

## Presumed risk of management override of controls

1

### Background

International Standards on Auditing (UK and Ireland) requires the auditors to perform certain audit procedures to respond to the risk of management's override of controls.

### Deloitte response

We have performed the following:

- understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments;
- reviewed accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- retrospectively reviewed management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and
- obtained an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the organisation and its environment.

We have raised an observation regarding the authorisation of journals. The remaining results of our testing were satisfactory.

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## 2. Risk management and internal control systems

### Key controls over significant risks

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

In Section 1 we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Valuation of non-current assets, including heritage assets		2012	2011
The Council performs regular checks on the existence and condition of assets to ensure that the valuation of assets is accurate.	We reviewed the implementation of this control by reviewing the valuation procedures and the work of the expert in-house valuer. We also performed unrecorded disposal testing to prove existence of assets.	●	●
Collection of debt and the adequacy of bad and doubtful debt provisioning		2012	2011
The Council calculates the bad debt provision based on levels of historical debt and bad debt write offs.	We tested the implementation of this control by reviewing the bad debt calculation to ensure that the policy had been correctly implemented and assessed the recoverability of debtors to consider the sufficiency of the policy.	●	●
Pension Scheme Assumptions		2012	2011
Disclosures and key assumptions are prepared by the actuary employed by North Yorkshire Pension Fund and are reviewed by management.	We tested the implementation of this control by obtaining the IAS 19 report and having our internal experts review the report to show they are professionally competent and assumptions used are reasonable.	●	●
Presumed risk of revenue recognition fraud		2012	2011
For each payment received, the Council records details of the product/service that the payment relates to and uses this information to determine the period in which the payment should be recorded.	We reviewed the implementation of this control by performing cut-off testing at the year end, tracing payments from the bank statement to the accounts system to confirm that they have been recorded in the correct period.	●	●
Presumed risk of management override of controls		2012	2011
All journals are written out as a paper copy. The journal is signed as authorised for input by the preparer input onto the system. The journal number and batch number is generated from the system and written on the paper copy. Only year-end items are filed with supporting working papers.	We reviewed a sample of journals posted in the year to confirm that they were commercially reasonable and had adequate supporting documentation. An observation has been raised below with respect to journal authorisation.	●	●

## 2. Risk management and internal control systems (continued)

### Risk management and control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified two minor risk management and control observations which are detailed below.

### Update on prior year observations

#### Documentation of journals



<b>2011 Description</b>	Review of the journals file showed that not all journals had supporting documentation. This may result in a loss of audit trail and lead to difficulties in officers understanding the rationale for specific journals if they need to understand this at some point in the future.
<b>2011 Recommendation</b>	Ensure all documents have sufficient documentation before processing.
<b>2012 Update</b>	All journals have supporting documentation, held either centrally with finance, or by the service departments. Satisfactory.

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#### Disposal of fixed assets



<b>2011 Description</b>	As part of fixed asset disposal testing it was noted that £220k of Civica software had been disposed of as part of the Northgate upgrade but that no formal documentation with authorised signatories had been completed. Potentially assets may be removed from the fixed asset register incorrectly or may be disposed of but the fixed asset register is not appropriately updated.
<b>2011 Recommendation</b>	It is recommended that a fixed asset disposal form is completed by the departmental head and then approved/countersigned by Finance.
<b>2012 Update</b>	Management intend to introduce a mechanism for formally recording and approving disposals in 2012/13.

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## 2. Risk management and internal control systems (continued)

### Current year observations

#### Authorisation of journals

##### Description

Journals posted by senior members of the finance team (Peter Johnson (finance manager), Mike Wright and Mandy Burchell) are not authorized or reviewed by anyone other than the preparer.

The lack of review means it is less likely that journals posted in error or fraudulently would be identified, which could have a potentially material impact on the financial statements.

##### Recommendation

All journals should be reviewed and signed by another member of the finance team to authorize the validity of the journal and promote transparency.

##### Management response

As from 1 April 2012, the new financial accounting software requires all journals raised by all members of staff, other than Peter Johnson, to be authorised online. Management have also agreed, going forward, that journals raised by Peter Johnson will be visible to, and authorised online by, Mike Wright and Mandy Burchell.

## 3. Other matters for communication

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

### Independence

We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.

If the Overview and Scrutiny Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.

### Non-audit services

We are not aware of any inconsistencies between APB Ethical Standards and the Council's policy for the supply of non-audit services or of any apparent breach of that policy. There were no non-audit services performed in the year.

### Audit fees

The external audit fees in relation to audit services provided on behalf of the Audit Commission in the period from 1 April 2011 to 31 March 2012 are as follows:

Fees payable for the audit of the annual accounts (excluding Audit Commission rebate £7,316 and VAT )	£91,447
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The audit fee has been calculated in accordance with Audit Commission fee scale.

The fees for certification of claims and returns are estimated at £20,000 and will be confirmed in our Annual Audit Letter at the next Overview and Scrutiny Committee meeting.

### Liaison with Internal Audit

The audit team, following an assessment of the independence and competence of the Internal Audit department, reviewed the findings of Internal Audit to inform the risk assessment and consider the impact on our audit approach as deemed appropriate.

### Written representations

A copy of the representation letter to be signed on behalf of the Overview and Scrutiny Committee is included at Appendix 3.

## 4. Value for money (VFM) conclusion

From 2010/11 the Audit Commission introduced new requirements for local value for money (“VFM”) audit work at councils. This year, auditors are again required to give their statutory VFM conclusion based on the following two criteria:

- proper arrangements for securing financial resilience: work to focus on whether the Council has robust systems and processes to manage risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- proper arrangements for challenging how economy, efficiency and effectiveness are secured: work to focus on whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have planned our local programme of work based on our risk assessment, which is informed by a series of risk factors determined by the Audit Commission.

The key audit risk which we identified as part of our overall audit strategy is the delivery of financial targets and the management of the reduction in financial resources.

### Delivery of financial targets and the management of reduction in financial resources

#### Risk & Response

Following the Government’s comprehensive spending review and the extent of the reduction in the funding settlement announced in December 2010, the Council is facing severe financial pressures over the next few years.

We have reviewed the risk assessments for the savings proposals in the 2012/13 budget and arrangements for the on-going management of those risks.

Progress in developing plans for 2013/14 is on-going and we understand a number of meetings have already been held with members. Officers will be launching the strategy for 2013/14 to staff by the end September 2012. We are currently reviewing the minutes of the meeting held in respect of balancing the 2012/13 budget and creating the 2013/14 budget and will consider any issues arising from those minutes that are relevant to our VFM conclusion.

Having achieved the savings required to balance the budget for 2011/12 through the successful delivery of the One-11 programme, the Council is now in the process of delivering the savings required for balancing the 2012/13 budget through a programme called ‘Going for Gold’. Given the scale of the reduction in headcount which contributed to the delivery of the One-11 programme, the Council is anticipating and preparing for the challenges in achieving a balanced budgetary position for 2013/14.

During the course of this work, we have considered the effectiveness of arrangements to assess the implications of savings measures and to manage their impact on the delivery of strategic priorities. We have reviewed a sample of initiatives to assess the reasonableness of the quantification of savings to be achieved, and the processes for identifying and addressing any costs of implementation.

## 4. Value for money (VFM) conclusion (continued)

### **The VFM conclusion**

Under the Code, auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that, in all significant respects, the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The conclusion has regard to the criteria specified by the Commission and we do not consider all aspects of the Council's arrangements. This conclusion is given within our audit report on the Council's accounts.

We are required to report if, in our judgement, matters come to our attention which are significant enough to prevent us from concluding that proper arrangements are in place in the areas considered. In such a circumstance, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Council has put in place proper arrangements except for...) or in the form of an 'adverse' conclusion (i.e. the Council has not put in place arrangements in that...).

For 2011/12, as at the time of writing this report, we have assessed the Council for both criteria as having proper arrangements in place. We will update on this verbally at our meeting on 25 September and confirm whether we will be issuing an unqualified conclusion, as is currently anticipated.

## 5. Annual Governance Statement (AGS)

In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives (“SOLACE”) published ‘Delivering Good Governance in Local Government: A Framework’. This framework replaced the previous CIPFA/SOLACE framework ‘Corporate Governance in Local Government – A Keystone for Community Governance: A Framework’ which was published in 2001.

The framework introduced, from 2007/08, an integrated Annual Governance Statement (“AGS”). The AGS covers all significant corporate systems, processes and controls, spanning the whole range of a Council’s activities, including in particular those designed to ensure that:

- the Council’s policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Council’s values and ethical standards are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and
- human, financial, environmental and other resources are managed efficiently and effectively.

Our review is directed at:

- considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
- identifying any inconsistencies between the disclosure and the information that we are aware of from our work on the financial statements and other work relating to the Code of Audit Practice.

We have reviewed the Council’s AGS in line with the requirements above. We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Council’s governance arrangements and internal controls derived from our audit work.



## 6. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, 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. Responsibility for the adequacy and appropriateness of these methodologies and data rests with the Audit Commission.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of Ryedale District Council's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion, which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use, as Members, 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 parties 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 the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

### **Deloitte LLP**

Chartered Accountants

Leeds

10 September 2012

*For your convenience, this document has been made available to you in electronic format. Multiple copies and versions of this document may therefore exist in different media. In the case of any discrepancy, the final signed hard copy should be regarded as definitive. Earlier versions are drafts for discussion and review purposes only.*

# Appendix 1: Briefing on audit matters

## Published for those charged with governance



This document is intended to assist the members and officers of the Council 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 Auditing Practices Board ("APB"). Our statutory audit objectives are:

- 1 to express an opinion in true and fair view terms to the members on the financial statements;
- 1 to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework;
- 1 to express an opinion as to whether the accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards;
- 1 to form an opinion on whether adequate accounting records have been kept by the Council; and
- 1 to express an opinion as to whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Other reporting objectives

Our reporting objectives are to:

- 1 present significant reporting findings to the members. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- 1 provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

# Appendix 1: Briefing on audit matters (continued)

## Materiality

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

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

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

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

We determine materiality to:

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

The extent of our procedures is not based on materiality alone but also local considerations of the Council, 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.

For local statutory reporting purposes, individual materiality levels will be set for each of the subsidiary companies.

## 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 the members of the audit committee 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.

# Appendix 1: 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 the Council and create value for management and the Council 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:

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

## 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 relating to 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 relating to other information in documents containing audited financial statements

# Appendix 1: 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

- 1 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.
- 1 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.
- 1 We report annually to the members our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- 1 There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- 1 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.
- 1 In accordance with the Revised Ethical Standards issued by the 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. Any non-audit work which exceeds a de minimis amount set by the Audit Commission must be approved by the Commission prior to agreeing to carry out the work.
- 1 In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU 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. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.
- 1 Our work is carried out in line with the Audit Commission standing guidance for local government auditors. Compliance with that guidance and the quality of our work is subject to the Audit Commission's annual Quality Review Process.

# Appendix 1: 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:

- 1 state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- 1 require that professional staff may not work on assignments if they (or any immediate family member) 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;
- 1 state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- 1 prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- 1 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 Revised Ethical Standards**

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- 1 maintaining integrity, objectivity and independence;
- 1 financial, business, employment and personal relationships between auditors and their audited entities;
- 1 long association of audit partners and other audit team members with audit engagements;
- 1 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
- 1 non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

# Appendix 2: Audit adjustments and uncorrected misstatements

## Recorded audit adjustments – corrected misstatements

We report all individual identified recorded audit adjustments in excess of £7,712 and other identified misstatements in aggregate adjusted by management in the table below:

	Comprehensive income and expenditure statement		Balance sheet
	(Credit)/ charge to deficit on provision of services £	(Credit)/ charge to other comprehensive income £	Increase/ (decrease) in net assets £
Recognition of flood defence grant - increase debtors and increase revenue grant receipts in advance £138k	net effect NIL	-	net effect NIL
<b>Total adjusted misstatements relating to current year items</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our audit. We will obtain written representations from the Overview and Scrutiny Committee confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the Statement of Accounts taken as a whole, no adjustments are required.

	Comprehensive income and expenditure statement		Balance sheet
	(Credit)/ charge to deficit on provision of services £	(Credit)/ charge to other comprehensive income £	Increase/ (decrease) in net assets £
<b>Factual misstatements</b>			
Incorrect amortisation of intangibles - increase amortisation within the comprehensive income and expenditure statement £62k, decrease intangible assets on the balance sheet £62k, increase net deficit in the General fund £62k decrease Capital Adjustment Account £62k.	-	62,422	(62,422)
<b>Total misstatements relating to current year items</b>	<b>-</b>	<b>62,422</b>	<b>(62,422)</b>

# Appendix 3: Draft Management Representation letter

We ask that the Committee notes the format of the letter below, and recommends the Corporate Director can sign the letter on behalf of the Council.

## **Ryedale District Council – Audit of the annual accounts for the year ended 31 March 2012**

This representation letter is provided in connection with your audit of the financial statements of Ryedale District Council (“the Council”) for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as of 31 March 2012 and the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Council which present a true and fair view and for making accurate representations to you.

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

### *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. 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 Appendix 2 to the Report to the Overview and Scrutiny Committee.
5. 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 future actions.
6. The financial statements are free from material misstatement.
7. 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.
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.



# Appendix 3: Draft Management Representation letter (continued)

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 and that affects the Council 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 Council's related parties and all the related party relationships and transactions of which we are aware.
16. No 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.
18. 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.
19. There have been no irregularities involving members or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
20. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto. 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.
21. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.
22. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditor's report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

# Appendix 3: Draft Management Representation letter (continued)

23. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments 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 valuation of the scheme liabilities accord with the Members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

24. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.

25. Our annual report will be consistent with and include the financial statements as audited.

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

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Corporate Director (S151), signed on behalf of Ryedale District Council

Date \_\_\_\_\_