

Ryedale District Council

Report to the Overview and  
Scrutiny Committee on the 2010  
Audit

Planning Report

# Contents

Executive summary	1
1. Scope of work and approach	4
2. Key audit risks	5
3. Consideration of fraud	8
4. Internal control	10
5. Client service team	11
6. Responsibility statement	12

# Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for Ryedale District Council for the year ending 31 March 2010.

## Audit scope

This document is in relation to the proposed forthcoming audit of Ryedale District Council (the Council). The audit is to be undertaken in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board and as required under our contract with the Audit Commission.

In light of recent announcements made by the new coalition government and the correspondence issued by the Audit Commission on 28 May 2010 to Chief Executives, the work on the Comprehensive Area Assessment has ceased with immediate effect. We will use the work performed to date on the Comprehensive Area Assessment and perform any further work required in order for us to be able to issue the value for money conclusion with our audit opinion.

## Materiality

Materiality levels are calculated on the basis of total gross expenditure for the year. We estimate materiality based on expected results for the full year to be £386,810 (2009: £373,420).

We will report to the Overview and Scrutiny Committee on all unadjusted misstatements greater than £7,736 (2009: £7,468) unless they are qualitatively material.

## Key audit risks

The key audit risks that we have identified as part of our overall audit strategy are:

1. Pension Scheme assumptions;
2. Adequacy of bad and doubtful debt provisioning;
3. Valuation of fixed assets;
4. Valuation of investments;
5. Changes to the accounting framework;
6. Accounting for share of partnership assets and liabilities; and
7. Presumed risk of revenue recognition fraud.

Further details of the specific risks are set out in the main body of this report.

# Executive summary (continued)

## Prior year uncorrected misstatements and disclosure deficiencies

Prior year uncorrected misstatements are those misstatements identified during the audit of the financial statements for the year ended 31 March 2009:

### Errors of fact:

1. Cash held in Girobank accounts of £16,463 classified as a debtor rather than cash. Net effect on Income and Expenditure account - £nil;
2. Cash received in respect of NNDR before the year end of £13,400 was not recorded until after the year end in the subsequent accounting period. Net effect on Income and Expenditure account – £13,400;
3. No provision was made for historic National Insurance debtors of £13,009 which are not considered to be recoverable. Net effect on Income and Expenditure account – £13,009.
4. Waste bins used by Council to generate income classified as stock rather than tangible fixed assets. Net effect on Income and Expenditure - £nil.
5. Council share of difference between actuarial value of assets and assets held by the Fund of £29,681. Net effect on Income and Expenditure accounts - £nil.

### Errors of judgement:

6. Additional bad debt provision of £140,720 considered necessary due to downturn in general economic environment

The uncorrected misstatements were considered to be not material in aggregate in the year ended 31 March 2009. There were no identified misstatements corrected in the year ended 31 March 2009.

No material uncorrected disclosure deficiencies were noted.

# Executive summary (continued)

## Timetable

This year's timetable comprised a planning visit, which lasted for five days beginning 22 March 2010, and a final visit, which will last 4-5 weeks starting 12 July 2010.

This report sets out the findings from our planning visit. The findings from the final visit will be presented at the Overview and Scrutiny Committee meeting in September 2010.

## Findings from the planning visit

We have substantially completed our planning visit and set out in this report for your attention our findings and recommendations. It should be noted that our testing of journal entries was not completed during the planning visit and we will perform this review during the year-end visit.

We have completed our review of the IT environment and we will provide detailed feedback on the issues arising in the year under review and an update on the matters raised in the prior year in due course.

We will provide an update on the control points identified for the year ended 31 March 2009 as part of report on the findings of our audit for the year ended 31 March 2010, which will be presented to the Overview and Scrutiny Committee in September 2010.

## Independence

Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.

These are set out in the "Independence policies and procedures" section of our "Briefing on Audit Matters" document attached.

We will reconfirm our independence and objectivity to the Overview and Scrutiny Committee for the year ending 31 March 2010 in our final report to the Overview and Scrutiny Committee.

## Matters for those charged with governance

We have communicated to you separately in our publication entitled "Briefing on Audit Matters", attached, those additional items that we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.

# 1. Scope of work and approach

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Code of Audit Practice. Our audit objectives are set out in our "Briefing on audit matters" document, attached.

The audit opinion we intend to issue will reflect the financial reporting framework required of Local Councils and as set out in the Code of Practice on Local Council Accounting in the United Kingdom 2010.

For the 2010 financial statements, we have used the latest budgeted gross expenditure as the benchmark for our materiality assessment as this statistic, in our view, represents the most appropriate measure of the scale of the organisation and, therefore, best reflects the context within which any misstatements should be considered.

In accordance with our established methodology we have calculated a monetary indicator of materiality by applying a sliding scale factor to the budgeted gross expenditure. For the current year this factor has been calculated as approximately a 1.4% (2009: 1.4%) which gives planning materiality of £386,810 (2009: £373,420)

This assessment takes into account our knowledge of the organisation, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our Briefing on Audit Matters document.

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

## 2. Key audit risks

Based upon our initial audit risk assessment and following our interim review, we will concentrate specific audit effort on the following areas:

### Pension Scheme Assumptions

#### Risk & Response

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.

We will document the process the Council has put in place to determine the assumptions and will use our in house pension and actuarial department to review these assumptions for reasonableness based upon prevailing market factors.

It should be noted that in our review of the 2009 assumptions, our specialists indicated that the discount rate used of 7.1% was towards the upper (aggressive) end of the acceptable range, although it was not unreasonable.

### Adequacy of bad and doubtful debt provisioning

#### Risk & Response

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.

We will document the process the Council has in place for reviewing and providing against bad and doubtful debts owed to the Council at the balance sheet date. We will review the calculation of the year end provision and consider the adequacy of the provision in the light of available evidence. This will include the ageing profile of debtors at the year end and at the time of audit, the history of bad debt exposure, recent changes in payment profile and subsequent post year-end cash receipts against year-end debtor balances.

### Valuation of fixed assets

#### Risk & Response

In the current climate the property market is very volatile and there is the potential for valuations of property and other assets to have fallen since the prior year-end.

We will obtain a copy of the third party valuation report and review a sample the valuations for arithmetic accuracy. We will consider 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.

## 2. Key audit risks (continued)

### Valuation of investments

#### Risk & Response

Following the events which occurred in Iceland during 2008 and other similar events that are ongoing in other European economies, a risk exists regarding the valuation of investments held by all Councils.

We will obtain third party confirmations in respect of all investments held by the Council at the year-end and consider any relevant economic factors existing at the year-end and up to the date of our audit opinion.

### Changes to the accounting framework

#### Risk & Response

The financial statements of all Councils are required to comply with the accounting requirements of the Local Government Statement of Recommended Practice ("SORP"). A new SORP is issued every year ("the 2009 SORP" applies this year). The main changes in the 2009 SORP are in respect of the accounting for Council Tax and National Non-Domestic Rates which are now required to reflect the substance of the arrangement as effectively a collection agency. The comparative figures for 2008/09 are required to be reworked on this new basis and the financial statements will include a prior period adjustment in respect of this change in accounting policy.

In addition, there are new disclosure requirements with respect to senior officers' remuneration whereby the titles and, in some instances, the names of senior officers are required to be disclosed if certain levels of remuneration are exceeded.

We will review the Council's calculations of the change in accounting policy for the current and prior year figures alongside the detailed requirements of the 2009 SORP. We will also review the senior officers' remuneration disclosures alongside the 2009 SORP requirements.



## 2. Key audit risks (continued)

### Accounting for share of partnership assets and liabilities

#### Risk & Response

The Council now utilises a number of partnerships (for example Building Control Partnership) for the provision of services to residents and businesses. A risk exists regarding the completeness of such information given the operations of the partnership is outside of the Council's direct control.

We will review management's process to ensure that they obtain all information regarding partnership assets and liabilities in a prompt manner and reflect them appropriately in the financial statements.

### Presumed risk of revenue recognition fraud

#### Risk & Response

International Auditing Standards (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 specific risk.

For the Council, based on knowledge gained from previous audits 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.

We will perform testing by selecting a sample of cash receipts 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 will be performed to ensure that only income relating to the current year is recognised and deferred income balances are correctly stated.

### 3. Consideration of fraud

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.

ISA (UK and Ireland) 240 – “The auditor’s responsibility to consider fraud in an audit of financial statements” requires us to document an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.

We have made inquiries of management, internal audit and others within the organisation as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition, we are required to discuss the following with the Overview and Scrutiny Committee:

1. Whether the Overview and Scrutiny Committee has knowledge of any fraud, alleged or suspected fraud?
2. The role that the Overview and Scrutiny Committee exercises in oversight of management’s assessment of the risks of fraud; and the design and implementation of internal control to prevent and detect fraud?
3. The Overview and Scrutiny Committee’s assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Council in due course.

# 3. Consideration of fraud (continued)

## Management override of controls

In addition to the procedures above, we are required to design and perform audit procedures to respond to the risk of management's override of controls that will include:

- Having understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, we will test the appropriateness of a sample of such entries and adjustments;
- We will undertake a review of 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;
- We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements;
- We will focus on accruals and deferred income for bias and even if individually reasonable, may indicate a possible bias on the part of management; and
- We will obtain 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 are also required to presume that there are risks of fraud in revenue recognition and conduct our audit testing accordingly (See Key Audit Risks in section 2).

## 4. Internal control

### **Obtaining an understanding of internal control relevant to the audit**

As set out in the attached "Briefing on Audit Matters" for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I").

This includes reviewing controls relating to the financial reporting process, reconciliation of ledgers, the preparation of the financial statements and other reports, the reporting and processing of journals, the segregation of duties, related parties and key general computer controls relevant to the audit.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the organisation, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

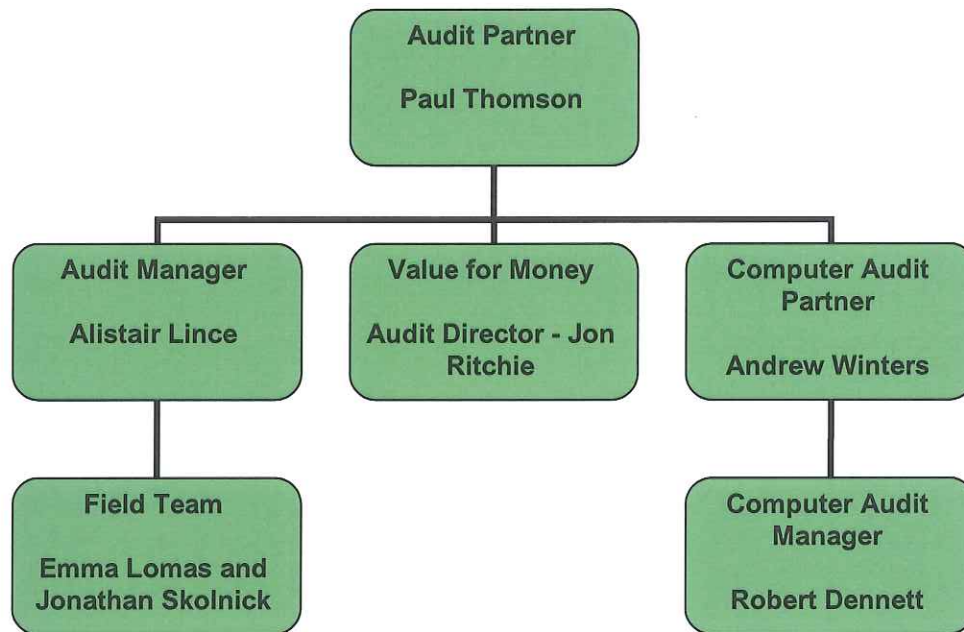
### **Liaison with internal audit**

We will liaise with Council's internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council's internal audit function, its system of documentation and risk identification during the planning of the external audit to the extent we determine we can rely on their work.

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal function, will review the findings of any relevant internal audits on the Council and adjust the audit approach as is deemed appropriate. Where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that any new additional specific audit risks are covered by our work.

## 5. Client service team

We set out below our audit engagement team.



## 6. Responsibility statement

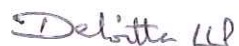
The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities 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.

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 financial 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 to 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 purpose. It should not be made available to any other parties without our prior written consent.

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**Deloitte LLP**

Chartered Accountants

Leeds

28 June 2010

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