



**Ryedale District Council**

Report to the Authority on the 2009 Audit

**25 September 2009**

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## Executive summary

We have pleasure in setting out in this document details of our audit for Ryedale District Council (the Authority) for the year ending 31 March 2009.

This summary is not intended to be exhaustive but highlights the most significant matters that have come to our attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

### Key audit risks and judgemental areas

The following risks and judgemental areas were identified during the course of our work:

- Revenue recognition: presumed to be a fraud risk area under International Standards on Auditing (ISA Plus). For the Authority, we consider that the specific revenue recognition risk relates to recognition of miscellaneous and sundry income (for example car park income) and cut-off of grant funding;
- Pension Assumptions: the Authority participates in the Local Government Pension scheme, which is a defined benefit scheme, administered by North Yorkshire County Council. The liabilities of the fund are assessed by actuaries, and it is actuary values that the Authority includes within their financial statements. As part of our audit of the accounts we are required to assess whether the assumptions used by the actuary are reasonable and whether the pension liabilities are materially misstated;
- Bad debt provisioning: this is a significant judgement for the management of the Authority and especially given the changes in the current economic environment;
- Valuation of current asset investments: presumed to be a risk due to the general uncertainty in the financial services sector and following the events in Iceland during 2008 and the impact this had on some local authorities;
- Valuation of fixed assets: following the downturn in the economy and the subsequent fall in property valuations, we are required to consider the treatment and disclosure of impairments on fixed assets;
- Share of partnership assets and liabilities: the Authority uses a number of partnerships for the provision of services to residents and businesses. A risk exists regarding the completeness of the required financial information included in the Authority's accounts given the operations of the partnership are not all within the Authority's direct control;
- Level of reserves and provisions. This can be a complex area within the SORP and significant judgement may need to be applied by management; and
- Changes to accounting framework and standards: the financial statements of all local authorities must meet the accounting requirements of the Local Government Statement of Recommended Practice (the SORP). As part of our audit of the accounts we are required to assess compliance with this framework.

Our findings and conclusions are detailed in Section 1.

## Executive Summary (continued)

### Materiality and identified misstatements

The materiality level for the Authority continues to be calculated on the basis of gross expenditure. The materiality applied to the 2009 audit was £373,420 (2008: £328,000).

We report to the Authority on all unadjusted misstatements greater than 2% of materiality or £7,468 (2008: £6,560) unless the nature of the misstatement means that they should be reported.

Total identified uncorrected misstatements increase net expenditure by £167,129. 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 are included in Appendix 1.

### Accounting policies and financial reporting

As part of our audit, we considered the quality and acceptability of the Authority's accounting policies and financial reporting. No issues were noted during our review.

We have reviewed the financial standing of the Authority and have no concerns to report.

## Executive Summary (continued)

### Accounting and internal control systems

The following recommendations were identified:

- A process for the review of journal entries should be adopted;
- A process for the review of related party transactions should be adopted;
- A process to maintain the fixed asset register on an ongoing rather than annual basis should be adopted;
- Amortisation of intangible fixed assets should be performed based on individual economic life of those assets;
- Supplier statement reconciliations should be retained at the year end date. The process should be formally documented, with preparer and reviewer sign-offs;
- A process should be adopted to ensure an appropriate level of accrued income is accounted at each close of the accounting records in respect of cash sales at the Tourist Information Centres;
- An annual review of difference between the Civica system and the general ledger should be performed;
- Weaknesses were identified in the logical security controls on Windows, Academy, Civica and Powersolve including weak passwords which increases risk of unauthorised access to the system;
- Shared administrator and user accounts were identified on Windows, Unix, Civica and Powersolve which reduces the accountability of the actions of users;
- No formal change management policies and procedures were in place over changes to core business applications and key operating systems, which increases the risk of erroneous changes may be made to the live IT environment;
- Whilst user administration procedures are in place, we note that these procedures are not always adhered to, in particular the timely removal of leavers and inter-department transfers;
- Whilst third parties require access to the network and core business systems to carry out upgrades or fixes, there is no formal process to document this approval which increases risk inappropriate changes which disrupts IT services;
- The security policy has not been updated since August 2006, although we understand that management plan to update this in the near future. A robust IT security policy reduces the risk of security; and
- It was noted that backup tapes are not periodically tested to ensure that data can be recovered in the event of a system failure or disaster event.

Detailed control observations noted are explained in Section 2.

## Executive Summary (continued)

### Audit status

We have substantially completed our audit.

Certain procedures are still outstanding and need to be finalised before we can finalise our audit opinion:

- Completion of post balance sheet events review;
- Management representation letter;
- Completion of close down procedures; and
- Whole of government accounts.

Subject to the satisfactory completion of the points above, we are anticipating that we will issue an unqualified audit opinion for the financial statements and an except for conclusion for value for money (see Section 5).

# 1. Key audit risks

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

Key audit risk/judgemental area	Background
Presumed risk of revenue recognition fraud	<p data-bbox="674 451 2007 539">International Auditing Standards Plus 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’.</p> <p data-bbox="674 555 1980 611">For the Authority we consider that the specific revenue recognition risk relates to recognition of miscellaneous and sundry income (for example car park income) and cut-off of grant funding.</p> <h3 data-bbox="674 667 898 707">Deloitte response</h3> <p data-bbox="674 762 2024 850">Testing was performed to ensure that all income received was correctly recognised as income in the financial statements in the appropriate period. In addition, testing of grant income was performed to ensure that only income relating to the current year was recognised and deferred income balances were correctly stated.</p> <p data-bbox="674 866 1357 890">Our testing on income recognition was completed satisfactorily.</p>

# 1. Key audit risks (continued)

Key audit risk/judgemental area	Background
Pension assumptions	<p>The Authority participates in the Local Government Pension scheme, which is a defined benefit scheme, administered by North Yorkshire County Council. The liabilities of the fund are assessed by actuaries, and it is actuary values that the Authority includes within their financial statements. As part of our audit of the accounts we are required to assess whether the assumptions used by the actuary are reasonable and whether the pension liabilities are materially misstated.</p> <p><b>Deloitte response</b></p> <p>We have reviewed the assumptions made by the actuary in valuing the Authority's share of the assets and liabilities of the pension fund. We have also consulted with our own in-house actuaries to determine whether the assumptions are reasonable and within expected ranges.</p> <p>Our review noted that the discount rate used to value the pension liabilities was 7.1% pa; we consider that that the rate is not unreasonable however it is above the higher (aggressive) end of an acceptable range at 31 March 2009. The price inflation assumption selected was 3.3%, below the lower (prudent) end of the normal range at 31 March 2009. Using more acceptable assumptions of 6.9% for discount rate and 3.7 % for inflation would have a net impact on the overall liability position of the fund of £1,000,000 which is not material to the overall funding position.</p>



## 1. Key audit risks (continued)

### Key audit risk/judgemental area

#### Bad debt provisioning

### Background

The provision for bad debts as at 31 March 2009 of £734,000 (2008: £660,000) represents a significant judgement by the management of the Authority. The main constituent of this balance is in respect of the provision of £390,000 (2008: £390,000) in respect of council tax debtors against a gross council tax debtor of £828,000 (2008: £752,000). Any changes in this judgement would have a significant impact on the financial statements.

In addition, given the current economic environment, there is an increased risk regarding the recoverability of debtors.

### Deloitte response

We obtained a detailed calculation of all elements of the bad debt provisions

- The provision was reviewed and compared to the historical calculation of the bad debt provision;
- The provisioning policy was considered in light of the history of bad debt exposure and recent changes in payment profile;
- The calculation was reperformed to ensure the accuracy of the calculation; and
- The ageing of the debtor balance was assessed to confirm the accuracy.

See suggested adjustment 6 in Appendix 1.

# 1. Key audit risks (continued)

Key audit risk/judgemental area	Background
Valuation of investments	<p data-bbox="674 320 2007 408">Due to the general economic uncertainty in the financial services sector and following the events occurring in Iceland during 2008 and the impact on certain local authorities, a risk exists regarding the valuation of current asset investments held by all local authorities.</p> <p data-bbox="674 483 898 515"><b>Deloitte response</b></p> <p data-bbox="674 564 2018 655">We have obtained external confirmations in respect of all current assets investments held by the Authority at the year end and no issues were identified from this testing. We have also undertaken the additional work required by the Audit Commission regarding the Authority's Treasury Management Policy. All testing proved satisfactory.</p>
Key audit risk/judgemental area	Background
Valuation of fixed assets	<p data-bbox="674 874 2029 1023">In line with the requirements of the SORP, the Authority operates a 5 year rolling valuation programme on the freehold and leasehold properties which comprise the Authority's property portfolio. The valuations are undertaken by an independent external valuer, Roger Barnsley (Chartered Surveyors), in accordance with the requirements of the Royal Institute of Chartered Surveyors. The valuation uses selected beacon properties which are representative of the population of properties held by the Authority.</p> <p data-bbox="674 1098 898 1129"><b>Deloitte response</b></p> <p data-bbox="674 1179 2007 1238">We have considered the valuations prepared by the external valuer. We have also considered the disclosures presented in the financial statements to ensure that they are consistent with the SORP. Testing was satisfactory.</p>

# 1. Key audit risks (continued)

Key audit risk/judgemental area	Background
Share of partnership assets and liabilities	<p>The Authority utilises a number of partnerships (for example Moors and Coast Area Tourism Partnership known as Yorkshire Moors and Coast Tourism Partnership) for the provision of services to residents and businesses. A risk exists regarding the completeness of such information given the operations of all partnership are not within the Authority's direct control.</p> <p><b>Deloitte response</b></p> <p>We have reviewed management's process to ensure that they obtain all information regarding partnership assets and liabilities from partnerships in a prompt manner. We have reviewed the accounting entries made by the Authority to record their share of partnership assets and liabilities.</p>
Key audit risk/judgemental area	Background
Classification of reserves and provisions	<p>This can be a complex area within the SORP and significant judgement may need to be applied by management. The SORP sets out clear guidelines over how to account for provisions and reserves.</p> <p><b>Deloitte response</b></p> <p>A review of the different classification of provision and reserve was completed, with reference to the SORP requirements. We noted that the correct treatment had been used throughout the accounts.</p>

# 1. Key audit risks (continued)

Key audit risk/judgemental area	Background
7. Changes to the accounting framework	<p>The financial statements of all local authorities are required to comply with the accounting requirements of the Local Government Statement of Recommended Practice (the SORP). A new SORP is issued every year. The main changes in respect of the 2008/9 SORP were in respect of the valuation of investments within the pension scheme and the derecognition of deferred charges.</p> <p><b>Deloitte response</b></p> <p>We considered the impact of the changes in the SORP and reviewed the Authority's response in the financial statements to the new requirements. Testing in this area proved satisfactory.</p>

## 2. Accounting and internal control systems

### Control observations

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

#### Observation

A process does not exist regarding the review of journal entries. This could lead to errors made in the posting of journals, which are either not detected, or which when detected will take a greater length of time to resolve due to the lack of supporting documentation held.

There is also a risk of inappropriate journals being posted through fraudulent activities which will not be detected.

#### Recommendation

Management should put in place a process for the review of journal entries.

#### Observation

The process for the authorisation of related party transactions should be reviewed.

#### Recommendation

An internal memorandum should be produced and circulated to senior employees stating what constitutes a related party transaction and who the related parties of the Authority are; this will allow for transactions to be identified when they take place within the Authority. The list of related parties should be maintained and circulated to employees. When a transaction does take place, financial services should be notified, with records maintained of the transaction allowing for accurate reporting in the financial statements.

## 2. Accounting and internal control systems (continued)

### Observation

A process to maintain the fixed asset register on a quarterly or semi-annual basis rather than annual basis should be put in place.

### Recommendation

All fixed asset transactions should be recorded on a quarterly or semi-annual basis and the register maintained. This will allow for the authority to have better control over its assets and their valuations throughout the year.

### Observation

Amortisation of intangible fixed assets should be performed based on individual economic life of those assets rather than a blanket policy of 5 years.

### Recommendation

On purchase of an intangible asset, the useful life should be assessed on an individual basis (by reference to the nature of the asset e.g. the period of the software licence). The asset should be amortised over this assessed life.

## 2. Accounting and internal control systems (continued)

### Observation

Supplier statement reconciliations are not retained at the year end date. In the event of a dispute with suppliers, the lack of contemporaneous supplier statement reconciliations as at each month end may lead to delays in resolution of the dispute.

### Recommendation

A process should be formally documented, in respect of preparation of supplier statement reconciliations. All reconciliations performed should include preparer and reviewer sign-offs.

Copies of supplier statement reconciliations prepared at the year end should be retained until after the audit process has been completed.

### Observation

A process should be adopted to ensure an appropriate level of accrued income is accounted at each close of the accounting records in respect of cash sales at the Tourist Information Centres.

### Recommendation

Where income is generally posted on a cash received basis and the Authority is aware that the cash had not been received prior to the year end, sufficient accrued income should be included in the accounts to ensure that the accruals concept is correctly complied with.

## 2. Accounting and internal control systems (continued)

### Observation

There is no annual review of differences between the Civica system and the general ledger.

### Recommendation

The arrears position between both systems should be reconciled annually. All differences should be investigated and it should be ensured that the individual system is adjusted to bring them in line.

### Observation

A number of weaknesses were identified in the logical security controls on Windows, Academy, Civica and Powersolve. Audit logging is not enabled on the Windows network and is not available at the application level (on Academy, Civica and Powersolve).

Where strong password policies are not enforced there is an increased risk of unauthorised access to systems and sensitive business data. Where auditing features are not enabled and actively monitored, including unsuccessful attempts to log in or attempts to change security settings, there is a risk of such events going undetected.

### Recommendation

Review the configuration of logical security controls implemented on the Windows, Academy, Civica and Powersolve environments. Independent system monitoring measures should be introduced which ensures that potential security violations and the activity of privileged users are logged, reported against and reviewed.



## 2. Accounting and internal control systems (continued)

### Observation

Shared administrator and user accounts were identified on Windows (Administrator, Visiting Officer), Unix (Root), Civica (4 Auditor Accounts) and Powersolve (F99, F10). The use of shared accounts on IT systems reduces accountability for the actions of individual users. There is a risk that these highly privileged accounts could be accessed by a number of people, including a third party, and unauthorised / inappropriate activity performed on the system. Such activity could go undetected, and, in any case, would be untraceable to a particular user.

### Recommendation

Review all administrator system account authorities within Windows, Unix, Civica and Powersolve to ensure that these are appropriate to business needs, and where possible users have unique administrator accounts in order that access is fully auditable.

### Observation

There are no formal change management policies and procedures in place over changes to core business applications and key operating systems. Failure to adhere to formal change management procedures increases the risk that erroneous changes or developments may be implemented into the live environment, which may affect existing applications and transaction processing, resulting in, for example, unpredictable functionality and data integrity issues.

### Recommendation

A formal change control methodology should be adopted to ensure network changes, application developments and operating system software updates which are managed in-house or by third parties, occur in a well-controlled manner. The following steps are a minimum for all changes:

- Formal approval be obtained prior to changes being made;
- Formal testing be undertaken in a test environment and approved by management prior to changes being made;
- Test plans should be followed and retained when testing changes;
- User notification of changes should take place; and
- Documentation should be retained for future reference.

## 2. Accounting and internal control systems (continued)

### Observation

Whilst user administration procedures are in place, we note that these procedures are not always adhered to, in particular the timely removal of leavers and inter-department transfers.

There are no formal procedures to periodically review access profiles to ensure that they remain appropriate to users' roles and responsibilities. Without formal and robust user administration procedures there is a risk that inappropriate access to the systems may be granted. Inactive accounts can provide easy targets for intruders trying to break into IT systems. Depending on the access privileges associated with each account, these profiles may be used to gain unauthorised access to Ryedale's systems and information.

### Recommendation

A formal user administration policy statement and procedures should be developed, which would form part of the information security policy.

The policy and procedures should include:

- Enforcing the use of the starters process for all new starters; and
- Creation of a formal process for changing and revoking access rights, including notification from HR of all staff movements and leavers.

Regular reviews of all accounts, including those which have not been logged in for a significant period of time are carried out to determine whether they can be removed. This review should also ensure that all user access rights and privileges are commensurate with users' roles.

## 2. Accounting and internal control systems (continued)

### Observation

Whilst third parties require access to the network and core business systems to carry out upgrades or fixes, there is no formal process to document this approval.

There is no formal process to monitor the activity of third parties when they are logged on to the network. By not formally monitoring third parties, there is a risk that inappropriate changes are made which may result in an unexpected disruption to IT Services or impact the integrity of systems and data.

### Recommendation

A formal third party access policy should be implemented. This policy should outline a process to grant approval to a third party when access to the network or an application is required, and include procedures to revoke access after completion of the task.

This policy should also outline the procedure IT should follow to monitor the activity of third parties when they are on the network.

## 2. Accounting and internal control systems (continued)

### Observation

The Security Policy has not been updated since August 2006, although we understand that management plan to update this in the near future.

The loss of sensitive data by organisations has been widely publicised and resulted in significant reputational damage. This has triggered a number of organisations to update their security polices to include these security vulnerabilities and re-issue to all employees in order to raise awareness. The implementation of a robust IT Security Policy reduces the risk of security breaches and data leakage that could result in significant reputational and financial implications.

The user acceptance document was missing for the employee selected during our testing, posing the risk that users are not sufficiently informed about the importance of IT security. This also creates a risk that if a breach of the policy is discovered, it may be more difficult to instigate disciplinary action.

### Recommendation

The Security Policy should be updated as soon as possible. Following this, management should re-issue and ensure that all users have confirmed their understanding of the requirements and their responsibilities.

### Observation

It was noted that backup tapes are not periodically tested to ensure that data can be recovered in the event of a system failure or disaster event. This may impact the ability to efficiently recover key IT applications within the required timeframes.

### Recommendation

A process should be implemented to periodically check the readability of backed up data; in addition, this check should ensure data is sufficient to recover the application to the required state.

### 3. Matters for communication to those charged with governance

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

In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired. In respect of our consideration of the retention of the audit engagement for the period commencing 1 April 2009, we confirm that we will comply with the APB Ethical Standards for that period. Details of our independence policies and safeguards are provided in Appendix 4.

#### International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland)”) require that we report on a number of additional matters. These are set out in Appendix 4.

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

## 4. Corporate Governance review and our responsibilities

### 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 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.

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 Authority’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 Authority’s governance arrangements and internal controls derived from our audit work.

## 5. Value for money (VFM) conclusion

### The VFM conclusion

Under the Code of Audit Practice 2008 (the Code), auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in the Code as comprising corporate performance management arrangements and financial management arrangements. This conclusion is given within our audit report on the Authority's accounts.

The conclusion is limited to an assessment of eight criteria specified by the Audit Commission under the Use of Resources (UoR) methodology. The UoR assessment consists of judgements against ten key lines of enquiry (KLOE) which focus on financial management but also link to the strategic management of the Authority. The KLOE cover a range of topics including how financial management is integrated with strategy and corporate management supports Authority's priorities and delivers value for money. Assessments are carried out annually, as part of each Authority's external audit. For district councils, the Commission has specified that eight of the ten KLOE will be considered for 2008/09.

Where, in our judgement, there are gaps in the arrangements which are significant enough, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Authority has put in place proper arrangements except for...) or in the form of an 'adverse' conclusion (i.e. the Authority has not put in place arrangements in that...). Based on the guidance we have received from the Audit Commission, where qualified, our report refers only to the criteria which we conclude have not been met, without providing further details.

For the purposes of the conclusion required by the Code, auditors are required to apply a yes/no assessment to the applicable Code criteria, i.e. the audited body either has proper arrangements in place or not.

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

In the table below we have summarised the results of our assessment:

Code criteria	KLOE	Conclusion
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	1.1	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	1.2	No
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	1.3	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2.1	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	2.2	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	2.3	Yes
7. Does the organisation manage its risks and maintain sound system of internal control?	2.4	Yes
8. Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	3.3	Yes

Based on the above assessment, we expect to issue an 'except for' conclusion for KLOE 1.2, "Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?" KLOE 1.2 was assessed against the detailed UoR guidance issued by the Audit Commission. In particular, the following areas were noted as being areas for improvement:

- Understanding costs – in 2008/09, there were several examples where the Authority undertook detailed cost analysis for specific operational and strategic decisions. However, there was not an overarching process for reviewing and understanding costs across all service areas. In reaching this conclusion, we note that the Authority has now established a value for money strategy for the current financial year that should address this issue; and
- Making efficiencies – the cost of many of the Authority services are in the upper quartile when assessed against its statistical neighbours (not necessarily geographical neighbouring authorities), although we note that the value for money strategy should allow the Authority to assess this area in a structured way. Further, whilst the Authority achieved its targeted efficiency savings for the year, as assessed by National Indicator 179, the target for the year was not a stretched target, with the Authority needing to achieve significantly higher levels of efficiencies in 2009/10 and 2010/11 to meet its three-year target.



## 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.

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.

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

25 September 2009

## Appendix 1: Audit adjustments

### Unadjusted misstatements

We report all individual identified unrecorded audit adjustments in excess of £7,468 and other identified misstatements in aggregate in the table below.

Errors of fact	Note	(Credit) / charge to current year income statement £	Increase / (decrease) in net assets £
Reallocation of cash held in Girobank account	[1]		
Cash			16,463
Debtor		-	(16,463)
Cash received pre year end that was not recognised until post year end	[2]	13,400	(13,400)
Historic overpayment of NI not considered recoverable	[3]	13,009	(13,009)
Reallocation of waste bins held within stock	[4]		
Fixed assets			94,112
Stock		-	(94,112)
Additional bad debt provisions	[5]	140,720	(140,720)
Difference between actuarial value of scheme assets and total assets in the Fund	[6]		
Pension Liability		-	29,681
Pension Reserve		-	(29,681)
<b>Total</b>		<b>167,129</b>	<b>(167,129)</b>

Errors of fact in the prior year have a net impact of credit impact on current year Income and Expenditure Account of £8,673.

#### Notes

- [1] Cash held in a Giro bank account within debtors.
- [2] Unrecorded liability due to NNDR fund
- [3] Write off of historic debtors of overpaid National Insurance (NI) not considered to be recoverable
- [4] Reallocation of waste bins used by the Authority to generate income from stock to fixed assets
- [5] Additional bad debt provisions considered necessary due to general economic environment
- [6] Difference between actuarial value of assets assessed immediately prior to Fund year end and the final valuation of assets from the investment managers.

## Appendix 1: Audit adjustments (continued)

### Recorded misstatements

No misstatements were adjusted in the financial statements

### Disclosure deficiencies

The drainage board are related parties of the Authority and have not been included as such in the notes to the accounts on the basis that they are not material.

There is limited disclosure in respect of financial instruments.

### Recorded disclosures

The following disclosures have been included within the statement of accounts:

Cash flow statement has been redrafted and included on the indirect basis and a prior year adjustment has been made in respect of Revenue Financed from Capital Under Statute. The accounting policies have been updated to state that the new Revenue Financed by Capital Under Statute is a change in accounting policy.

Fixed asset accounting policies have been update to include a policy on revaluation and the measurement basis used during a revaluation for the different categories of assets.

The stock policy has been amended to remove reference to small items of plant and equipment.

An accounting policy has been included for operating leases.

The explanatory forward has been updated to explain the FRS 17 pension liability and the change of accounting policy on the valuation of certain assets used in the FRS 17 valuation of assets.

## Appendix 2: Draft Audit Opinion

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RYEDALE DISTRICT COUNCIL

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Ryedale District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the related notes to the Core Financial Statements 1 to 38 and the related notes to the Collection Fund 1 to 6. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Ryedale District Council as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Corporate Director (s151) and the independent auditors

The Corporate Director (s151)'s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and of its income and expenditure for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes as described in the contents section, and consider whether it is consistent with the audited accounting statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

## Appendix 2: Draft Audit Opinion (continued)

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In our opinion the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

#### **Auditors' Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Appendix 2: Draft Audit Opinion (continued)

### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Ryedale District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009 except that it did not put in place adequate arrangements for:

- ‘Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?’

### Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Paul Thomson (Engagement Lead)**

**For and on behalf of Deloitte LLP**

Appointed Auditor

Leeds, England

[DATE]

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.

## Appendix 3: Draft Management Representation Letter

We ask that the Authority notes the format of the letter below, and recommends the Corporate Director (s151) can sign the letter on behalf of the Authority.

**Deloitte LLP**  
**1 City Square**  
**Leeds**  
**LS1 2AL**

*Our Ref: PT/JR/AJB*

*Date: XX September 2009*

### **Ryedale District Council – Audit of the annual accounts for the year ended 31 March 2009**

This representation letter is provided in connection with your audit of the financial statements of Ryedale District Council for the year ended 31 March 2009 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of Ryedale District Council as of 31 March 2009 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 Authority which presents fairly and for making accurate representations to you.

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

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority and relevant committee meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Authority involving:
  - (i). Management;
  - (ii). Members of the Authority;
  - (iii). Employees who have significant roles in internal control; or
  - (iv). Others where the fraud could have a material effect on the financial statements.
5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

## Appendix 3: Draft Management Representation Letter (continued)

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the report to the Authority. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.
8. 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 Authority. Any significant changes in those values since the balance sheet date have been disclosed to you.
9. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Authority and confirm that we have disclosed in the financial statements all transactions relevant to the Authority and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 “Related party disclosures” or other requirements.
10. We have considered all claims against the Authority and on the basis of legal advice 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.
11. No other legal claims have been received or are expected to be received that would have a material impact on the annual accounts.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
13. We confirm that we are of the opinion that the Authority is a going concern, that we have disclosed to you all relevant information of which we are aware and which relates to our opinion, and that all relevant facts are disclosed in the financial statements.
14. 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.
15. The financial statements are free from material misstatement.
16. 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.
17. The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority’s assets.
18. 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 auditors 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)

19. 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; and
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology.

The amounts included in the financial statements derived from the work of the actuary are appropriate.

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

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 Ryedale District Council

## Appendix 4: Matters for communication to those charged with governance

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

In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired. In respect of our consideration of the retention of the audit engagement for the period commencing 1 April 2009, we confirm that we will comply with the APB Ethical Standards for that period.

Our audit fee will be in line with the planned audit fee of £79,350 (2007/08: £68,625).

### Non-audit services

We are not aware of any inconsistencies between APB Ethical Standards and the Authority'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.

### Independence policies

Our detailed ethical policies, standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner or immediate family member is allowed to hold a financial interest in any of our UK audit clients;
- require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client;
- 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 audit clients or their affiliates;
- prohibit any professional employee from obtaining gifts from clients unless the value is clearly significant; and
- provide safeguards against potential conflicts of interest.

## Appendix 4: Matters for communication to those charged with governance (continued)

### 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.

### International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland)”) require we report on the following additional matters:

210 Terms of audit engagements

240 The auditor’s responsibility to consider fraud in an audit of financial statements

250 Consideration of laws and regulations in an audit of financial statements

315 Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement

320 Audit materiality

545 Auditing fair value measurements and disclosures

550 Related parties

560 Subsequent events

570 Going concern

580 Management representations

720 Other information in documents containing other audited financial statements

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

## Appendix 4: Matters for communication to those charged with governance (continued)

### Safeguards and procedures to ensure independence

- 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.
- We report annually to the Authority our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements.
- In accordance with the 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.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board for Accountancy (POBA) 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 POBA, 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 POBA and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual organisations.

# Deloitte.

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