

Ryedale District Council

Report to the Overview and Scrutiny Committee on the 2012 Audit Planning

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Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for Ryedale District Council (“the Council”) for the year ending 31 March 2012 along with the results of our preliminary testing of key audit-relevant general computer controls. The FRC has made it clear, in its ‘Update for Audit Committees – November 2010’, that it expects audit committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. This report will describe the work we undertake in order to support this activity.

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| Audit scope | This document is in relation to the proposed external audit of Ryedale District 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. |
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| Key audit risks | <p>The key audit risks which we have identified as part of our overall audit strategy are:</p> <ol style="list-style-type: none">1. valuation of non-current assets, including heritage assets and reliability of the new asset register system – “Real Asset Management” software;2. collection of debt and the adequacy of bad and doubtful debt provisioning;3. pension scheme assumptions;4. presumed risk of revenue recognition fraud; and5. presumed risk of management override of controls. <p>Further details of the specific risk are set out in section 2 of this report.</p> |
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| Findings from the planning visit | <p>We have substantially completed our planning visit and set out in this report for your attention our findings and recommendations.</p> <p>The key observations that we have made are:</p> <ul style="list-style-type: none">• journal review and backup;• implementation of the new FMS accounting system in April 2012 may lead to missed accruals;• minor weaknesses are noted in the design and implementation of some information security controls over the Powersolve accounting application and there is a lack of periodic, and documented, review of access audit logs for some systems. <p>These are set out in detail within section 3 of this report.</p> |
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Executive summary (continued)

Value for money audit - Financial resilience and prioritisation of resources

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

- proper arrangements in place 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 is 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 determine 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 have identified as part of our overall audit strategy is the delivery of financial targets and the management of the reduction in financial resources.

More detail is given in section 5 of this report.

Materiality

Materiality levels are calculated on the basis of total gross expenditure for the year. We estimate materiality based on the prior year results to be £361,677. We will update the Committee on the value of materiality for 2011/12 once it has been set.

We will report to the Overview and Scrutiny Committee on all unadjusted misstatements greater than £7,233 and smaller misstatements if they are qualitatively material.

More details of these calculations are given in section 1 of this report.

Other matters for those charged with governance

We have communicated to you separately in our publication entitled “Briefing on audit matters”, attached at Appendix 2, those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity.

We confirm we are independent of the Council and will reconfirm our independence and objectivity to the Overview and Scrutiny Committee for the year ending 31 March 2012 in our final report to the Overview and Scrutiny Committee.

Executive summary (continued)

Timetable

This year's timetable comprises the following:

- a review of the IT environment in March 2012;
- a planning visit in March 2012;
- a final visit lasting 6 weeks commencing 2 July 2012.

Our value for money work will also be carried out between April and September 2012.

This report sets out the findings from our planning visits. The findings from the final visit will be presented at the Overview and Scrutiny Committee meeting in September 2012.

The audited financial statements and the Whole of Government Accounts ("WGA") return must be approved and submitted by 5 October 2012.

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 at Appendix 2.

The audit opinion we intend to issue will reflect the financial reporting framework required of Local Authorities and as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards.

For the 2012 financial statements, we will use 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.

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, attached at Appendix 2.

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 planning visit, we will concentrate specific audit effort on the significant audit risks set out below:

1. Valuation of non-current assets, including heritage assets

Risk & Response

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.

We will obtain a copy of the latest third party valuation report and review a sample of 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.

We will review the Council's approach to identifying heritage assets and confirm whether appropriate disclosures are made in the financial statements as necessary.

As part of our work on fixed assets we will review 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.

2. Collection of debt and the 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 including the aging 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 post year-end cash receipts against year-end debtor balances.

3. 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.

2. Key audit risks (continued)

5. Presumed risk of revenue recognition fraud

Risk & Response

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.

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 the provisions of the Code of Practice on Local Authority Accounting based on IFRS have been consistently applied.

6. Presumed risk of management override of controls

Risk & Response

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.

We will perform the following:

- understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and test the appropriateness of a sample of such entries and adjustments;
- review 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;
- a retrospective review of management’s judgements and assumptions relating to significant estimates reflected in last year’s financial statements; and
- 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.

3. 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 audit relevant general computer controls.

Findings from the planning visit

1. Documentation of journals

Background Our preliminary review of the journals file showed that not all journals have supporting documentation and journals raised by senior management do not appear to be reviewed.

This observation was noted in our prior year report in September 2011.

Non-authorisation of journals 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.

Deloitte response Ensure all journals are reviewed and have sufficient supporting documentation.

Management response Whilst accepting the comments made, there needs to be an assessment of cost versus value in full documentation of all journals. Most journals are supported by documentation held in various record forms i.e. computerised application software (fuel, depreciation etc), spreadsheets (vehicle costing, insurance, salary recharges etc) and manual documentation (internal recharges, error suspense etc). Records are also held in a number of different locations. Once the new FMS is fully functional this will be revisited.

2. Implementation of new accounting software – FMS

Background On 1 April 2012, a new accounting system went live and data was migrated from the old system to the new system. The window for data entry at 31 March 2012 was significantly reduced to facilitate smooth data migration in April.

Deloitte response There is a risk that some liabilities may not be recorded at 31 March 2012 due to the old system being promptly closed to data entry in early April 2012. Management will need to review all post year-end invoices received to ensure any amounts relating to 2011/12 are recorded as an accrual in the 2011/12 financial statements.

Management response This has been done as part of the close down process. The 2011/12 final accounts have been prepared using the old system (Powersolve). Powersolve creditor payments were closed down on 28 March 2012. Liabilities that were entered and paid on the new accounting system (Civica Financials) and relevant to 2011/12 were issued with a specific creditor payment transaction type "crinvold". The input of the data entry into Civica Financials and the subsequent transfer of the transactions back into Powersolve was closely monitored by the Finance Section. The window for this process was for a period of 1 April 2012 to 18 April 2012 and has mitigated the risk of liabilities not being recorded at 31 March 2012. Arrangements were made prior to the year end to ensure that service units were active in obtaining invoices promptly from suppliers. Further liabilities outstanding after this period have been entered by subsequent listed creditor journals.

3. Internal control (continued)

3. General computer controls

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|----------------------------|---|
| Background | <p>Our detailed findings from our work, in March 2012, on key audit-relevant general computer controls are included in Appendix 1 to this report.</p> <p>In summary we identified minor weaknesses in the Council's design of information security controls (i.e. access rights, use of passwords, etc) over the Powersolve accounting application. There is one admin account shared by two users with a shared password.</p> <p>It was also noted that not all systems have periodic, documented, reviews of access audit logs.</p> |
| Deloitte response | <p>Our detailed recommendations are included in Appendix 1 to this report.</p> <p>In summary, re-consideration should be given to shared access rights and admin users should only perform actions through their individual accounts to allow traceability.</p> <p>Periodic, and documented, reviews of access audit logs should be performed for all systems.</p> |
| Management response | <p>Responses from IT management are included in Appendix 1 to this report.</p> <p>In summary, IT management have confirmed that all our recommendations raised would be investigated and implemented as necessary over the next 6-12 months.</p> |

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 have and will continue to liaise with the 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 systems 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 audit 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.

4. Consideration of fraud

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

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.

We have made initial inquiries of the following parties regarding fraud:

| Management | Internal audit | Those charged with governance |
|--|---|--|
| <p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p> | <p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.</p> | <p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.</p> |

We will make inquiries of others as appropriate. We will also inquire into matters arising from your whistle blowing procedures. We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the council and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the council's financial statements communicated by employees, former employees, analysts, regulators or others.

5. Value for money (VFM)

Based upon our initial assessment, we will concentrate specific effort on the key audit risk set out below. Our risk assessment will however be revisited during the course of our audit, for example when 2011/12 outturn and 2012/13 quarter 1 budget and performance monitoring information is available. Any changes to our risk assessment will be reported in our final report to the Overview and Scrutiny Committee in September 2012.

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 and December 2011, the Council is facing severe financial pressures over the next few years. Work is still ongoing by management to develop further measures to achieve the financial funding gap in 2013/14.

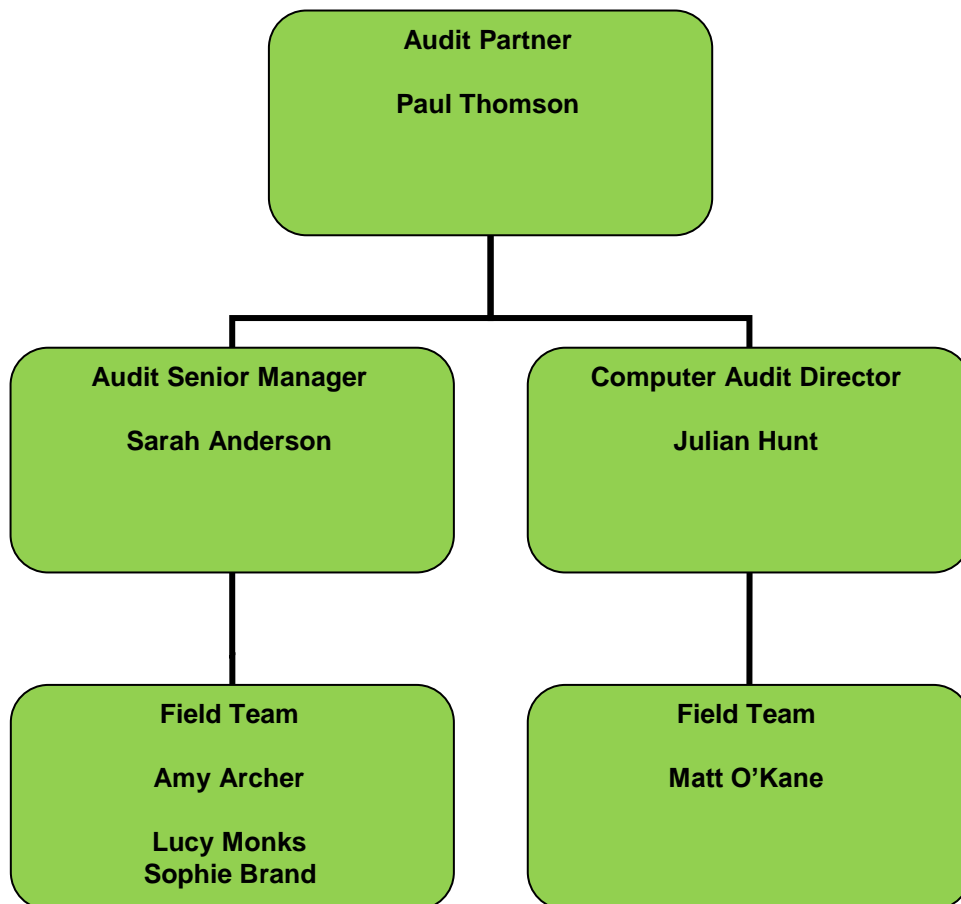
We will review the risk assessments for the savings proposals in the 2012/13 budget and arrangements for the ongoing management of those risks. Progress in developing plans for 2013/14 will also be monitored. During the course of this work, we will consider the effectiveness of arrangements to assess the implications of savings measures and to manage their impact on the delivery of strategic priorities.

We will also select 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.

We will maintain a watching brief over delivery of the savings plans and performance against budgets.

6. Client service team

We set out below our audit engagement team.



7. Responsibility statement

This report sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to you and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

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

19 June 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: Detailed findings from our work on key audit relevant general computer controls

Executive Summary

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| Executive Summary | <p>In accordance with our normal practice, we would like to draw your attention to the findings and recommendations that we identified during our review of the IT environment at Ryedale District Council (“Ryedale”), which took place during April 2012.</p> <p>We have held discussions with the IT and Finance departments at Ryedale to update our understanding of the key IT.</p> <p>As a result of our work, we have found there are four recommendations that require remediation by management in order to improve the overall IT control environment.</p> <p>Finally, to thank Mick Phythian and the IT and Finance departments at Ryedale for their assistance during the audit.</p> |
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Detailed observations

The following observations were identified during our audit work in April 2012.

| Area | Priority | Observation |
|--|----------|---|
| 1 Administrator access privileges | H | The highest levels of access in each of the key financial applications (iWorld, AIM, PowerSolve and Authority Purchasing) are granted to senior members of staff, giving them full access to any transactional functionality within these applications and the ability to bypass any designed segregation of duties or functional access controls in place. |
| 2 Use of generic administrator accounts | H | Shared generic administrator accounts are used to support the PowerSolve and Authority Purchasing applications and the underlying UNIX servers. Furthermore, there is no formal review or monitoring of activities performed by users with administrative access. |
| 3 User access management | M | No formal review of end user access has been performed on the Windows domain or on the iWorld Revenue and Benefits application during the audit period. |
| 4 Security and audit event monitoring | M | Audit and event logs are not formally reviewed at the domain, application, or database level. |

Appendix 1: Detailed findings from our work on key audit relevant general computer controls (continued)

2012 Action Plan

Our recommendations for management are documented in the following action plan.

| No. | Area | Recommendations | Priority | Management comments | Responsibility | Deadline |
|-----|--|--|----------|--|----------------------------|-------------------|
| 1 | Administrator access privileges | <p>Management should review the segregation of duties issue raised and remove these conflicts where possible.</p> <p>Alternatively, the council should document that the conflict exists and formally accept the risks that this creates. Approval should be documented and retained for audit purposes, and the conflict should be reviewed at least annually.</p> | H | This piece of work will be undertaken by the Council's internal auditors | Corporate Directors (s151) | 30 September 2012 |
| 2 | Use of generic administrator accounts | <p>Due to the powerful nature of administrator level accounts, where possible, users should have unique administrator accounts to ensure that all activities are attributable to a named individual. This should be supported by periodic review of logs to ensure that users with administrator access are only undertaking authorised actions which are part of their job role.</p> <p>Where the ownership of accounts cannot be established, effective monitoring controls, including audit and event logging, should be established to compensate for the lack of accountability (see recommendation 4 below).</p> | H | This piece of work will be undertaken by the Council's internal auditors | Corporate Directors (s151) | 30 September 2012 |

Appendix 1: Detailed findings from our work on key audit relevant general computer controls (continued)

| No. | Area | Recommendations | Priority | Management comments | Responsibility | Deadline |
|-----|--|---|----------|--|----------------|--|
| 3 | User access management | <p>We recommend that all user profiles within core applications (iWorld, AIM, PowerSolve and Authority Purchasing) and privileged Windows AD accounts are reviewed and recertified at least every six months, in order to ensure that user access rights are commensurate with their current roles and responsibilities.</p> <p>Reviews of Windows user accounts which have not been logged in for a significant period of time should be performed. The review should also ensure that all users with access to restricted drives on the network are appropriate.</p> <p>Documentation to evidence these reviews should be retained by IT.</p> | M | These recommendations will be auctioned by the IT team | IT Services | To be implemented with effect from 1 July 2012 |
| 4 | Security and audit event monitoring | <p>A framework should be established that enables the monitoring and detection of any potential security breaches to allow IT to promptly investigate any breaches.</p> <p>Independent system monitoring measures should be introduced which ensure that potential security violations and the activity of privileged users are logged, are reported against and reviewed.</p> <p>We agree that a balance is required in terms of system performance and security risk.</p> | M | There is no record of significant potential security breaches and whilst there are security features on selected systems there is no cross network security. The justification of the purchase of 'independent' system monitoring will need to be proven against the impact on system performance. | N/A | N/A |

Appendix 1: Detailed findings from our work on key audit relevant general computer controls (continued)

Password Configurations

| | System | Windows domain | PowerSolve | AIM | iWorld | Authority Purchasing |
|-------------------|------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Password Policy | Recommended | | | | | |
| Minimum length | 6 - 8 characters | 7 ✓ | 6 ✓ | 7 ✓ | 8 ✓ | 7 ✓ |
| Maximum age | 30-90 days | 90 days ✓ | 30 days ✓ | 30 days ✓ | 30 days ✓ | 90 days ✓ |
| History | Not use 5 previous passwords | 20 ✓ | 10 ✓ | 3 ✗ | 5 ✓ | 20 ✓ |
| Lockout Threshold | After 3 failed attempts | 5 ✓ | 3 ✓ | 3 ✓ | 3 ✓ | 5 ✓ |
| Lockout Duration | Requires administrator reset | Admin reset required ✓ | Admin reset required ✓ | Admin reset required ✓ | Admin reset required ✓ | Admin reset required ✓ |
| Complexity | Enforced (alphanumeric) | Enforced ✓ | Enforced ✓ | Enforced ✓ | Enforced ✓ | Enforced ✓ |

Key: ✓ meets or exceeds the recommended settings

✗ does not meet the recommended settings

Appendix 2: 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:

- to express an opinion in true and fair view terms to the members on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework;
- 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;
- to form an opinion on whether adequate accounting records have been kept by the Council; and
- 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:

- 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
- 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 2: 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:

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

The extent of our procedures is not based on materiality alone but also 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 2: 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:

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

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 2: Briefing on audit matters (continued)

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to the members our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the 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.
- 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.
- 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 2: Briefing on audit matters (continued)

Independence policies

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

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any 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;
- 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;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB 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:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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