Our Planning Report to the Overview and Scrutiny Committee on the 2012/13 Audit

27 June 2013

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Overview and Scrutiny Committee
Ryedale District Council
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5 June 2013

We have pleasure in setting out in this document our planning report to the Overview and Scrutiny Committee of Ryedale District Council ("the Council") for the year ended 31 March 2013.

This plan has been prepared to inform the members and staff of the Council about our responsibilities as your external auditors and how we plan to discharge them. In this report we have set out the scope and approach of our audit including our initial view on what we consider to be your key audit risks.

Our audit risk assessment is continuously under review during the course of the audit period and should our assessment of risk fundamentally change we reserve the right to revisit the proposed work schedule. Any amendments to the Audit Plan will be discussed with management and agreed with the Overview and Scrutiny Committee.

We would like to take this opportunity to thank the management team for their on-going assistance.

Deloitte LLP

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Leeds

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

1. Strategic context

The Council has a good track record of delivering savings and has managed financial performance and reserves effectively. The Council recognises it faces continuing financial challenges with on-going savings required. A balanced budget has been set for 2013/14 and management do not anticipate major difficulty in delivering the savings that have been approved by members.

Going forward, there is increased uncertainty over the implications of central government policy decisions such as reductions in funding, changes in the funding mechanisms for local government and welfare reform. During 2013/14 the Medium Term Financial Plan is being revised to cover the period of 2014-18. Maintaining robust governance arrangements during the period of change with reduced resources and increased risk will be vital in ensuring no unexpected consequences arise from decisions made.

We look forward to continuing to work with the Council and will support the Council in addressing its key challenges, within the bounds of our role as external auditors.

The Council has a good track record of delivering savings but the challenge to continue to achieve financial balance is increasing

2. Scope of work and approach
Audit scope

We conduct our audit in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the statement of accounts in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”).

The Code requires that we:

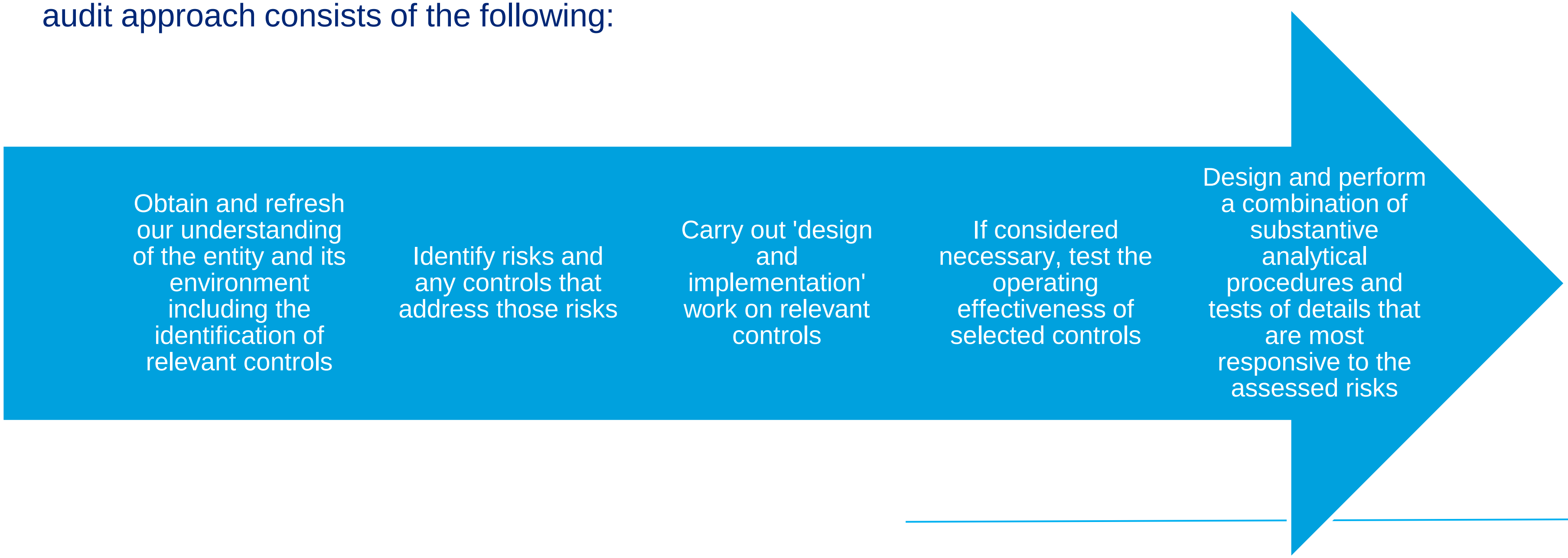
- issue an opinion on the financial statements of the Council;
- satisfy ourselves as to whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work; and
- confirm that the deminimus thresholds for the “Whole of Government Accounts” return have not been breached and consequently that no return is required.

Our work is carried out under the Code of Audit Practice 2010, issued by the Audit Commission

2. Scope of work and approach (continued)

Controls

As set out in "Briefing on audit matters" circulated to you with this report, our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:



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

The results of our work in obtaining an understanding of controls will be considered in determining the extent of substantive audit testing required

2. Scope of work and approach (continued)

Scoping of material balances

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

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.

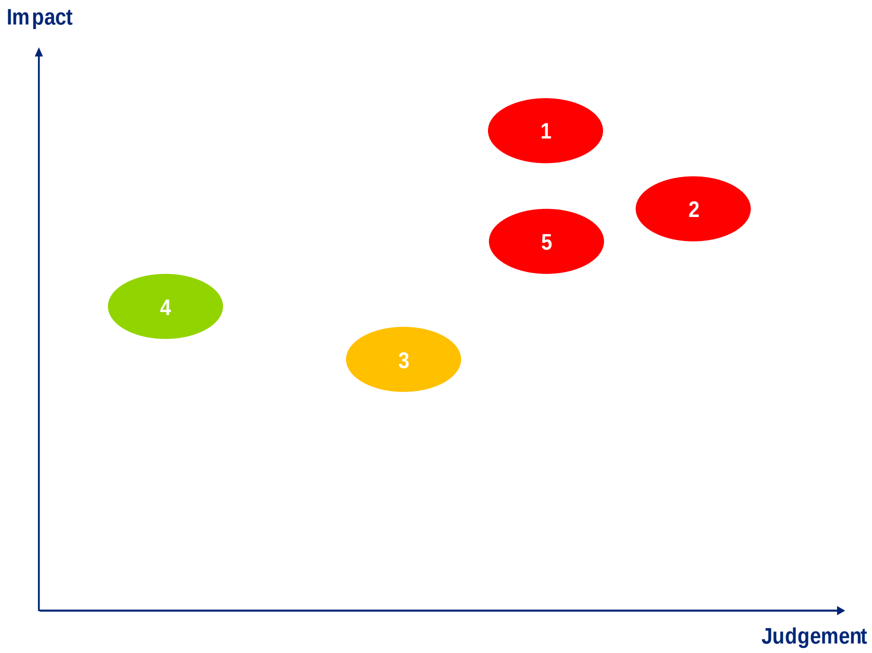
The audit team has reviewed this year's internal audit reports and found no instances where the audit approach should be adjusted. Where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that any new additional specific audit risks are covered by our work.

A risk focussed audit approach allows us to tailor our testing to your Council, placing greater emphasis on areas that are a greater source of risk and concern for the organisation

3. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

We have plotted the key audit risks to show where we believe there is highest level of judgement and impact on the financial statements.



1. Presumed risk of revenue recognition fraud
2. Valuation of non-current assets
3. Collection of debt and adequacy of provisioning
4. Pension Scheme assumptions
5. Presumed risk of management override of control

3. Significant audit risks (continued)

Presumed risk of revenue recognition fraud	Deloitte 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.

Valuation of non-current assets	Deloitte 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.	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.

3. Significant audit risks (continued)

Collection of debt and adequacy of provisioning	Deloitte 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.

Pension scheme assumptions	Deloitte 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. We will also review the valuation of scheme assets.

3. Significant audit risks (continued)

Presumed risk of management override of controls	Deloitte 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. Value for money conclusion

The approach to local value for money (VFM) audit work at councils is specified by the Audit Commission. Consistent with last year, auditors are required to give their statutory VFM conclusion based on the following two criteria:

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

We have planned our local programme of work, which assesses the arrangements in place and not the decisions made, based on our risk assessment, which is informed by a series of risk factors determined by the Audit Commission.

The principal activities undertaken during our risk assessment include:

- meetings with key members and corporate directors to update our understanding of the key risks and challenges faced by the Council;
- discussions with officers and review of documentation in relation to corporate processes including financial, performance and risk management; procurement; asset management and LEAN activities;
- review of quarterly financial and non-financial performance information;
- review of relevant Council, Executive, Committee and Risk Appraisal Panel minutes and associated papers; and
- review of benchmarking information provided by the Audit Commission (the VFM profiles and financial ratios tool) comparing the cost of services provided with those of other councils.

The key audit risks which we have identified as part of our overall audit strategy and our proposed audit response are detailed below. Our risk assessment is kept under review during the course of our audit and will be updated following review of the year end financial and performance outturn information.

3. Value for money conclusion (continued)

Delivery of financial targets and the management of reduction in financial resources	Deloitte response
Following the Government's Comprehensive Spending Review in 2010 and subsequent local government finance settlements each year, the Council is facing financial pressures over the next few years. In addition, the changes encompassed in the suite of new Acts – the Localism Act 2011, the Welfare Reform Act 2012 and the Local Government Finance Act 2012 - will put further strains on the planning and budgeting processes. Work is still on-going by management to finalise further measures to achieve the financial funding gap in 2014/15.	We will review the risk assessments for the savings proposals in the 2013/14 budget and arrangements for the on-going management of those risks. 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 and will consider the arrangements in place for governance and scrutiny.

4. Significant changes introduced by the Code in 2012/13

Topic	
Housing Revenue Account ("HRA")	The Localism Act 2011 replaced the previous subsidy method of financing the HRA with a system of self-financing. The Council received a one-off payment in 2011/12 from central government which was used to repay debt. From 2012/13, the Council will no longer receive housing subsidy or Major Repairs Allowance (MRA) income. Instead the Council will be expected to fund all HRA revenue and capital expenditure from existing resources.
Exit packages	The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. The value of exit packages has historically not been material; therefore we do not consider this to be significant audit risk of material misstatement. We have included this as an area of significant audit risk above as this is an area which is considered to be qualitatively material.
Explanatory Foreword	Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages local authorities to take into consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. Unlike the FReM, the Code does not include a specific requirement to prepare a sustainability report which would show the Authority's use of finite resources, but neither does it prevent an authority from including such information in its Explanatory Foreword. Specific additional disclosures would include, but are not limited to, a brief history of the authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members, and sickness absence data.

5. 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.

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 may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the 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 to 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.

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Leeds
5 June 2013

Appendix 1: Prior year uncorrected misstatements

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our prior year audit:

		(Credit) / charge to deficit on provision of services £000	(Increase) / decrease to General Fund £000	Increase / (decrease) in net assets £000	(Increase) / decrease in unusable reserves £000
Misstatements identified in current year					
Incorrect amortisation of intangible assets	[1]			(62)	62
Total				**(62)**	**62**

[1] Incorrect amortisation of intangibles - increase amortisation within the comprehensive income and expenditure statement £62k, decrease intangible assets on the balance sheet £62k, increase net deficit in the General fund £62k decrease Capital Adjustment Account £62k.

We obtained written representations from the Council confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

Appendix 2: Independence and fees

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 confirmation	We confirm we are independent of the Council and will reconfirm our independence and objectivity to the audit committee for the year ending 31 March 2013 in our final report to the Overview and Scrutiny Committee.
Fees	Details of the audit fees proposed for the period have been presented separately in the appendix.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 2: Independence and fees (continued)

As part of our obligations under International Standards on Auditing (UK & Ireland) and the APB's Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity.

Service provided	Threats to auditor independence	Safeguards in place
Certification of claims and returns under Audit Commission certification instructions.	None noted. Certification work is the independent verification of claims or returns and does not influence the nature or value of any items which are subsequently audited.	None required.

Appendix 2: Independence and fees (continued)

The table below details our proposed audit fees and non audit fees for the year ending 31 March 2013:

	Current year £000	Prior year £000
Audit of Council under Audit Commission Code of Audit Practice		
Audit Commission scale fee (Note 1)	55	91
Total audit	**55**	**91**
Non-audit service		
Certification of claims and returns under Audit Commission certification instructions	19	33

Notes:

1. The 2012/13 scale fee set by the Audit Commission reflects a reduction of 40% on 2011-12 fees. The fee excludes:
   - any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
   - any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately.
   - any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
   - value added tax which will be charged at the prevailing rate.

   We have also assumed that:

   - Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided by the agreed start date for the interim audit visit;
   - Good quality working papers and records will be provided to support the financial statements by the agreed start date for the final audit visit; and
   - Good quality working papers will be available by the deadline for submission of the WGA return to auditors to support the WGA return.

Appendix 3: Fraud considerations

Characteristics

- 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.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
    - Internal audit
    - Policies covering hospitality, gifts and inducements and whistleblowing
    - Standards of conduct for members and officers
    - Counter-fraud arrangements within the Benefits service.

Responsibilities

- 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.

Process and documentation

- We will make the enquiries on the previous page between the date of this report and our final audit visit. Our preferred approach is to schedule a short meeting or phone call to discuss each person's perception of the risk and occurrence of fraud and to facilitate this discussion with a short checklist of consideration points which we would ask participants to review, consider and respond to before our meeting.

Concerns

- As set out in the significant risks and accounting judgements section, we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation.
- No other concerns have been identified from whistle blowing procedures or by management about quality of management in any service area.

Appendix 3: Fraud considerations (continued)

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
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 Management's process for identifying and responding to the risks of fraud in the entity 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 Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	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 and status reports on fraud cases during 2012/13	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 Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

Appendix 3: Fraud considerations (continued)

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.

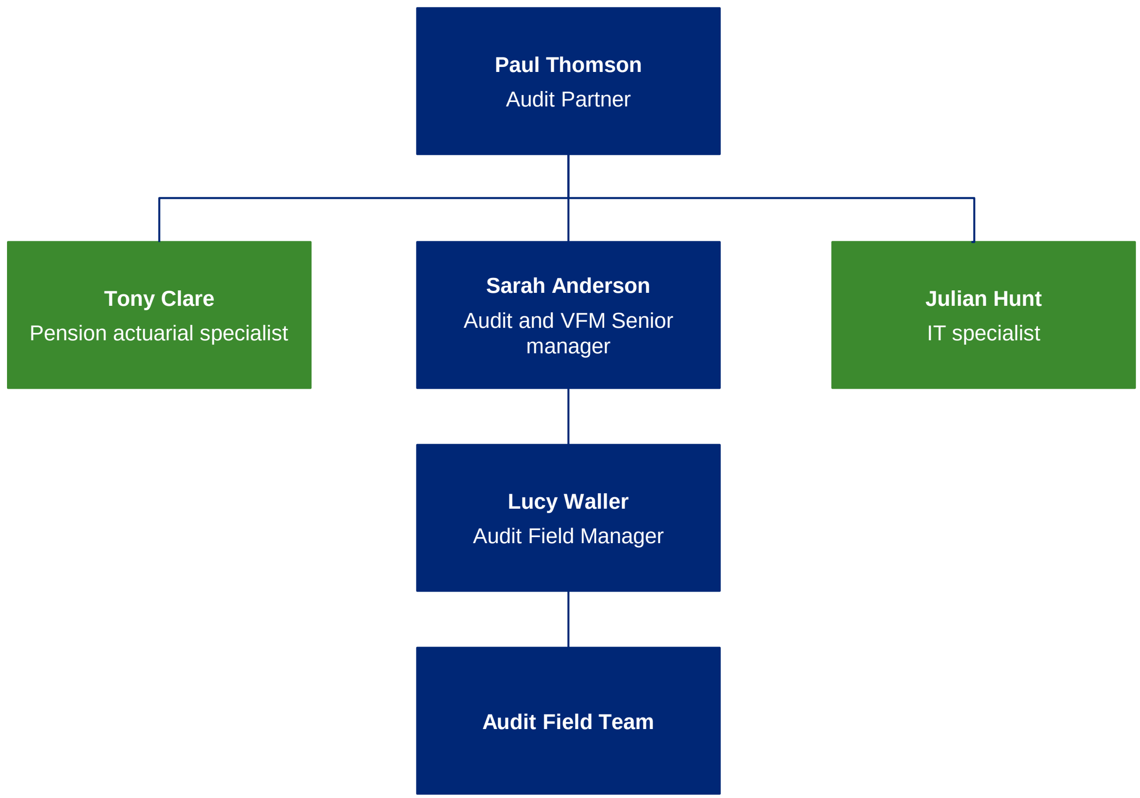
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- 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 entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4: Audit engagement team and timetable

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and draws on the expertise of our public sector group.



Appendix 4: Audit engagement team and timetable

Set out below is the approximate expected timing of our reporting and communication with the Council

Planning	Interim results review	Year end fieldwork	Reporting	Post reporting activities
Meetings with management to: • confirm risk assessment and management response; and • agree on key judgemental accounting issues. Early discussion on areas to improve financial statements	Review of results for the year to date Complete audit work to refresh out understanding of the Council and its systems, processes and internal controls Audit testing completed on expenditure recorded to date Present the audit plan to the Audit Committee	Complete audit testing as set out in this Audit Plan Complete testing on the annual report and the whole of government accounts returns Finalisations of work in support of Value for Money conclusion Discuss and agree conclusions with the finance team and present findings to the Director of Finance	Present findings, final report and the audit opinions to the audit committee Sign the audit opinions Report to the National Audit Office on the Whole of Government Accounts returns	Hold a lessons learned meeting with the finance team Seek feedback on the audit process stakeholders e.g. the Audit Committee, finance team etc. Issue of annual audit letter
March 2013	**April – June 2013**	**July – August 2013**	**September - October 2013**	**October 2013 onwards**

Ongoing communication and feedback

Appendix 5: Proposed changes for the 2013/14 accounts

Topic	
Changes proposed by the 2013/14 Code	**IFRS 13: Fair value accounting** The 2013/14 Code will introduce the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances. Non-financial non-profit generating assets are taken out of the scope of this standard and will be carried at a ‘public sector valuation’, which is presumed to reflect the assets’ service potential. As a result of the adaption the Council would not be required to measure property, plant and equipment in accordance with IFRS 13; however in order to meet the disclosure requirements of the standard the Code makes it necessary for authorities to consider which level of the fair value hierarchy the valuation technique they have used will apply. The Council will need to ensure that the valuer is made aware of the introduction of IFRS 13 and the Code’s adaption of it. Where the change is expected to be material to the accounts, the Council will need to disclose in its 2012/13 financial statements: • the title of the new or amended standard; • the nature of the change of accounting policy; • the date at which the change of accounting policy is required; and • a discussion of the impact that initial application of the IFRS is expected to have on the financial statements. **Other amendments** Other changes include: • amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements*; • amendments to IAS 19 *Employee Benefits* including changes to definitions and terminology, changes to the recognition requirements and clarification of the disclosure requirements; • a number of clarifications and augmentations of the provision of the Code as a result of the CIPFA/LASAAC IFRS post implementation review; • amendments to IAS 12 *Income Taxes*; • new definitions and clarification for service concession arrangements that are assets under construction or intangible assets; • clarification on the treatment of overdrafts; and • amendments to IFRS 7 *Financial Instruments: Disclosures* requiring information that will enable users to evaluate the potential effect of netting arrangements.

Appendix 5: Changes for the 2013/14 accounts (continued)

Topic	
Local Government Finance Act 2012	**Council tax support** The Local Government Finance Act 2012 includes provisions designated to localise council tax support. Council tax benefit will disappear and individual local authorities will be responsible for preparing their own council tax reduction (“CTR”) schemes. The current system means that central government reimburses the Council for all correctly awarded council tax benefit. Going forward, it is intended that the source of funding for each authority’s CTR scheme will be the proportion of business rates retained by authority. We understand that the Council has agreed a scheme and that this will in place from 1 April 2013. This will impact the accounts for the year ending 31 March 2014. **Non domestic rates** The provisions allow the Secretary of State to move money around by deciding how much of the non-domestic rate income collected by the Council should be retained by the Council, paid to central government and paid out by central government to local authorities for local government purposes. This will impact the accounts for the year ending 31 March 2014. CIPFA will use the 2013/14 Code update to cover the accounting implications of these changes.