

RYEDALE
DISTRICT
COUNCIL



Ryedale District Council

Final Report to the Overview and Scrutiny Committee on
the 2014 Audit

24 September 2014

the
Distinctive
audit

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A reminder of our audit plan:

- We determined materiality as £400k and a reporting threshold of £13k
- We identified 5 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- We have taken a fully substantive approach to testing the financial statements.



The big picture

The big picture

We anticipate issuing an unmodified audit opinion upon completion of our work.

Audit work

- We have discussed our initial comments on the draft financial statements with management.
- From our audit work on the financial statements we have not identified any material misstatements or significant deficiencies in internal controls at the Council, a small number of minor disclosure deficiencies have been identified which were corrected by management.
- We have undertaken a risk assessment in line with the Audit Commission guidance on assessing the delivery of Value for Money and have concluded that there are no specific risks to the delivery of Value for Money.
- A representation letter will be circulated separately for consideration by management.
- From our work undertaken so far we expect to issue an unmodified opinion in line with your specified deadlines.

We have the following principal matters to complete:

- Report from Pension Scheme auditors to support the valuation of Pension Scheme Assets
- Final review and close down procedures;
- Subsequent events review; and
- Receipt of signed letter of representation.

Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/ or disclosure matters within the financial statements.

Summary of significant audit risks

Key areas of judgement focused upon during the audit

Description of the risk		← Acceptable Range →										Findings		
Revenue Recognition	Overly cautious and/or likely to future credit					✓							Overly optimistic and/or likely to future debit	G
Management Override of Controls						✓								G
Valuation of PPE						✓								G
Bad Debt Provisioning						✓								G
NNDR Appeals Provision						✓								G

✓ Current Year Assessment

G	No issues noted	A	Adjustment identified
R	Material unresolved matter		

Preparing financial statements requires management to exercise significant judgement and make reasonable and supported estimates. In many of these areas there is inevitably a range of possible judgements and estimates for management to consider, and we set out above our assessment of where in that range the key judgements lies for the group financial statements. The table above shows, on a range of acceptable outcomes from less conservative to more conservative, where management's key assumptions and valuations relating to significant estimates lie.

Our independent assessment of these judgements is outlined in this section.

1. Revenue Recognition

Revenue recognition is consistent with the Code

Nature of risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition; evaluate which types of revenue, revenue transaction or assertions give rise to such risks.

Our focus for the risk of revenue recognition is the risk of incorrect cut-off between accounting periods.

The key judgement areas and their potential impact on the financial statements

Key controls are required to ensure income is recorded in the correct period and in the correct category. The key judgement is the date of the supply of service which in turn drives the point of revenue recognition.

Audit work completed to address the significant risk

We have performed testing by selecting a sample of cash receipts, both before and after the balance sheet date, and confirming that all income received was correctly recognised as income in the financial statements in the appropriate accounting period.

In addition, an area of judgement is grant income, and we have performed detailed testing on a sample of grants to ensure recognition is in line with the provisions of the Code of Practice on Local Authority Accounting based on IFRS.

Deloitte view

We do not consider there to be evidence of management bias in the revenue recognition policies adopted.

The revenue recognition policies are in line with other Local Government entities and the CIPFA Code.

2. Management override of controls

Management estimates appear reasonable and free from bias

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and their potential impact on the financial statements

Management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Management may override controls through:

- recording fictitious journal entries;
- applying inappropriate judgment;
- omitting, advancing, or delaying recognition of events and transactions;
- engaging in complex transactions that are structured to misrepresent financial position or financial performance;
- omitting disclosure of related parties and transactions; and
- altering records related to significant and unusual transactions.

Management's key judgements involve instances where estimates are required in the absence of definitive evidence, for example the NNDR appeals provision covered elsewhere in this report.

Audit work completed to address the significant risk

We have performed the following audit procedures:

- reviewed the processes and performed design and implementation work on the controls management have in place;
- used our 'Audit Analytics' software to test a risk focused sample of journals to ensure the appropriateness of journal entries;
- reviewed accounting estimates for evidence of bias;
- reviewed Committee minutes; and
- stayed alert to the possibility of significant transactions that are outside the normal course of business for the Council.

Deloitte view

From our testing we do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias and significant transactions outside the normal course of business.

3. Valuation of PPE and Investment Property

PPE and Investment Property appear to be valued appropriately

Nature of risk

There has been a clarification of the Code of Practice for 2013/14, the Council is required to revalue property, plant and equipment with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Investment properties are required to be carried at fair value at each balance sheet date.

The key judgement areas and their potential impact on the financial statements

The Council engaged Roger Barnsley (RICS Qualified) to undertake a valuation exercise of land and buildings as at 31 March 2014 on an Existing Use Value, Market Value and Depreciated Replacement Cost value basis in accordance with the Code of Practice.

The key judgements made by management are the adoption of the assumptions made by the valuer.

Audit work completed to address the significant risk

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

The valuation resulted in a reduction to investment properties of £527,000 and a reduction in operational assets of £195,000 to the extent that enhancements in the year added less value to the assets for the two major projects in the year. We challenged the assumptions and basis of valuation used by the valuer and have no comments to make. We reviewed the accounting policies in respect of componentisation and consider that these continue to be appropriate

We have tested the design and implementation of controls management has put in place to ensure Land and Buildings are materially fairly stated in the balance sheet and we have tested the disclosure of PPE balances in the accounts, particularly with reference to the disclosures of valuation methodologies and the date of valuation.

Deloitte view

Our work in relation to the valuation of non-current assets has been completed. The results of our testing were satisfactory with the valuation exercise being completed in line with the Code of Practice.

4. Calculation of bad debt provision against debtors

The bad debt provision appears reasonable

Nature of risk

In the current climate there is likely to be more pressure on the Council's rate-payers' financial resources. Therefore, it 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.

The key judgement areas and their potential impact on the financial statements

The following provisions are included in the financial statements:

Sundry debtors	£164,000	47% of balance * (2013 46%)
Housing benefit	£255,000	57% of balance (2013 56%)
Council tax/NNDR arrears	<u>£ 68,000</u>	
Total	£487,000	25% of total short-term debtors *

(* debtors have been adjusted to exclude a one-off large balance fully paid post year end.)

Audit work completed to address the significant risk

We have challenged management's methodologies and assumptions used to calculate the bad debt provision and the evidence to support the approach.

We have considered whether provisions appropriately reflect the impact of the changing economic conditions and welfare reforms by reference to recent collection performance and trends.

We have tested the integrity of the ageing data which the Council uses to profile debtors by age, to confirm that the base data which is provided against is accurate.

Deloitte view

From our testing we do not consider management's provisions against bad debt to be unreasonable and have not identified any non-compliance with the Code.

5. Completeness of NNDR appeal provisions

Provisions for NNDR appeals have a rational basis of calculation

Nature of risk

From our initial inquiries, we understand a number of significant business ratepayers have appealed against the ratings provided by the Valuation Office Agency (VOA).

During the year the collection fund paid out a significant amount (£940,000) relating to a Ministry of Defence appeal, following instruction by the VOA.

We understand the Council entered a risk pooling arrangement for NNDR with a number of North Yorkshire councils from 1 April 2014 however, this is not directly relevant to our audit this year.

The key judgement areas and their potential impact on the financial statements

The full value of the NNDR appeals provision is £1,269,000, of which 40% is the Council's proportion, being £507,600.

The underlying assumption is an appeal success rate of 4.3% based on past experience. Three atypical properties are provided for on specific bases following management's discussions with appeals officers and experts.

Audit work completed to address the significant risk

We have challenged management's methodologies and assumptions used to calculate the appeals provision and the evidence to support the approach, and considered whether provisions appropriately reflect the historical trends for NNDR claims of this nature.

We have reviewed VOA data and trends, in order to formulate a best-estimate of the provision and use this to determine whether Management's approach is reasonable.

Deloitte view

From our testing we do not consider management's provisions against NNDR appeals to be unreasonable and have not identified any non-compliance with the Code.

Value for Money and the Annual Governance Statement

Value for Money Conclusion

Requirement

Under the Audit Commission Code of Audit practice, as appointed auditors, we are required to draw a conclusion regarding the Council's arrangements to secure economy, efficiency and effectiveness of its use of resources (the Value For Money (VFM) conclusion). As was the case in previous years, there are no specific criteria and we will meet our VFM duty by addressing the areas of focus determined by the Commission as set out below.

Area of Focus

In reaching our value for money conclusion our work is focused around:

- reviewing the Annual Governance Statement;
- reviewing the results of the work of other relevant regulatory bodies, to consider whether there is any impact on the auditors responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

Audit work completed

We have reviewed the risk assessments for the savings proposals in the 2014/15 budget and arrangements for the on-going management of those risks. Progress in developing the budget for 2015/16 is on-going with the next meeting expected to be in November to discuss planned budget savings. Whilst the Council has coped well with previous government funding cuts, the anticipated future reductions in funding from 2015/16 onwards will be a significant challenge involving difficult decisions around resource prioritisation including whether to use the New Homes Bonus or look for other funding options.

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

We completed our risk assessment and concluded that there were no specific risks to the Value for Money conclusion for 2013/14 and, as a consequence, have not undertaken any locally determined risk based work.

We have considered the results of our work on the Annual Governance Statement, the results of our audit work and the findings of internal audit.

Value for Money Conclusion (continued)

The VfM Conclusion

Under the Code, auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that, in all significant respects, the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The conclusion has regard to the criteria specified by the Commission and we do not consider all aspects of the Council's arrangements. This conclusion is given within our audit report on the Council's accounts. We are required to report if, in our judgement, matters come to our attention which are significant enough to prevent us from concluding that proper arrangements are in place in the areas considered. In such a circumstance, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Council has put in place proper arrangements except for...) or in the form of an 'adverse' conclusion (i.e. the Council has not put in place arrangements in that...).

For 2013/14, as at the time of writing this report, we have assessed the Council for both the financial resilience and the economy, efficiency and effectiveness criteria as having proper arrangements in place. We will update on this verbally at our meeting on 24 September 2014 and confirm whether we will be issuing an unqualified conclusion, as is currently anticipated.

Deloitte view

Based on our findings to date we anticipate providing a positive conclusion on the Council's Value for Money arrangements.

The Annual Governance Statement

Requirement

In respect of the Annual Governance Statement, we are required to review the statement for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Council.

Area of Focus

The Governance Statement covers all significant corporate systems, processes and controls, spanning the whole range of a Council's activities, including in particular those designed to ensure that:

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

Our review is directed at:

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

Audit work completed

We have performed the following work in relation to the Annual Governance Statement:

- ensured that it complies with the requirements as set out in the Code of Practice on Local Council Accounting in the United Kingdom 2013/14; and
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, Board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

Deloitte view

We are satisfied that the Annual Governance Statement is consistent with the prescribed format and our understanding of the Council.

Insight - Internal control and risk management

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Overview and Scrutiny Committee.

Internal control and risk management

We highlight one observation from our audit procedures



Area	Observation/Finding	Recommendation	Management Comment
Management do not undertake a regular review of City of York's internal audit reports in relation to Payroll.	It was noted through our testing the Council do not undertake a regular review of the Internal Audit reports at City of York Council ("CYC") and thus would not be aware if any control deficiencies were identified at the service organization with regard to the operation of Payroll.	Ensure management undertake a regular review of the IA reports issued by Veritau to CYC in relation to the administration of payroll.	Peter Johnson to undertake a discussion with CYC regarding their internal control environment regarding the payroll function going forward.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Overview and Scrutiny Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements.

Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Explanatory foreword
- Our views on the effectiveness of your system of internal control relevant to risks that may affect financial reporting.
- Other insights we have identified from our audit

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated 26 March 2014 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Chartered Accountants

Leeds

16 September 2014

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Audit adjustments

Unadjusted misstatements detail

Recorded audit adjustments – corrected misstatements

We report all identified recorded audit adjustments in excess of £13,000. There were no audit adjustments arising from our audit work.

Uncorrected misstatements

No uncorrected misstatements (above reportable threshold of £13,000) were identified during the course of our audit.

Appendix 2: Fraud - responsibilities and representations

Required representations



We have asked the Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

Concerns



No concerns have been identified from whistle blowing procedures from the work noted above and our audit procedures.

Audit work performed



In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance. We have made direct enquiries in relation to any fraud risk factors and instances of fraud during the year. Our testing of journals provides comfort over the risk of management override of controls which was raised as a fraud risk.

In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

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.

Appendix 3: Independence and fees

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

Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Fees

We have not provided any non-audit services in the period from 1 April 2012 to 31 March 2014. In September 2014 we have performed a certification under the Homes & Communities Agency requirements for a fee of £2,000.

Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or of 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.

Relationships

There are no other relationships with Ryedale District Council which would impact on our objectivity and independence.

Appendix 4: Our approach to audit quality

Recognition of and further impetus for our quality agenda

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

The Financial Reporting Council (“FRC”) issues an Annual Report on Audit Quality Inspections, providing an overview of the activities of its Audit Quality Review (“AQR”) team for the year.

“The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures...”

The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. However, issues continued to arise in some of these areas.”

AQR Report on Deloitte for 2013/14

<https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2014-Deloitte.pdf>

Deloitte response

- Our strategic objective is to execute high quality, distinctive audits.
- We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm.
- We consider that the AQR's report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.
- We value the regulator's inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process.
- As part of our agenda of continuous improvement we have given careful consideration to each of the FRC's comments and recommendations. This has included investigation of the root causes of each finding. This has enabled us to develop, in conjunction with findings arising from our own quality review procedures, an effective response to the themes arising.
- Following the AQR review, we have implemented improvements to our audit procedures and our system of quality control.
- Deloitte's Audit Transparency Report provides further information regarding our approach to delivering quality and is available on our website:
http://www.deloitte.com/view/en_GB/uk/about/annual-reports/index.htm

Twelve of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. We were disappointed that one audit was assessed as requiring significant improvements in relation to the testing of the collective and individual loan loss provisions although this did not cause the AQR to doubt the validity of our audit opinion. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 67% of audits achieving the top grade from the AQR, the highest proportion amongst our peers.

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