Ryedale District Council

Report to the Overview and Scrutiny Committee on the 2011 Audit

Final Report

September 2011

Contents

Key findings

We have pleasure in setting out in this document our report to the Overview and Scrutiny Committee of Ryedale District Council ("the Authority") for the year ended 31 March 2011 for discussion at the meeting scheduled for 26 September 2011. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2011. The main audit visit took place during July and August and we are happy with the way that the audit has progressed. Audit working papers were of a generally good standard, except for the area of the cash flow statement where there is a material unreconciled difference in the 2009/10 comparatives that have been restated for the IFRS transition. This means the cash flow statement in 2009/10 has been balanced through the inclusion of a reconciling item which Officers are unable to support. Our opinion is qualified in respect of the 2009/10 comparatives to the cash flow statement. We would like to thank those officers involved in the audit.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Audit status	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan except for the cash flow statement issue noted above. The audit is subject to the satisfactory completion of the matters set out below: • completion of testing on the value for money conclusion; • internal review and quality control procedures; and • receipt of the management representation letter. Our opinion has been qualified in respect of the 2009/10 comparative to the cash flow statement, Except for the effects of this matter we are satisfied that the financial statements will give a true and fair view of the affairs of the Authority subject to satisfactory completion of the outstanding matters noted above. We anticipate issuing an unmodified value for money conclusion (see Section 4).

Key findings on audit risks	The key audit risks we identified in our Audit Plan are set out below with our audit findings: 1. **changes to the accounting framework:** prior year figures have been correctly reworked and current year changes to accounting policies correctly adopted; 2. **changes to the revenue and benefits system:** in February 2011 the revenue and benefits system was migrated from Civica to Northgate. Our testing showed that balances had been correctly migrated to the new system; 3. **valuation of fixed assets:** we have reviewed the valuation of the Authority's property and its approach to componentisation. From the testing performed we are satisfied that valuation of assets of the Authority and its approach to componentisation are in accordance with the guidance issued by the Royal Institute of Chartered Surveyors; 4. **adequacy of bad and doubtful debt provisioning:** the bad debt provision at the balance sheet date is reasonable, although some minor uncorrected extrapolated misstatements are identified at Appendix 1; 5. **pension scheme assumptions:** the assumptions used by the actuary are within expected ranges and therefore are reasonable; 6. **accounting for share of partnership assets and liabilities:** our testing showed that the assets and liabilities of the partnerships have been appropriately excluded from the results of Ryedale District Council; 7. **presumed risk of revenue recognition fraud:** appropriate cut-off and recording procedures have been applied; and 8. **presumed risk of management override of controls:** no issues of management override were noted in the testing performed. More details of our findings on audit risks are given in Section 1.

Key findings (continued)

Identified misstatements	Audit materiality was £361,677 (2010: £386,813) which is amended from the figures set out in our Audit Plan of £428,000 due to a lower final gross expenditure figure being presented for audit. Identified uncorrected misstatements, if adjusted, would decrease the deficit on provision of services by £39,146 and increase net assets by £39,146. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Details of the uncorrected misstatements are included in Appendix 1. Two audit adjustments have been made by Officers from the draft accounts approved by the s151 Officer in June 2011. The first adjustment of £253,000 relates to a reclassification within the capital financing note. The second adjustment relates to reclassification of reconciling items disclosed in the cash flow statement and the notes to the cash flow statement.

Control observations arising from the final audit visit	We set out in this report for your attention our findings and recommendations from our final audit visit together with an update on the findings from our planning visit. The key observations that we have made relate to: 1. documentation of journals; 2. documentation to support the authorisation of the disposal of fixed assets; and 3. IT security. More details of our findings on other matters are given in Section 2.

Accounting policies and financial reporting	As part of our audit, we consider the quality and acceptability of the Authority's accounting policies and financial reporting. The Statements of Accounts have to be prepared under an International Financial Reporting Standards ("IFRS") - based Code of Practice on Local Authority Accounting for the first time this year. The draft financial statements presented for audit met most of the disclosure requirements of the IFRS Code 2010. To improve compliance with the Code we recommended a number of additional disclosures. Two areas of non-compliance with the Code have been identified.

Financial standing – Value for Money (VFM) conclusion	We have considered the financial standing of the Authority for 2010/11 in respect of our VFM conclusion. We have considered this based on current/ongoing expenditure demands, expected grant income and the current cash position of the Authority. The government's funding cuts have caused a reduction in expected grant income in the future; however the Authority has drawn up plans on how to deal with differing levels of grant reduction. More details are given in Section 4.

1. Key audit risks

The results of our audit work on the key audit risks identified in our audit planning report are set out below:

Changes to the accounting framework

Key findings

Prior year figures have been correctly reworked and current year changes to accounting policies correctly adopted.

Background

The financial statements of all Councils are required to comply with the accounting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards ("IFRS"). There are various changes, required as a consequence of the transition to IFRS, which will affect balances in the accounts such as leases, fixed assets, deferred grants and employee benefits. The comparative figures for the year ended 31 March 2009 and 2010 are required to be retrospectively reworked on this new basis and the financial statements will include a prior period restatement in respect of this change in the accounting framework. There is a risk that some of the changes in the accounting framework may be overlooked or misinterpreted.

Deloitte response

At our visit in April 2011 we reviewed the initial conversion work that has been performed by the finance team on the 2009 and 2010 balances in respect of the main changes noted above. We noted that some areas of this work were incomplete at that time, such as, the restatement of property plant and equipment.

During our audit work in July and August 2011 we reviewed the re-stated financial statements. We found these accounts complied with most of the disclosure requirements of IFRS Code 2010. To improve compliance with the Code we recommended a number of additional disclosures. Two areas of non-compliance with the Code have been identified. (See Section 3)

Changes to the revenue and benefits system

Key findings

Our testing performed showed that balances had been correctly migrated to the new system.

Background

The revenue and benefits system was changed to the Northgate application in February 2011. The system went live from 18 February 2011. There is a risk that data may not have been migrated correctly from the old to the new system and that data may be incorrectly recorded due to lack of experience on the new system.

Deloitte response

Our testing found that the balances had been correctly migrated from the Civica to the Northgate system.

As part of the migration the Authority had performed two tests of the system prior to migrating the live data. This enabled the Authority to resolve all issues identified during the test runs prior to migration being fully implemented. No unresolved issue in respect of the migration were noted from our testing.

1. Key audit risks (continued)

Valuation of non-current assets	
Key findings	**We have reviewed the valuation of the Authority's property and its approach to componentisation and are satisfied that the assets of the authority are recorded in accordance with the guidance issued by the Royal Institute of Chartered Surveyors.**
Background	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 requirement under IFRS for all new or revalued fixed assets with component parts, which may have different useful lives, to be reviewed and the components to be depreciated at different rates according to their useful lives. This requirement applies prospectively from 1 April 2010. For the IFRS requirement of componentisation, we will perform a review of the process for identifying components for new and revalued assets and the associated depreciation charge calculation.
Deloitte response	During 2010/11 no revaluations were performed. A full valuation of all assets of the Authority was performed during 2009/10 in advance of the transition to IFRS. From our testing of the assets held by the Authority we have not identified any indications of impairments. We have reviewed the process undertaken by management to identify components within the existing asset base of the Authority. We note that Officers have undertaken analysis which shows that the depreciation charge on a componentised basis is materially consistent with the existing depreciation policy. On that basis no componentisation of assets was undertaken during 2010/11. It is the intention of Officers to keep the need to componentise assets under review when it acquires new assets in the future and also when it performs its next valuation of assets as part of the rolling five year programme of valuations.

Adequacy of bad and doubtful debt provision	
Key findings	**The provision is considered reasonable.**
Background	In the current climate there is likely to be more pressure on the Authority'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 Authority has in place for reviewing and providing against bad and doubtful debts owed to the Authority 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.
Deloitte response	We obtained the detailed calculation of all elements of the bad debt provision: • the provision was reviewed and compared to the historical calculation of the bad debt provision; • the provisioning policy was considered to be adequate although a minor extrapolated error was identified; • the calculation was reperformed to assess the accuracy of the calculation; and • the ageing of the debtor balance was assessed to confirm the accuracy. One likely adjustment has been proposed in Appendix 1.

1. Key audit risks (continued)

Pension scheme assumptions	
Key findings	**The assumptions used by the actuary are within expected ranges and therefore appear reasonable.**
Background	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 Authority. During 2010/11 the North Yorkshire Pension Fund went through a triennial valuation which may also impact on the key assumptions.
Deloitte response	We have reviewed the assumptions made by the actuary in valuing the Authority's share of the assets and liabilities of the pension fund. We have also consulted with our own in-house actuaries to determine whether the assumptions are reasonable and within expected ranges. The assumption adopted by Officers are an area of judgment however we are satisfied that the assumptions used are within expected ranges and therefore are reasonable. Our review noted that the date at which the transition to using CPI instead of RPI in the pension liability assumptions was not the date from which the change was enacted in law. Our actuaries have calculated that the effect of this difference in assumption is a £100,000 increase to cost of service and decrease to pension interest cost (therefore nil overall impact to the CI&E). This item has been included in Appendix 1.

Accounting for share of partnership assets and liabilities	
Key findings	**Assets and liabilities of the partnerships have been appropriately excluded from the results of Ryedale District Council.**
Background	The Authority utilises a number of partnerships (for example Building Control Partnership) for the provision of services to residents and businesses. A risk exists regarding the completeness of such information given the operations of the partnership is outside of the Authority's direct control.
Deloitte response	We have reviewed Officer's process to ensure they results are received in prompt manner. We are satisfied that all partnership balances, where appropriate, have been appropriately excluded from the Authority's financial statements.

Presumed risk of revenue recognition fraud	
Key findings	**Appropriate cut-off and recording procedures have been applied.**
Background	International Standards on Auditing (UK and Ireland) 240 states "The auditor's responsibility to consider fraud in an audit of financial statements" require 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.
Deloitte response	We performed testing by selecting a sample of cash receipts across the year end and confirmed that all income received was correctly recognised as income in the correct line in the financial statements and in the appropriate period. In addition, testing of grant income was performed to ensure that the new provisions of IFRS have been consistently applied.

1. Key audit risks (continued)

Presumed risk of management override of controls	
Key findings	**No issues of management override were noted in the testing performed.**
Background	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.
Deloitte response	We have performed the following: • understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments; • reviewed accounting estimates for bias 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; and • a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and obtained an understanding of the business rationale of significant transactions that we became aware of that were outside the normal course of business or that otherwise appeared to be unusual given our understanding of the organisation and its environment. No issues were noted in our testing, except that journals are not always documented. A control observation is included in Section 2 in respect of this.

2. Control observations arising from our final audit visit

This section of the report summarises our observations and recommendations from our final audit visit together with an update on the findings from our planning visit.

Documentation of journals	
Background	Our review of the journals file showed that not all journals had supporting documentation. This may result in a loss of audit trail and lead to difficulties in Officers understanding the rationale for specific journals if they need to understand this at some point in the future.
Deloitte response	Ensure all journals have sufficient documentation before processing.
Management response	Documentation will be improved to support the reason for the entry of non-recurring journals.

Documentation to support the authorisation of the disposal of fixed assets	
Background	From our review of fixed assets at the year end it was noted that the Civica system had been disposed of as part of the upgrade of the revenue and benefits system to Northgate. We reviewed the disposal of the Civica system as part of our testing of intangible assets. No formal documentation to record the disposal of this asset was prepared and authorised by Officers.
Deloitte response	It is recommended that all fixed asset disposals are authorised by the department head and that this is countersigned by Finance.
Management response	Formal notification procedures and documentation is in place regarding the disposal of the Council's land and property, however, this is not the case with intangible assets i.e. software. Formal arrangements will be introduced for managers to inform the finance section of the termination of contracts or disposal of intangible assets.

IT security	
Background	During our discussions we also noted that a number of business users have administrator access to the in-scope applications: • Civica & Northgate - Sherri Williamson (Local Taxation Manager) and Angela Jones (Customer Services and Benefits Manager) • Capita - Ruth Leonard (Senior Cashier) • PowerSolve application - Peter Johnson (Group Accountant) and David Wiseman (Finance) • Authority Purchasing - Peter Johnson (Group Accountant) and Ann Chapman (Finance)
Deloitte response	Where possible an appropriate segregation of duties should be maintained between business users and administrators for application systems. Where an effective segregation of duties is not maintained, there is an increased risk of inappropriate access being granted to users who do not require the access, or inappropriate transactions being made that affect information within the application system
Management response	This issue will be referred to the internal audit partnership for inclusion in the annual audit for the specified systems.

3. Accounting policies and financial reporting

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

We note that the Authority has continued to produce good quality working papers for audit. We would like to take this opportunity to thank the Corporate Director (S151) and his team for their assistance during the process.

Our comments on the quality and acceptability of the Authority's accounting policies and financial reporting are discussed below.

Accounting policies

The 2010/11 accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (IFRS).

Due to the move to IFRS revised accounting policies have been adopted in relation to grants, leases and cash and cash equivalents. New accounting policies have been included in respect of non-current assets held for resale, investment properties and short term employee benefits. There are no matters to bring to your attention from our review of these accounting policies.

Financial reporting

There are four uncorrected misstatements above our threshold in the current year. Three of these uncorrected misstatements would impact the reported deficit in the Comprehensive Income and Expenditure Account. (See Appendix 1)

Two disclosure deficiencies have been identified that have not been amended by Officers:

- Financial Instruments note – Officers have not calculated a reconciliation of the movement between the opening and closing bad debt provision; and
- Financial Instruments note – Officers have not calculated a summary of debts passed due but not impaired.

In relation to the first disclosure deficiency identified we note that it is the consideration of Officers that the amount of work to generate the disclosure is not justified. In respect of the second disclosure deficiency we note that Officers are unable to generate this information from the debtors ledgers and that the amount of work to generate this disclosure manually is not justified.

4. Other matters for communication

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	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Overview and Scrutiny Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.

International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication “Briefing on audit matters” (circulated with our Audit Plan) to bring to your attention that have not been raised elsewhere in this report or our Audit Plan.

Non-audit services	We are not aware of any inconsistencies between APB Ethical Standards and the Authority’s policy for the supply of non-audit services or of any apparent breach of that policy. There were no non-audit services performed in the year.

Audit fees	The external audit fees in relation to audit services provided on behalf of the Audit Commission in the period from 1 April 2010 to 31 March 2011 are as follows: Fees payable for the audit of the annual accounts (excluding VAT): £96,260 The audit fee has been calculated in accordance with Audit Commission fee scale. The fees for certification of claims and returns are estimated at £25,000 and will be confirmed in our Annual Audit Letter at the February 2012 meeting of the Overview and Scrutiny Committee.

Liaison with Internal Audit	The audit team, following an assessment of the independence and competence of the Internal Audit department, reviewed the findings of Internal Audit to inform the risk assessment and consider the impact on our audit approach as deemed appropriate. No adjustments were made to the audit approach as a result of our review of the work of Internal Audit.

Written representations	A copy of the representation letter to be signed on behalf of the Overview and Scrutiny Committee is included at Appendix 2.

4. Other matters for communication (continued)

We also bring to your attention other regulatory matters which are relevant to the Authority:

Bribery Act 2010

Background

The public sector falls within the scope of the Bribery Act 2010, which came into force on 1st July 2011. Specifically, public sector organisations, including the Authority can commit offences in these sections of the Act:

- Section 1 – bribing another person;
- Section 2 – offences relating to being bribed; and
- Section 6 – bribing a foreign public official.

If a public sector organisation commits any of those offences then senior officers can be personally liable if it was committed with their consent or connivance. On conviction under the Act an individual may be sentenced to up to 10 years in prison. An organisation may be subject to an unlimited fine.

The new offence of a commercial organisation failing to prevent bribery (set out in Section 7) only applies to incorporated companies and partnerships that carry on a business in the UK. However, bodies created by statute as corporate bodies could fall within the scope of the offence.

Most of the commentary on the Act has focused on the new Section 7 offence, and in particular on the defence available to an organisation if it can show that it had in place 'adequate procedures' designed to prevent bribery. The Government published guidance for consultation on what will constitute adequate procedures for the purposes of the Act.

Unfortunately, this guidance does not consider the definition of a commercial organisation set out in the Act. In light of this lack of clarity, public sector organisations that believe they could fall within the definition should consider how the draft guidance could be adapted to reflect their own organisational structures and practices.

Impact

Most public authorities already have bribery procedures in place and while this will help in the prevention and detection of bribery in the public sector and where it works alongside the private sector, it will not make public body staff immune to involvement in situations where bribery may occur. Clearly, the public sector will be expected to play its part in reporting any suspicious activity in the private sector.

The Bribery Act should be considered by the Authority as part of the Corporate Risk Assessment, and the Code of Conduct should be revised to incorporate it. Additionally, to ensure that the Authority is in compliance with the Act, it should:

- update procurement documentation and precedent contracts to refer to the new provisions;
- consider making changes to procurement practices. For example it would be embarrassing for the Authority if a contractor was found to have committed an offence relating to services provided to or on behalf of a public authority. An explicit right to terminate a contract in these circumstances would show that the Authority had tried to prevent such actions and was able to deal with the breaches effectively.

5. Value for money (VFM) conclusion

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 two criteria:

- proper arrangements for securing financial resilience: work to focus on whether the Authority 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 Authority 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 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 identified as part of our overall audit strategy is the delivery of financial targets and the management of the reduction in financial resources.

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, the Authority is facing severe financial pressures over the next few years and particularly in 2012/13. Work is still ongoing by management to develop further measures to bridge the financial funding gap in 2012/13. We have reviewed the risk assessments for the savings proposals in the 2011/12 budget and arrangements for the ongoing management of those risks. Progress in developing plans for 2012/13 is ongoing and we understand a number of meetings have already been held with members. Officers will be launching to staff the strategy for 2013/14 by the end September 2011. We are currently reviewing the minutes of the meeting held in respect of balancing the 2012/13 budget and will consider any issues arising from those minutes that are relevant to our VFM conclusion. Having achieved the savings required to balance the budget for 2011/12 through the successful delivery of the One-11 programme, the Council is now in the process of delivering the savings required for balancing the 2012/13 budget through a programme called 'Going for Gold'. Given the scale of the reduction in headcount which contributed to the delivery of the One-11 programme, the Council is anticipating and preparing for the challenges in achieving a balanced budgetary position for 2013/14. 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 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.

5. Value for money (VFM) 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 Authority's arrangements. This conclusion is given within our audit report on the Authority'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 Authority has put in place proper arrangements except for…) or in the form of an 'adverse' conclusion (i.e. the Authority has not put in place arrangements in that…).

For 2010/11, as at the time of writing this report, we have assessed the Authority for both criteria as having proper arrangements in place. We will update on this verbally at our meeting on 26 September and confirm whether we will be issuing an unqualified conclusion, as is currently anticipated.

6. Annual Governance Statement (AGS)

In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives (“SOLACE”) published ‘Delivering Good Governance in Local Government: A Framework’. This framework replaced the previous CIPFA/SOLACE framework ‘Corporate Governance in Local Government – A Keystone for Community Governance: A Framework’ which was published in 2001.

The framework introduced, from 2007/08, an integrated Annual Governance Statement (“AGS”). The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an Authority’s activities, including in particular those designed to ensure that:

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

Our review is directed at:

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

We have reviewed the Authority’s AGS in line with the requirements above. We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Authority’s governance arrangements and internal controls derived from our audit work.

7. Responsibility statement

The Audit Commission published a ‘Statement of responsibilities of auditors and of audited bodies’ alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Audit Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of Ryedale District Council’s system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion, which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors’ report.

We view this report as part of our service to you for use, as Members, for corporate governance purposes and it is to you alone that we owe a responsibility to its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon, and for the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP
Chartered Accountants
Leeds
21 September 2011

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: Uncorrected misstatements and audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our audit. We will obtain written representations from the Overview and Scrutiny Committee confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the Statement of Accounts taken as a whole, no adjustments are required.

	Comprehensive income and expenditure statement		Balance sheet
	(Credit)/ charge to deficit on provision of services £	(Credit)/ charge to other comprehensive income £	Increase/ (decrease) in net assets £
Factual misstatements			
Overstatement of accrual for amounts due to Department of Work and Pensions	(50,000)	-	50,000
Reclassify part of the RPI to CPI impact - decrease finance costs and increase cost of service £100,000	Net effect Nil	-	-
Reclassify £61,000 of parking machines acquired from debtors to a prepayments	-	-	-
Likely misstatements			
Known (£33) and extrapolated understatement of bad debt provision for housing benefit debtors	10,854	-	(10,854)
Total misstatements relating to current year items	**(39,146)**	**-**	**39,146**

Two audit adjustments have been made by Officers from the draft accounts presented by Officers to Members for their consideration in June 2011. The first adjustment of £253,000 relates to a reclassification within the capital financing note. The second adjustment relates to reclassification of reconciling items disclosed in the cash flow statement and the notes to the cash flow statement.

The draft financial statements presented for audit meet most of the disclosure requirements of the IFRS Code 2010. To improve compliance with the Code we recommended a number of additional disclosures. Two areas of non-compliance with the Code have been identified. (See Section 3)

Appendix 2: Draft Management Representation letter

We ask that the Committee notes the format of the letter below, and recommends the Corporate Director (S151) can sign the letter on behalf of the Authority.

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Our Ref: ***PT/AJL/RDC10/11***

Ryedale District Council – Audit of the annual accounts for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Ryedale District Council ("the Authority") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Authority as of 31 March 2011 and the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Authority which present a true and fair view and for making accurate representations to you.

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

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

4. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in Appendix 1 to the Report to the Overview and Scrutiny Committee.

5. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

6. The financial statements are free from material misstatement.

Appendix 2: Draft Management Representation letter (continued)

Information provided

7. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

8. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

9. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

10. 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.

11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
    (i). management;
    (ii). Members of the Authority
    (iii). employees who have significant roles in internal control; or
    (iv). others where the fraud could have a material effect on the financial statements.

12. 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.

13. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements

14. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

15. No claims in connection with litigation have been or are expected to be received.

16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

17. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority. Any significant changes in those values since the balance sheet date have been disclosed to you.

18. There have been no irregularities involving members or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

19. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

20. The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets.

Appendix 2: Draft Management Representation letter (continued)

21. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditor's report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

22. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities accord with the Members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

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

24. We confirm that it is appropriate to recognise income from recharges to Ryedale District Council for shared services within gross income. This income is the provision of a service and full disclosure is given of amounts of recharges in the notes to the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

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Corporate Director (S151), signed on behalf of Ryedale District Council

Date ________________________