

North Yorkshire County
Council (incorporating
North Yorkshire Pension
Fund)

Annual Audit Letter
on the 2011/12 Audit
October 2012

Contents

| | Page |
|--|------|
| 1. Key messages | 2 |
| 2. Purpose, responsibilities and scope | 3 |
| 3. The audit of the accounts | 4 |
| 4. Value for money | 6 |
| 5. Other matters | 7 |
| 6. Closing remarks | 9 |

1. Key messages

In 2011/12 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”). The adoption of a Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on IFRS resulted in a number of minor changes to accounting policies and disclosures.

The Statement of Accounts was prepared, audited and concluded in accordance with the agreed timetable. The Authority maintained a high standard of financial reporting. One significant and one insignificant adjustment to the reported financial position was required and a number of presentation and disclosure amendments were made to improve compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on IFRS.

We issued an unmodified audit opinion on the Statement of Accounts and the value for money conclusion on 27 September 2012.

We did not identify any material weaknesses in the financial reporting systems and the control observations noted in our report are considered to be minor. Control observations were reported to the Audit Committee on 27 September 2012 as part of our report on significant matters arising from our audit.

We have considered the contents of the Annual Governance Statement and confirmed that the Statement adequately and appropriately disclosed all relevant governance matters arising in the year.

We issued an unmodified audit opinion on the North Yorkshire Pension Fund Annual Report on 27 September 2012.

The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We issued an agreed, except for opinion on the Whole of Government Accounts return on 5 October 2012.

The audit certificate of completion of the audit was issued on 11 October 2012.

Action needed by the Authority

The Authority needs to:

- maintain the ability to continue to meet the financial reporting timetable; and
- implement the actions noted in the management response of each control observations raised in our reports to those charged with governance.

2. Purpose, responsibilities and scope

The purpose of this letter

The purpose of this Annual Audit Letter is to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2012.

Although this letter is addressed to the members of North Yorkshire County Council (“the Authority”), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Authority’s website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

Responsibilities of the Auditor and the Authority

The Authority is responsible for maintaining the control environment and accounting records and for preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on IFRS and other relevant legislation.

We are appointed as the Authority’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including County Councils.

As the Authority’s appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (“the Code”). Under the Code, we have responsibilities in two main areas:

- the Authority’s accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

As the Authority is the Administering Authority for the North Yorkshire Pension Fund we also have responsibility under the Code for the audit of the Annual Report of the Fund.

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on IFRS and other relevant legislation. We conducted our work on the value for money conclusion in line with guidance received from the Audit Commission in respect of single tier and county councils for the financial year ended 31 March 2012.

3. The audit of the accounts

Key issues arising from the audit of the accounts

We issued an unmodified opinion on the Authority's and Group's 2011/12 accounts on 27 September 2012, in accordance with the deadline set for local authorities. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority and Group and its income and expenditure for the year.

We issued an unmodified opinion on the annual report of the North Yorkshire Pension Fund 2011/12 on 27 September 2012, in advance of the deadline set for pension funds on 1 December 2012. Our opinion confirms that the accounts present a true and fair view of the financial position of the Fund and its income and expenditure for the year.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report covering the Authority was discussed with the Audit Committee on 27 September 2012 and there were no key issues to report. A detailed report covering the Fund was provided to Pension Fund Committee on 20 September 2012 and discussed with the Audit Committee on 27 September 2012 and there were no key issues to report.

We received a complete set of draft accounts for the Authority in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems. One significant and one insignificant adjustment to the reported financial position were required. Amendments were made to some of the disclosures to improve compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on IFRS.

We have considered the financial standing of the Authority as at 31 March 2012. We have assessed this based on current/ongoing expenditure demands, expected income levels and the current cash position of the Authority. Public sector funding cuts has caused a reduction in grant income receivable in the four year period from 2011/12 to 2014/15. The first year of the four year medium term financial strategy (MTFS) was delivered successfully and savings proposals are in place for 2012/13. Work is on-going to develop further measures to address the financial funding gap in 2013/14 and 2014/15.

As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Council's governance arrangements. We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Council's governance arrangements and internal controls derived from our audit work.

The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We issued an agreed, except for opinion on the Whole of Government Accounts return on 5 October 2012 in accordance with the deadline set by the National Audit Office.

3. The audit of the accounts (continued)

Audit certificate

When our audit is complete we are required to certify the closure of the audit. The audit certificate was issued on 11 October 2012.

Local challenge work

We have not undertaken any local challenge work during 2011/12.

4. Value for money

Background

From 2010/11 the Audit Commission introduced new requirements for local value for money (“VFM”) audit work at councils. This year, there have been no changes in the scope of our work and auditors are again 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 determined our local programme of work based on our risk assessment, which is informed by a series of risk factors determined by the Audit Commission.

It should be noted that the work carried out was light touch, in line with Audit Commission guidance, focusing on updating our understanding of arrangements and controls in place. As arrangements have previously been assessed as adequate and we are not aware of any changes, we did not carry out detailed testing of the implementation of those controls in the current year.

Value for money conclusion

Having performed our work in line with guidance received from the Audit Commission we issued an unqualified value for money conclusion for the 2011/12 financial year. This means that we are satisfied that in the areas reviewed the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

During the course of our work, which focused on the risks identified by our risk assessment, we reviewed the response of the Authority to the financial pressures and consider it to be appropriate. We also note that no matters of concern have been identified from the work of internal or external audit arising from reducing capacity as a result of reducing resources.

As part of the delivery of the One Council transition programme Internal Audit are to undertake an assurance mapping exercise which will be reported to the December 2012 Audit Committee in line with the agreed timetable. We have agreed the nature and timing of the support we will provide, which will primarily be a quality assurance review. Internal Audit work is on-going at the date of preparation of this report.

5. Other matters

Demise of the Audit Commission

We have previously reported to you that the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission in 2012/13. On 2 June the Audit Commission announced proposals that the audits currently undertaken by their in-house practice should be outsourced to the private sector for the year ended 31 March 2013 onwards and five-year contracts have been awarded to that effect. Following a consultation exercise with all audited bodies about the appointment of their auditor for the audit of the 2012/13 and future year's accounts, the Commission has recently written to the Chief Executive confirming Deloitte as the appointed auditor for the Authority. The Commission will continue to regulate the local public audit market, monitor the performance of the firms providing audit services and determine the scale audit fees until the Government implements a new local public audit regime.

Localism Act

The Department of Communities and Local Government (DCLG) has written to all councils to advise them of the introduction of new standards and conduct arrangements which apply from 1 July 2012. These arrangements are set out in the Localism Act 2011. They require authorities to:

- develop a local code of conduct dealing with the conduct of members and co-opted members of the authority;
- maintain and publish a register of interests; and
- appoint an independent person to provide advice to the council on any allegations it may be considering and to members who may be the subject of the allegation(s). Under transitional arrangements DCLG are allowing the appointment as an independent person of someone who has been an independent chairman or member of the authority's standards committee. A person appointed under the transitional arrangements can hold that office only until 30 June 2013.

Further information on this is contained on the DCLG website, together with an illustrative example of a local code of conduct.

Reports issued

| Report | Date issued |
|---|----------------|
| Fee letters | April 2011 |
| Audit plans | June 2012 |
| Reports to those charged with governance on the 2011/12 audit | September 2012 |
| Annual audit letter | October 2012 |

5. Other matters (continued)

Analysis of audit fees

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Fees payable to the auditor for the annual audit of North Yorkshire County Council | 210 | 233 |
| Fees payable to the auditor for the annual audit of North Yorkshire Pension Fund | 41 | 38 |
| Fees payable to the auditor for local challenge work | - | 5 |
| Fees payable in respect of the certification of grant claims and returns of the Authority (estimate) | 3 | 9 |
| Total | 254 | 285 |

We have not undertaken any non-audit work for the Authority during 2011/12.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

Grants

We have undertaken work during the year on various grant claims made by the Authority. Our work on the 2011/12 certification of claims is still ongoing and a separate report will be prepared in respect of the findings from this work.

6. Closing remarks

This letter has been discussed and agreed with the Corporate Director for Strategic Resources (S151 Officer). A copy of the letter will be presented at the Audit Committee on 6 December 2012.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Leeds, England

24 October 2012

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the Audit Commission.

This report has been prepared for the Members, 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.

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



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