Item 12

North York Moors National Park Authority
Finance, Risk Audit and Standards Committee

19 May 2014

External Audit Fee 2014/15 and Plan 2013/14

1. **Purpose of the Report**

1.1 To inform Members of the 2013/14 Audit fee payable to Deloitte for the External Audit.

2. **Background**

2.1 The Authority is subject to an External Audit of the Statement of Accounts by an appointed Independent Auditor. The Authority's appointed external auditor is Deloitte. Each year the External Auditor prepares a series of documents in relation to the conducting of the Audit. The purpose of this report is to present the Audit Plan and the fee letter for 2014/15.

3. **External Audit Documentation**

3.1 The fee letter confirming the charge for 2014/15 is attached as **Appendix 1.** The fee for the work in 2013/14 has been set by the Audit Commission at £12,016 which remains at the 2013/14 level. This freeze follows a 34% reduction on the rate between 2011/12 and 2012/13. The Audit Commission have indicated that these may be reduced by up to a further 25% in 2015/16 following a procurement exercise.

3.2 Members attention is drawn to the notification that 2014/15 will be the last year in which Deloitte undertake the Audit, following the procurement, and in the light of this Chris Powell will remain as the Authority's Engagement Lead for an additional year as a transitional arrangement agreed with the Audit Commission.

3.3 **Appendix 2** contains the External Audit Plan for 2013/14 including an assessment of risk and briefing on audit matters which Deloitte have requested that we bring to Members attention. The scope of the audit has also been determined by the planning visits which were undertaken in March 2014. The fieldwork will take place in the week commencing 30 June and the work will be finalised over the summer months. This will form the basis of the Annual Audit Letter which will be presented to the Authority in September in accordance with the statutory deadlines at the time when the Statement of Accounts is approved for publication in accordance with the Accounts and Audit Regulations 2011.

4. **Financial and Staffing Implications**

4.1 The financial implications are described in the report.

5. **Sustainability and Legal Implications**

5.1 There are no sustainability or legal implications arising from this report.

6.	**Recommendation**
6.1	That Members note the content of this report and appendices.

Contact Officer:
Irene Brannon
Director of Corporate Services
01439 772700

Background documents to this report	**File Ref**
None	

29 April 2014

Mr Andy Wilson
Chief Executive
North York Moors National Park Authority
The Old Vicarage
Bondgate
Helmsley
York Y062 5BP

Dear Andy

Annual audit fee 2014/15

We are writing to confirm the audit work that we propose to undertake for the 2014/15 financial year at North York Moors National Park Authority ("the Authority"). The fee has been set by the Audit Commission to reflect the work programme auditors are required to deliver and our assessment of audit risk.

The planned fee for the audit for 2014/15, as set by the Audit Commission, is £12,016 (exclusive of VAT), which is consistent with the base audit fee for 2013/14.

The audit planning process for 2014/15, including our risk assessment will commence in early 2015 and any potential impact on fees will be reviewed and discussed with you as necessary. Any revision to the fee must also be approved by the Audit Commission prior to being finalised.

The fee is analysed as follows:

Audit Area	**Planned Scale Fee 2013/14**	**Planned Scale Fee 2014/15**
	£	**£**
Financial statements	9,221	9,221
VFM conclusion	2,545	2,545
Whole of Government Accounts	250	250
Total audit fee	**12,016**	**12,016**

The scale of fees set by the Audit Commission for the Authority can be found at:
http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-work-programme-and-scales-of-fees/

We do not anticipate performing any grant certification work. In the event you receive a grant that we would be required to certify, the fee will be set by the Audit Commission in accordance with their statutory responsibility to set fees.

The fee excludes:

- 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 in relation to providing any specific accounting opinions. 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;
- the cost of the National Fraud Initiative which is determined and billed by the Audit Commission;
- value added tax and
- 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.

Work programme and risk assessment

The work programme has been published and copies sent directly to you by the Audit Commission. The programme includes:

- audit of the Authority's financial statements;
- work to support the value for money conclusion which will be based primarily on a review of the Annual Governance Statement; and
- work specified by the Commission on Whole of Government Accounts.

Our audit is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission. The fee reflects our current assessment of audit risk but, as we have not yet completed our 2013/14 audit or detailed audit planning process for 2014/15, this assessment could change. This process will continue as the year progresses and fees will be reviewed as necessary. Any significant variation in the assessment of risk may impact on the fee.

If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Corporate Services. We will prepare a report outlining the reasons why the fee needs to change for discussion with the appropriate committee of the Authority. Any variation in fee must be approved by the Audit Commission as they are responsible for setting audit fees.

The scale fee assumes that good quality working papers and records will be provided to support the financial statements within agreed timeframes. We have also assumed that that Internal Audit undertakes appropriate work on all key systems, and good quality working papers and records will be provided within agreed timeframes is also still relevant.

A separate plan detailing our assessment of audit risk and proposed response to those risks will be issued following completion of our detailed audit planning in May 2015. Within this, we will set out a timetable of deliverables required from you which will ensure a timely and efficient audit process, and therefore minimise the fees charged to you. As part of our detailed planning discussions we will seek to identify with you any further areas where efficiency can be achieved in the year end reporting and audit process.

We will issue a number of reports relating to our work over the course of the audit:

Panned output	Indicative Date
Audit Plan	May 2015
Auditors' report giving the opinion on the financial statements and value for money conclusion	September 2015
Annual audit letter	October 2015

Audit Team

The key members of the audit team for the 2014/15 audit are:

Team member	Role	Telephone number
Chris Powell	Engagement Partner	0113 292 1288 or 07810 153 640
Alistair Lince	Audit Senior Manager	0113 292 1615 or 07920 593 920
Daniel Park	Audit Manager	0161 455 8157 or 07500 559 722

Appointment of auditors for 2015/16 onwards

In March 2014 the Audit Commission announced the results of their procurement of audit services for 2015/16 onwards. Deloitte was not successful in being awarded a contract, but we remain your auditors for the 2013/14 and 2014/15 audits, and we will therefore continue to work with you for these years and provide a high quality service. The Audit Commission will shortly be starting the appointment process for new auditors, with new appointments being made by the end of 2014 for the 2015/16 audits onwards

Audit Commission standing guidance on the rotation of audit partners means that a new engagement lead should be appointed for the 2014/15 audit . As 2014/15 will be our last year of appointment we have requested and received permission from the Audit Commission to a one year extension. We consider this is the best way of providing our clients with a high level of audit quality and continuity in our final audit year, given that there will be a change of auditor in the following year.

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Chris Powell in the first instance.

Yours sincerely

Deloitte LLP

Deloitte LLP

cc Director of Corporate Services

Appendix 2

Deloitte.

North York Moors National Park Authority

Planning Report

Year ended 31 March 2014

the Distinctive audit

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Board of Members
North York Moors National Park Authority
Bondgate
Helmsley
York
YO62 5BP

6 May 2014

Dear Sirs

We have pleasure in setting out in this document our planning report to the North York Moors National Park Authority ("the Authority") for the year ending 31 March 2014, for discussion. This report covers the principal matters that we will focus on during our audit.

In summary:

- this report sets out the significant audit risks and how we plan to address them; and
- there are a number of areas where significant management judgement will be required which we draw to your attention in our report and which you should consider carefully.

We would like to take this opportunity to thank management for their assistance and co-operation during the course of our planning work and we look forward to working with the Authority in the coming months.

Deloitte LLP

Chartered Accountants

Contents

"I am delighted to present this planning report for the 2013/14 audit of the North York Moors National Park Authority. This report sets out our audit approach and the more significant areas where we will focus our attention this year."

Chris Powell, Engagement Partner

The Big Picture

The Big Picture

Key developments (as at 31 December 2013)

- At month 9, the Authority is forecasting a gross expenditure outturn of £6,857k and a gross income outturn of £1,648k (excluding the 2013/14 Defra grant allocation of £4,553k).
- **Expenditure**

  As at 31 December 2013, expenditure was £195k behind plan due to underspend on conservation and natural environment projects, offset by overspend on visitor centre restructuring and higher than expected legal costs incurred in the period.
- **Income**

  As at 31 December 2013, income was £80.8k behind anticipated levels due to:
  - adverse variances in grant income (£109k), car parking income (£29k) and investment income (£15k);
  - offset by favourable variances in retail sales income (£39k), planning income (£6k) and miscellaneous income (£26k).

  Grant income is expected to come further in line with budget as third quarter claims are received and, whilst car parking income is expected to remain behind budget, it is expected to exceed that received in 2012/13.
- **Reserves**

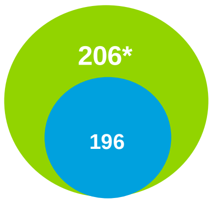
  The Authority is forecasting reserves at the end of the financial year of £965k. It is noted that this may increase by £40k by a release of a provision that will no longer be required.

  As at 31 December 2013, the movement in reserves was made up of:
  - £15k from Building and Property reserves for safety lighting in the Moors Centre Car Park and additional building work at the Centre; and
  - £100k from the Conservation budget to General Reserves - £60k from PAWS and £40k from Connectivity.

Gross expenditure (£000)

FY14* - 6,856
FY13 - 6,539

Estimated materiality (£000)



* Based on unaudited figures reported in the Finance Update covering 1 April 2013 to 31 December 2013

Significant audit risks

- Revenue recognition
- Bad debts and provisioning
- Management override of controls
- Pensions accounting
- Expenditure cut off

These risks are discussed in further detail in the Significant Audit Risks section of this report (page 13).

Our audit quality promise

Our audit quality promise
Our new quality standard

The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our Audit Quality Promise. Key aspects of this delivery are:

How we communicate with you throughout the year

What insight we bring around the quality of your control environment, systems and audit risk areas

How we ensure that our team is delivering the best quality audit at every level

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussions with you and our experience with other local authorities, we know that you value an integrated audit approach which encompasses the main financial statements audit, Value for Money ("VFM") conclusion and procedures related to the Whole of Government Accounts ("WGA") return. Our Audit Quality Promise takes this into account.

The key individuals that form part of our audit team for 2013/14 are consistent with the team in previous years. We have supplemented them as necessary with skilled, experienced and knowledgeable individuals to ensure timely and effective delivery of our audit. We pledge to take the same approach for as long as we remain your auditors, drawing on expertise as necessary to supplement our core team.

Our audit quality promise
Communication

We believe that regular face-to-face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

Year round communication

We will be in regular contact with the Director of Corporate Services and the outsourced Section 151 officer to ensure we remain up to date with the developing issues at the Authority and will discuss, in advance, any papers we wish to present.

Senior members of the audit team will attend meetings as scheduled and agreed with management. In these meetings we will discuss the latest Authority developments, and in-year performance. We will also provide any updates on our findings to date, and any relevant regulatory/ technical updates.

We will make ourselves available throughout the year for ongoing discussions as necessary.

During the main audit period

During the audit period we will work closely with the Director of Corporate Services and the finance team and ensure we summarise our findings and discuss any emerging issues on the financial statement audit. We will:

- hold a close meeting with management to discuss the contents of our report; and
- liaise with the outsourced Section 151 officer as to the extent of communication they would like with us.

Open feedback process

We will carry out debrief meetings with the Director of Corporate Services to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will:

- respond to this feedback with agreed actions and timescales; and
- seek direct feedback through regular meetings during the year.

We are also happy to hear and act upon informal feedback at any point during the year.

Responding to queries and requests

We appreciate that you require timely responses to any queries and requests throughout the year. We will:

- always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution;
- proactively set up meetings to discuss any technical accounting or regulatory developments which could have a significant impact on the Authority as soon as we become aware of any issue; and
- make ourselves available to discuss issues as they arise, in advance of the year end to smooth the closedown and accounts production processes.

Our audit quality promise

Bringing you insight

Sharing knowledge of sector developments. For example:

- We have attached a summary of our research into the state of local public services (see Appendix 5).
- We will discuss other relevant Deloitte publications with senior staff to raise awareness of sector issues.

Feedback any findings from our procedures on internal controls and obtain management input.

- Share emerging issues with officers.
- Open discussion over changes in the regulatory environment.

Risk-based journal analysis covering period end postings utilising our innovative analytics software.

- Early discussion of changes to the Code of Practice on Local Authority Accounting Code (“the Code”), their expected impact on the Authority and proposed response.

Open and early communication with the Director of Corporate Services to discuss audit requirements and Authority provision of information to improve efficiency.

Appendix 2

Changes to your Statement of Accounts

Changes to your Statement of Accounts
New reporting requirements

We welcome this opportunity to set out for the Authority a summary of the latest developments in financial reporting which will impact this year end.

	Change in Code of Practice on Local Authority Accounting requirements	Impact on the Authority
Post-employment benefits	Changes have been made to Code requirements in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to the relevant accounting standard.	This is relevant to the Authority and will require a number of changes to the calculation and presentation of entries. We have held early discussions with the Director of Corporate Services in relation to this change and welcome any additional queries that may arise. We will be consulting with our internal actuarial specialists to assess the adequacy of the underlying assumptions and disclosures.
Presentation of Financial Statements	The Code makes amendments to the format of the Comprehensive Income and Expenditure Statement. This is in respect of items that are potentially re-classifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have these types of transactions, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that: a) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and b) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.	Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be re-classifiable and amounts that are not.
Revaluation of properties	Clarification regarding the frequency of revaluations for Property, Plant and Equipment, which previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that valuations are kept up to date.	This is relevant to the Authority. Management has initiated discussions with Bruton Knowles to consider methods to increase the frequency with which they revalue their assets in order to adopt an appropriate methodology to ensure compliance with the revised guidance. We have held early discussions with the Director of Corporate Services in relation to this change and welcome any additional queries that may arise.

Scope of work and approach

Scope of work and approach

Responsibilities relating to the financial statements	We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The audit opinion we intend to issue will reflect the financial reporting framework required by local authorities and as set out in the Code, which is based on International Financial Reporting Standards ("IFRS"). The audit will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities we consider necessary. We will plan and perform our audit to be able to provide reasonable assurance over the opinion that is to be provided. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.
Responsibilities relating to the Authority's use of resources	We will perform work to support a Value for Money conclusion. As set out in the *Work Programme and Scale of Fees 2013/14: Local Government*, the approach to local value for money audit work at 'larger relevant bodies' (which is to include the Authority) involves: • review of the Annual Governance Statement; • review of the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the Authority; and • other local risk-based work as appropriate, or any work mandated by the Commission. At this time we have not identified any local risk-based work, nor are we aware of any additional work mandated by the Commission.
Materiality and scoping of material balances, classes of transactions and disclosures	We will use gross expenditure as the benchmark for our materiality assessment as, in our view, this figure represents the most appropriate measure of the scale of the organisation and best reflects the context within which any misstatements should be considered. For the 2013/14 statement of accounts, we have estimated materiality of £203k (2012/13: £196k) and will report to the Authority on all unadjusted misstatements greater than £10,150 (2012/13: £9,809) and other adjustments that are qualitatively material, based on figures reported in the February 2014 finance update (which reported an update on the financial performance of the Authority for the period 1 April 2013 to 31 December 2013. This will be finalised during our year end visit when we are provided with the 2013/14 figures. The extent of our procedures is not based on materiality alone but also on local considerations of the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements. We perform an assessment of risk which includes considering the size, composition and qualitative factors related to account balances, classes of transactions and disclosure. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

Scope of work and approach

Prior year uncorrected misstatements including disclosure misstatements	We take this opportunity to remind you of the misstatements identified in the prior period. Identified and uncorrected misstatements had no effect on the reported surplus on the provision of services.
Annual Governance Statement	We are required to 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 procedures. We will also review reports from regulatory bodies and any related action plans developed by the Authority.
Controls approach	As set out in "Briefing on audit matters" (see appendix 6), 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"). The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.
Assurance report on the Whole of Government Accounts return	WGA are commercial-style accounts covering the whole of the public sector and include some 1,700 separate bodies. We expect to perform limited procedures on the Authority's consolidation pack and will confirm if any additional procedures are necessary. This is in line with the requirements of previous years.

Scope of work and approach

Liaison with internal audit	The Auditing Standards Board has issued a revised version of ISA 610 (UK & Ireland) *Using the work of internal audit* which prohibits the use of internal audit to provide direct assistance. The audit team, consistent with previous years, will leverage off the work performed by internal audit wherever possible to inform our risk assessment, which is compatible with this revised ISA. We have assessed the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing. The audit team will review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms: • assessment of the control environment; • discussion of the work plan for internal audit; and • where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

Significant audit risks

1. Revenue recognition

Under International Standards on Auditing (UK & Ireland), there is a presumed risk of fraud around income recognition

In accordance with ISA (UK & Ireland) 240 *The auditor's responsibilities relating to fraud in an audit of financial statements*, a key audit risk is presumed in connection with income recognition due to fraud.

For the Authority, the risks are deemed to arise with regards to cut off and classification assertions relating to grant funding, including the controls surrounding the reporting of such revenue streams. Specifically, grant income is expected to be credited to the Comprehensive Income & Expenditure Statement in line with the terms and conditions of the related grant agreement, ordinarily to match expenditure incurred.

For the purposes of the 2014 audit, we will:

- perform detailed testing of grant income recognised in the year. Our procedures will be conducted in order to refresh our understanding of the policies for income recognition and the accuracy of the cut off of the income;
- ask management to provide us with relevant analysis of grant income and documentation for a sample of grant income recognised in the year, providing support and evidence for movements and reconciliation of deferrals; and
- review the analysis and documentation and challenge management where any assumptions or judgements have been made.

We will report to the Authority on any reportable misstatements and/or control insights as applicable.

2. Bad debts and provisioning

Risk identified due to ongoing financial climate

Good recovery of debtors is the hallmark of sound financial management and illustrates robust processes for raising and chasing debts. Due to the ongoing financial climate, there is deemed to be a continuously greater level of risk of irrecoverable debts at the balance sheet debt and potentially more bad and/ or doubtful debts occurring.

We note that in prior years, no bad debt provision has been recognised by the Authority.

For the purposes of the 2014 audit, we will:

- update our understanding over management's process for reviewing aged debt for recoverability; and
- perform testing on a sample of debts that were outstanding as at 31 March 2014 by determining whether payment has been received and, if not, whether there is evidence of appropriate consideration over the recoverability of the balance.

We will report to the Authority on any reportable misstatements and/or control insights as applicable.

Significant audit risks

3. Management override of controls

Under International Standards on Auditing (UK & Ireland) there is a presumed risk of management override of controls

In accordance with ISA (UK & Ireland) 240 The auditor's responsibilities relating to fraud in an audit of financial statements, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although the level of this risk will vary from entity to entity, the risk is nevertheless present in all entities and therefore a presumed risk for all our audits.

For the Authority, the risks are deemed to arise at both a financial statement and assertion level, with regards to the following:

- the financial reporting process;
- the controls over journal entries and other adjustments posted; and
- significant accounting estimates, e.g. provisions and income in advance.

As part of our audit planning in relation to the following areas, we will evaluate the design of controls and determine whether they have been implemented. Furthermore, we plan to perform the following audit procedures that directly address this risk:

- use of our innovative analytics software to profile all journals posted in the year and select items for detailed follow up testing based on a risk-focused approach;
- testing the appropriateness of our risk-based sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial reporting;
- review of accounting estimates for biases that could result in material misstatements due to fraud;
- obtaining an understanding of the business rationale of any significant transactions that we become aware of that are outside the normal course of business for the Authority, or that otherwise appear to be unusual given our understanding of the Authority and its environment; and
- considering the overall control environment and 'tone at the top'.

We will report to the Authority on any reportable misstatements and/or control insights as applicable.

Significant audit risks

4. Pensions accounting

Risk identified concerning the assumptions used and disclosures

Pensions accounting is determined by International Accounting Standard 19 *Employee Benefits*.

In the ongoing financial 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.

For the purposes of the 2014 audit, we will:

- review and update our understanding over the management process to determine pension assumptions;
- utilise our in-house pension and actuarial specialists to review these assumptions for reasonableness based upon prevailing market factors; and
- review the pension disclosures for compliance with applicable accounting standards.

We will report to the Authority on any reportable misstatements and/or control insights as applicable.

5. Expenditure cut off

Risk identified from errors noted during 2011/12 audit

During our 2011/12 audit, we identified errors in relation to the cut off of administrative costs included in the net cost of services and completeness of associated liabilities recognised at the end of the financial period.

Whilst it was noted during the 2012/13 audit that management had designed and implemented a number of additional internal controls to mitigate the risk of future misstatements, which resulted in no such errors being noted during our audit, we continue to identify expenditure cut off as a significant audit risk given the level of expenditure flowing through the Authority.

For the purposes of the 2014 audit, we will:

- Review and update our understanding over the management process to ensure that expenditure is recognised in the correct period;
- Perform testing over a sample of expenditure items recognised around the year end to determine whether it has been recognised in the correct period.

We will report to the Authority on any reportable misstatements and/or control insights as applicable.

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 establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. We enhance this reporting with observations arising from our audit work performed to date which are designed to help the Authority discharge its governance duties. Our report includes:

- our audit plan, including key audit judgements and the planned scope and timing of our audit; and
- key regulatory and corporate governance updates, relevant to you.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.
- 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to with this planning report in Appendix 6.
- Our Audit Quality Promise provides the details of any additional steps we will perform alongside the audit of the financial statements.
- We will update you if there are any significant changes to the audit plan.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

Leeds

6 May 2014

This report has been prepared for the Authority, 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: Independence and fees

Confirming our independence

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 Authority and will reconfirm our independence and objectivity for the year ending 31 March 2014 in our final report to the Authority.

Fees

The total 2013/14 fee agrees to the scale fee set by the Audit Commission. The scale of fees set by the Audit Commission for the Authority can be found at: http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme.

Below is a breakdown of the 2013/14 audit fee, as communicated separately in the Audit Fee Letter:

	Scale Fee 2013/14 £	Scale Fee 2012/13 £
Financial statements	9,221	8,357
VFM conclusion	2,545	2,545
WGA	250	1,114
Total audit fee	**12,016**	**12,016**
Certification of claims and returns	-	-

Non-audit services

We have not, nor do we plan to provide non-audit services to the Authority in the 2013/14 financial year.

Appendix 2: Fraud: responsibilities and representations

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.

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 us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your 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.

Our responsibilities

- We are required to obtain representations from the Authority regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the Significant Audit Risks secton of this report we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for the Authority.

Appendix 2: Fraud: responsibilities and representations

We make enquiries of Management, internal audit and the Authority regarding fraud.

We will make the following inquiries regarding fraud:

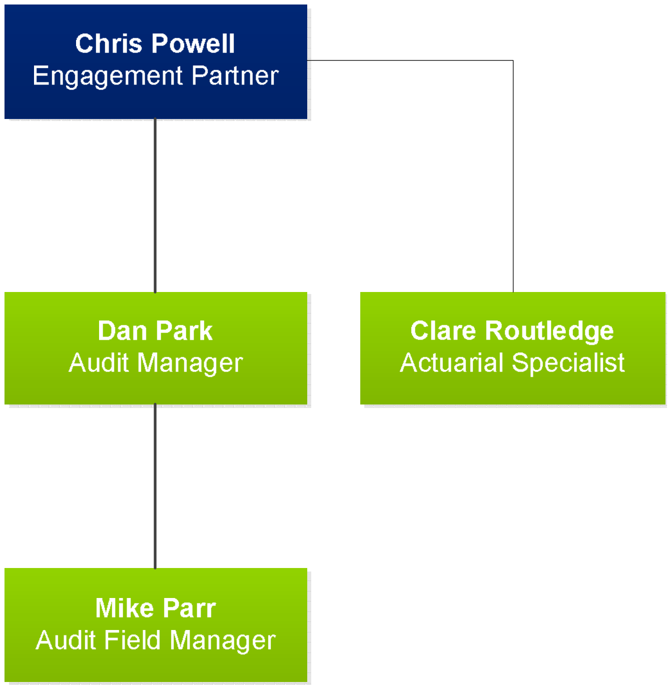
Management	Internal Audit	Those charged with governance
• Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. • Management's process for identifying and responding to the risks of fraud in the Authority. • Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the Authority. • 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 Authority, and to obtain its views about the risks of fraud	• How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Authority 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 Authority.

We will ask for the following to be stated in the representation letter signed on behalf of the Authority:

- 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 entity or group 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 3: Your audit team

A senior team, with continuity from prior years to perform audit work and provide insight and value to the Authority. Our team is selected from our group of public sector specialists.



Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with the Authority and its members.

Planning

Meetings with management to:

- confirm risk assessment and management response; and
- agree on key judgemental accounting issues.

Discussion of the audit plan and presentation to the Finance, Risk, Audit & Standards Committee

Presentation of Annual Audit Fee letter

March - May 2014

Year end fieldwork

Document and test design and implementation of key internal controls

Update understanding of systems, controls and developments in the business

Performance of work in support of VFM conclusion

Performance of substantive testing procedures

Review of Statement of Accounts

Audit close meeting with management

Performance of work in support of WGA opinion

June - July 2014

Reporting

Issuance of:

- Audit report and opinion
- VFM conclusion
- Limited assurance opinion on the WGA return
- Final ISA 260 report

August - September 2014

Post reporting activities

Audit feedback meeting

Issue of Annual Audit Letter

September - October 2014

Ongoing communication and feedback

Appendix 5: Future developments

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: "What is the state of the UK state?" As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change. We have summarised the key messages in relation to local public services below.

Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in children's services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges.

The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including efficiency and quality from private sector and local knowledge from the third sector. But many also recognised that partnerships outside the public sector brought critical risks that needed to be managed.

Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

Appendix 6: Briefing on audit matters

Approach and scope of the audit

Primary audit objectives	We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Financial Reporting Council ("FRC") and the Code of Audit Practice as established by the Audit Commission. Our statutory audit objectives are: • to express an opinion in true and fair view terms to the members on the financial statements; • to express an opinion as to whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting; • to express an opinion as to whether the entity has put in place appropriate systems and processes to secure value for money in its use of resources; and • to express an opinion as to whether the Annual Governance Statement, is consistent with the financial statements and our knowledge of the Authority.
Other reporting objectives	Our reporting objectives are to: • present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and • provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.
Materiality	The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements. "Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms: *"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."* We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

Appendix 6: Briefing on Audit Matters

Approach and scope of the audit

Materiality (continued)	We determine materiality to: • determine the nature, timing and extent of audit procedures; and • evaluate the effect of misstatements. The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.
Uncorrected misstatements	In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial. ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate. We will consider identified misstatements in qualitative as well as quantitative terms.
Audit methodology	Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management whilst minimising a "box ticking" approach. Our audit methodology is designed to give members the confidence that they deserve. For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those: • where we plan to obtain assurance through the testing of operating effectiveness; • relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls); • where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and • to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Appendix 6: Briefing on Audit Matters

Approach and scope of the audit

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor’s responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor’s report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor’s report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor’s responsibilities relating to other information in documents containing audited financial statements

Appendix 6: Briefing on Audit Matters

Independence policies and procedures

Safeguards and procedures	

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the Auditing Practices Board ("APB"), there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the FRC. The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

Independence policies

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

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Appendix 6: Briefing on Audit Matters
Independence policies and procedures

Remuneration and evaluation policies	Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.
APB Ethical Standards	The APB issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach. The five standards cover: • maintaining integrity, objectivity and independence; • financial, business, employment and personal relationships between auditors and their audited entities; • long association of audit partners and other audit team members with audit engagements; • audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and • non-audit services provided to audited entities. Our policies and procedures comply with these standards.