

External audit report 2016/17

**Ryedale District Council** 

September 2017



# Summary for Audit Committee

#### **Financial statements**

This document summarises the key findings in relation to our 2016-17 external audit at Ryedale District Council ('the Authority').

This report focusses on our on-site work which was completed in July and August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 to 13.

Our report also includes additional findings in respect of our control work which we have identified since we issued our interim report.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We have not identified any audit adjustments.

Based on our work, we have raised one recommendation. Details on our recommendation can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by the 30 September 2017.

#### **Use of resources**

We have completed our risk-based work to consider whether in all significant respects, the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

Based on our work we have raised **one recommendation** see further details on page 18.

#### **Acknowledgements**

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit Committee to note this report.



### The key contacts in relation to our audit are:

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This report is addressed to Ryedale District Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

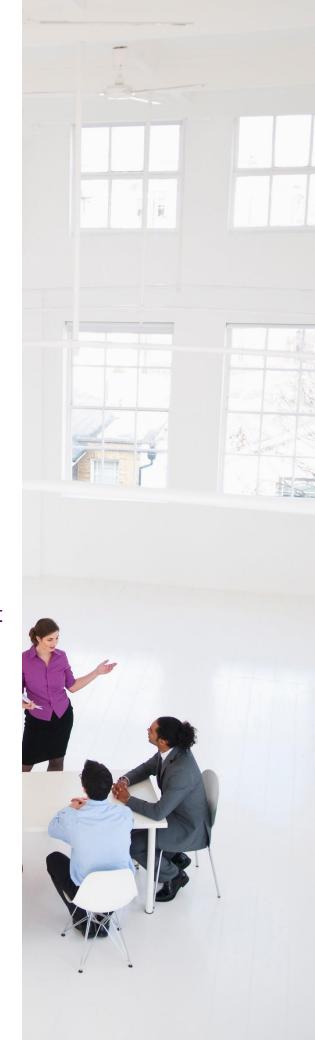
External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus of £1.6m on the provision of services. The impact on the General Fund has been a £2.8m increase in the General Fund.



# Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

#### Significant audit risks

#### Work performed

# 1. Significant changes in the pension liability due to LGPS Triennial Valuation

#### Why is this a risk?

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016, in line with the *Local Government Pension Scheme* (*Administration*) *Regulations 2013*. The Authority's share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by North Yorkshire County Council, who administer the Pension Fund.

#### Our work to address this risk

As part of our audit, we have agreed the data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We have liaised with the Pension Fund Audit Team, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of such data.

#### **Findings**

We have found no issues to report from this work.



### Considerations required by professional standards

#### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



#### **Management override of controls**

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically 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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

### Other areas of audit focus

We identified one area of audit focus. This is not considered as a significant risks as this is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

#### Other areas of audit focus

#### Our work to address the areas

1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS

#### **Background**

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its "telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised, by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamline Movement in Reserves Statements (MIRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of the applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding

#### What we have done

We have worked with the finance staff to understand how the Authority were planning to restate their CIES, MIRS and the new EFA statements.

With the current structure of the Authority the management have decided to keep the same headings for the CIES which aligns to the internal reporting. We have agreed that this is appropriate.

For the new Expenditure and Funding Analysis we have agreed the values back to the accounting system and confirm that no issues were identified.



Level of prudence

Cautious

Audit difference

# Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Balanced

#### Acceptable range 2016/17 2015/16 Subjective areas Commentary **Provisions** The provisions have increased by £99,000, this related to an increase in 8 8 provision for business rates appeals. We consider the provisions to be proportionate for risk associated with the appeals made. Creditors The main accruals are in line with previous years with a small increase B B overall of £0.3m to £4.9m overall. We have tested the expenditure cut-off and the levels of creditors included in the Balance Sheet are in line with this testing. Property, Plant and The Authority has reviewed all its properties in 2016/17 and reflected the 8 8 Equipment valuations carried out by the City of York Council valuers in the Financial (valuations / asset Statements and no impairments were required. The valuation increased lives) the value of the Assets by £1.2m in year the whole PPE value has increased overall by £0.8m. We have assessed the independence of the City of York Valuers and confirmed that their valuations and assumptions were in line with our understanding of the current factors influencing the valuation. **Pensions** The Triennial review and changes in the assumptions used by the Actuary B ß for the 31 March 2017 estimation has led to an increase in the liability of £1.4m to £19.8m. We have assessed the independence of the fund's actuary and confirmed that the assumptions used are in line with our understanding of the many factors involved in the estimation process.

# Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 20 September 2017.

#### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £400,000. Audit differences below £20,000 are not considered significant.

We did not identify any material misstatements.

No adjustments were made to the main financial statements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). These were updated in the revised statements.

#### **Annual governance statement**

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

#### **Narrative report**

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



# Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.



#### Introduction of KPMG Central

We introduced KPMG Central this year, which is a cloudbased document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Closedown Team to efficiently share requested information. Feedback from the finance team has been positive and allows us to keep track of uploaded documents.

#### Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. The Authority need to review its current practices to meet the early close in 2017/18.

We consider the Authority's accounting practices appropriate.

#### **Completeness of draft accounts**

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline.

#### Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in April 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. [We followed this up with a meeting with Management to discuss specific requirements of the document request list.

The working papers were of sufficient quality to enable an effective audit.





#### Response to audit queries

Audit queries were responded to promptly and no issues to report.

### Additional findings in relation to the Authority's control environment for key financial systems

We have identified one weakness in the control environment around the accruals process at the year end, in which a number of costs should have been accrued into 2016/17 in line with the accounting policy. However, these were recognised as expense in 2017/18.

See Appendix 1 for further information.

#### **Prior year recommendations**

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the recommendation in our ISA 260 Report 2015/16.

Appendix 2 provides further details.



### Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

#### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Ryedale District Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Ryedale District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

#### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

#### Other matters

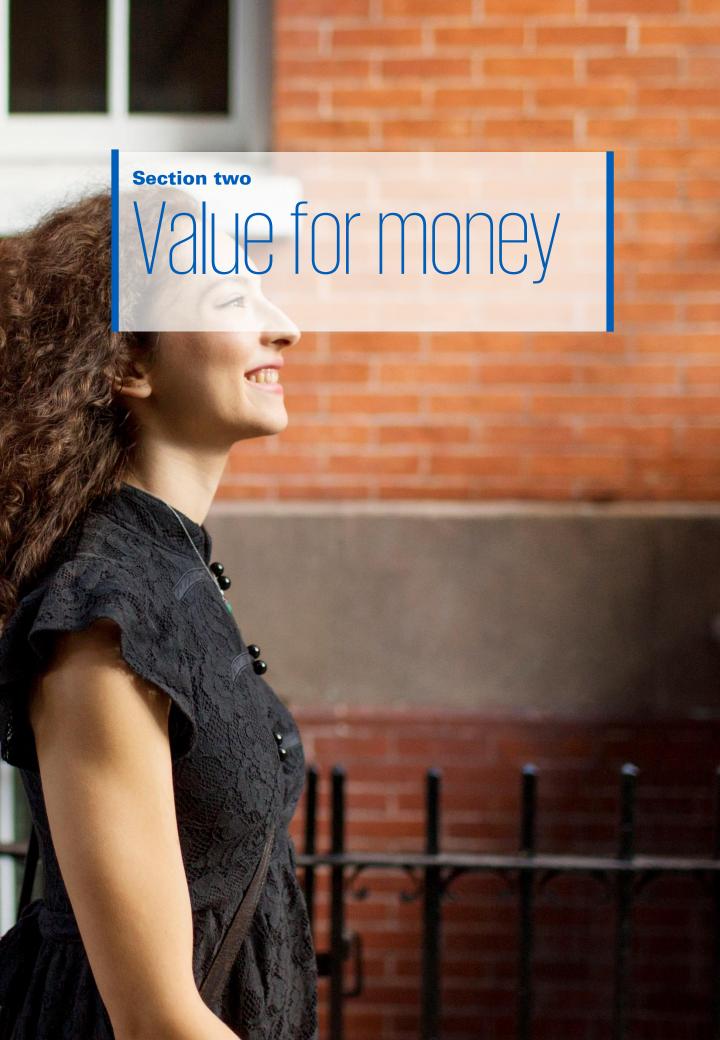
ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the

- oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.





Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



### VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

with

partners

and third

parties

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Sustainable

resource

deployment

**Identification of** Continually re-**VFM** significant VFM assess potential conclusion risks (if any) VFM risks VFM audit risk Assessment of work by assessment other review agencies Conclude on arrangements to secure VFM Specific local risk-based Financial statements work and other audit work VFM conclusion based or Informed decisionmaking Overall VFM criteria: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people Working

VFM assessment summary				
VFM risk assessment	Informed decision- making	Sustainable resource deployment	Working with partners and third parties	
Overall summary	$\checkmark$	$\checkmark$	$\checkmark$	

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our risk assessment are provided on the following pages.



### VFM risk assessment

We have not identified any significant VFM risks, as communicated to you in our 2016/17 External Audit Plan. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate. However we would like to outline two areas of our risk assessments.

#### Area

#### Risk assessment

#### 1. Peer Review

The Council commissioned a Peer review of the Council from the LGA. The Peer review identified areas of improvement for the Council, although by itself these do not identify any arrangements that are failing or would result in us considering as a significant risk.

#### Summary of our work completed in our risk assessment

We have reviewed the Peer review report from the LGA, discussed the findings with senior management to understand the Council's response to the recommendations made in the report. We have also considered the implementation of the actions from the recommendations.

#### Findings from our risk assessment

An agreed action plan was drawn up and presented to Members in March 2017, however this action plan was referred to Full Council in April 2017.

At Full Council. Members decided that they needed a members working party to address the issues raised and confirm / amend the suggested action plan.

The working group has been set up and is planning to meet in November 2017.

#### Recommendation

The original report was received by the Council in October 2016 and actions to address the recommendations are still being discussed. We recommend that action is agreed and implemented as soon as possible.



# Significant VFM risks

We have not identified any significant VFM risks, as communicated to you in our 2016/17 External Audit Plan. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate. However we would like to outline two areas of our risk assessments.

#### VFM risk assessment

#### Work performed

#### 2. Financial Resilience

The Council is working in a ever increasing financially constrained environment, with a number of competing pressures on budgets and demand.

Financial resilience is a key arrangement to ensure the Council can demonstrate sustainable resource deployment.

#### Summary of our work completed in our risk assessment

We have reviewed the 2017/18 financial strategy that went to Council in February 2017, alongside the 2016/17 outturn position and then reviewed the 2018/19 financial strategy that went Council in July 2017 to assess the current, and medium term financial resilience of the Council.

#### **Findings**

The current position is that in 2016/17 the savings identified in the T2020 transformation plans had been delivered and a surplus produced. The medium term plans are showing a need to deliver further savings and these are part of the T2020 second phase of review of Streetscene and Asset review, although the decisions regarding the review of assets will not be taken in 2017 calendar year.

At this stage the Council has demonstrated it has adequate arrangements in its managing its finances and we are satisfied financial resilience is not a VFM risk area.





### Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified one issue. We have listed this issue in this appendix together with our recommendation which we have agreed with Management. We have also included Management's response to this recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation. We will formally follow up this recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.



Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issue and recommendation raised in the year 2016/17.

2016/17 re	016/17 recommendations summary					
Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17			
High	0	0	0			
Medium	0	1	1			
Low	0	1	1			
Total	0	2	2			

#### 1. Accruals identification

During the cut-off testing we identified non-significant expenditure that had not been accrued into 2016/17.

This was not in line with the Council's accounting policy on accruals of income and Expenditure



#### Recommendation

For 2017/18 the Council need to review accounting policy on accruing income and expenditure and either amend the accounting policy for de-minimus values, or ensure that the accruals process is in line with the policy.

#### **Management Response**

Accepted

Further training will be given to managers and staff on the use of the purchase ordering system. The importance of the information held in the system for identifying accruals will be reiterated.

#### **Owner**

Resources & Enabling Services Lead Officer

#### **Deadline**

December 2017

### Key issues and recommendations

#### 2. Response to Peer Review

The Council received a peer review during the year which included a number of recommendations that are necessary to improve the arrangements at the Council



#### Findings from our risk assessment

An agreed action plan was drawn up and presented to Members in March 2017, however this action plan was referred to Full Council in April 2017.

At Full Council. Members decided that they needed a members working party to address the issues raised and confirm / amend the suggested action plan.

The working group has been set up and is planning to meet in November 2017.

#### Recommendation

We recommend that action is agreed and implemented as soon as possible to address the issues identified in the peer review.

#### **Management Response**

Accepted

The overview and scrutiny committee have reviewed meeting start times and the management of meetings, as highlighted in the Corporate Peer Challenge. Their recommendations will be considered by the Constitution Working Party.

The Interim Chief Executive will continue to work with Members through the Corporate Peer Challenge working party to agree and implement other actions from the Peer Review

#### Owner

Interim Chief Executive

#### **Deadline**

July 2018



# Follow-up of prior year recommendations

In the previous year, we raised one recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented all of the recommendations.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary					
Priority	Number raised	Number implemented / superseded	Number outstanding		
High	0	0	0		
Medium	1	1	0		
Low	0	0	0		
Total	1	1	0		

#### 1. Repayment dates of development monies

We found that the Authority had not identified repayment dates of development monies that been received in advance. This affects he Authority's ability to efficiently identify when monies (such as S106) must be repaid by, as well as identifying short term versus long tem creditors



#### Recommendation

The Authority should ensure that a system is in place that identifies and monitors the repayment dates of development monies.

#### Management original response

The Authority has identified repayment periods for current s106 contributions as a result of the issue identified by KPMG. We will record the repayment date for all new contributions received.

The Council is currently implementing the "condition monitoring module" within the Uniform system. The intention is to record s106 and CIL transactions within the module which will facilitate, amongst other things, monitoring of trigger points including repayment dates. It is expected that the module will be operational in the current financial year

#### **Owner**

Gary Housden, Head of Planning and Housing

#### Original deadline

31 March 2017

#### KPMG's [Sept 2017] assessment

The management have confirmed that the original solution to the recommendation has not taken place due to cost being prohibitive. They are now ensuring that new S106's are now being monitored via spreadsheet.

#### Management's [July 2017] response

Management are content that this process is sufficient and cost effective.

Fully implemented



### Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have been made to the 2016/17 draft financial statements.

#### Adjusted audit differences

No adjusted audit differences to report.

#### **Unadjusted audit differences**

No unadjusted audit differences to report



# Materiality and reporting of audit differences

# The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £400,000 which equates to around 1.3 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

#### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £20,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

#### **Auditor declaration**

In relation to the audit of the financial statements of Ryedale District Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Ryedale District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.



### Audit fees

#### **Audit fees**

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £41,826 plus VAT (£45,424 in 2015/16), which is a reduction of 8% from the prior year. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2017. The planned scale fee for this is £11,484 plus VAT. see further details below.

PSAA fee table					
	<b>2016/17</b> (planned fee)	<b>2015/16</b> (actual fee)			
Component of audit	£	£			
Accounts opinion and use of resources work					
PSAA scale fee	41,826	41,826			
Additional work to conclude our opinions (note 1)	0	3,598			
Subtotal	41,826	45,424			
Housing benefits (BEN01) certification work					
PSAA scale fee - planned for October 2017]	12,150	11,484			
Total fee for the Authority set by the PSAA	53,976	56,908			

All fees are quoted exclusive of VAT.

#### Note 1: Accounts opinion and use of resources work

The additional fee in 2015/16 was due to additional VFM work required.





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