

The Audit Findings (ISA260) Report for Ryedale District Council

Year ended 31 March 2019

15 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Ryedale District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work commenced as planned at the beginning of June and at the time of this report, remains ongoing. Our key audit findings are summarised in this report.</p> <p>Based on our audit work to date, we have not identified any adjustments that impact on the useable reserves of the Council, however, we have identified a small number of proposed adjustments which materially change the primary statements. A summary of our audit adjustments are detailed at Appendix B. We have also raised some recommendations for management as a result of our audit work in the Action Plan at Appendix A.</p> <p>Our work is currently progressing and, at this stage, there are no matters of which we are aware that would require modification of our proposed audit opinion (as set out at Appendix D), subject to the following outstanding matters:</p> <ul style="list-style-type: none">• finalisation of a testing and review of the work done by the engagement lead and manager in the following sections;- elements of testing on property, plant and equipment, completing substantive testing of income streams and all aspects of operating expenditure, work on the collection fund, completion of audit testing on debtors, creditors and reserves, senior officers remuneration and investments• review of the updated pension fund liability and related disclosures in light of the changes required following the McCloud judgement and Guaranteed Minimum Pension (GMP) requirements (we will review the updated accounting entries and disclosures upon receipt from the Council's actuary)• completion of our audit work on some notes to the accounts not included above, in line with our audit approach• receipt of the updated Annual Governance Statement (AGS) and Narrative Report taking into account our review of the draft versions of these documents• completing our review of management's going concern assessment• receipt of management's letter of representation (included as a separate item on the Overview and Scrutiny Committee's agenda for 24 July)• review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited, subject to satisfactory completion of our review of the final Narrative Report and AGS. We expect to issue an unqualified (clean) audit opinion by 31 July 2019.</p>
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Headlines - continued

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to governance, risk management and financial monitoring arrangements. This impacts on the Council's ability to satisfy the 'informed decision making' element of the VFM criteria.

Our work identified that following the new senior management team's arrival in early 2018-19, they had taken steps to enhance the Council's risk management and financial monitoring arrangements. This is a positive step forward for the Council and is to be commended for the work done in 2018-19. However, given that developments were only implemented during the final quarter of 2018-19 and we are required to review the arrangements in place for the full April 2018 to March 2019 period, we cannot state that they were embedded and operating for the full 2018-19 period.

As such, we are proposing a qualified 'except for' VFM conclusion as proper arrangements were not in place for the full year. We considered the findings warranted an 'except for' VFM qualification opinion under the guidance issued by the NAO. We have discussed our proposal with Grant Thornton's national VFM consistency panel (who review any possible VFM qualifications) and they are in agreement with our proposal. The text of our opinion which confirms this can be found at Appendix D.

Further detailed on our audit work on the VFM conclusion are included in Section 3 of this report on pages 15 to 17.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of our work under the Code and once all the outstanding work noted on page 3 is satisfactorily completed, we anticipate certifying the completion of the audit when we give our audit opinion by 31 July 2019.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

2. Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management prior to reporting to the Overview and Scrutiny Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our Audit Plan, as communicated to you on 24 January 2019, except for the reduction in the level of our materiality as detailed below.

Conclusion

Our audit work on your financial statements is currently ongoing. Subject to outstanding work and queries being satisfactorily completed and resolved (previously listed on page 3 of this report), we anticipate issuing an unqualified audit opinion following the Overview and Scrutiny Committee on 24 July 2019, as detailed at Appendix D.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

As a result of our interim audit findings, which we reported to the Overview and Scrutiny Committee in June 2019, we revised the materiality calculation from what was reported to you in our Audit Plan issued in January 2019. We reduced our materiality figure following the issues identified in our interim audit. Our determination of final materiality is detailed below in comparison with the earlier reported planning materiality.

Materiality category	Audit Plan (January 2019)	Final (June 2019)	Qualitative factors considered
Materiality for the financial statements	£400,000	£375,000	We have determined materiality at 1.8% of gross expenditure from the 2018-19 draft accounts. This is in line with the industry standard and reflects the risks associated with the Council's operational environment.
Performance materiality	£300,000	£281,250	This is 75% of materiality and reflects any significant findings from the work of the previous external auditor and that 2018-19 is the first year of audit for us as external auditors.
Trivial matters	£20,000	£19,000	A standard level of five per cent of materiality has been used. This is our reporting threshold for any errors identified.
Materiality for specific transactions, balances or disclosures	£5,000	£5,000	The senior officer remuneration disclosure has been identified as an area requiring specific materiality of £5,000 based on the disclosure bandings, due to its sensitive nature.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p>	<p>Auditor commentary</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. <p>We did not consider this to be a significant risk for the Council in our Audit Plan.</p> <p>Therefore we did not undertake any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.</p> <p>Our audit work has not identified any issues in respect of fraudulent revenue recognition.</p>
<p>2 Management override of controls</p>	<p>Auditor commentary</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>As part of our audit, we:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work to date has not identified any issues in respect of management override of controls. We are currently working through the journals selected for testing, we will provide a verbal update the Overview and Scrutiny Committee on 24 July with our final findings on our review of journals.</p>

Significant findings – audit risks

Risks identified in our Audit Plan (January 2019)	Commentary
<p>3 Valuation of the pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£17m in the Council's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>As a response to this risk, our audit work included but was not restricted to:</p> <ul style="list-style-type: none"> • updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessing the accuracy and completeness of the information provided to the actuary to estimate the liabilities • testing the consistency of the pension fund assets and liabilities and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtaining assurances from the auditor of North Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements [note: currently awaiting information from NYPF auditor]. <p>Key observations</p> <p>Subject to satisfactory receipt of assurances from the auditor of the Pension Fund, we have reviewed this estimate and are satisfied that it is reasonable. Key assumptions have also been reviewed and agreed as reasonable. In the 'significant findings – other issues' on page 9 we set out the potential impact of the McCloud judgement on the pension fund net liability.</p> <p>At the time of producing this report, we have been in discussions with management and we are aware that the Council has requested updated reports from its actuary to take into account the impact on the Council's pension numbers of the McCloud judgement and GMP. We understand the expected impact of these issues would result in a suggested increase of the Authority's £15.3m pension fund liability by c£737k, which is above the materiality figure.</p> <p>We will review the updated actuary reports and resulting changes to the pension figures in the accounts once received. We will verbally update the Committee on 24 July with our findings on this issue.</p>

Significant findings – audit risks

Risks identified in our Audit Plan (January 2019)	Commentary
<p data-bbox="68 297 99 325">4</p> <p data-bbox="136 287 493 311">Valuation of land and buildings</p> <p data-bbox="136 332 683 501">The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £14.7m) and the sensitivity of this estimate to changes in key assumptions.</p> <p data-bbox="136 519 706 658">Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used</p> <p data-bbox="136 686 689 796">We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p data-bbox="727 287 961 311">Auditor commentary</p> <p data-bbox="727 329 1514 354">As a response to this risk, our audit work included but was not restricted to</p> <ul data-bbox="727 365 1997 768" style="list-style-type: none"> • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluating the competence, capabilities and objectivity of the valuation expert • discussing with the valuer the basis on which the valuation was carried out • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding • testing revaluations made during the year to see if they had been accounted correctly in line with applicable accounting guidance and input correctly into the Council's asset register • assessing how management have confirmed assets valued at 1 April 2018 have not significantly changed in value by the year end, 31 March 2019 • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. <p data-bbox="727 819 1991 958">Our audit work to date identified some adjustments to the original land and buildings figures in the draft accounts in relation to revaluation and impairments. These issues have been discussed and with management and have been updated in the revised accounts. There is no impact on the Council's useable reserves arising from the adjustments we have identified on the valuation of land and buildings, although there are material changes to both the Comprehensive Income and Expenditure Statement and Balance Sheet. The adjustments are further detailed at Appendix B.</p> <p data-bbox="727 976 1984 1029">In order to mitigate against this situation occurring going forward we have raised a recommendation to management on this issue in the Action Plan at Appendix A.</p> <p data-bbox="727 1043 1607 1068">There are no other issues to bring to your attention in respect of this significant risk.</p>

Significant findings - other issues

Issue	Commentary	Auditor view
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for above pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP. The actuary's estimate suggested a potential impact of these issues would result in an increase of the Council's £15.3m pension fund liability by c£737k.</p> <p>The Council has requested that it's actuary carry out a detailed review of the impact of this issue and will update it's accounts on completion of the Actuary's work.</p> <p>We will review the updated actuary reports and resulting changes to the pension figures in the accounts once received. We will verbally update the Committee on 24 July with our findings on this issue. Management's view is that the impact of this change is material and therefore updating the accounts for this issue is appropriate.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Given the change in liability resulting from the McCloud judgement, management has agreed to process the adjustment of c£737k on receipt of the updated IAS19 report. We consider this as an appropriate adjustment to the Council's financial statements.</p> <p>We have included this as an adjusted item at Appendix B.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £14.5m	<p>Other land and buildings comprises specialised assets, such as swimming pools, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged an external RICS qualified valuer to complete the valuation of these properties on a five yearly cyclical basis. A total of c30% of total assets were revalued during 2018-19.</p> <p>Management has considered the year-end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2018 comparing the potential changes at the date of valuation and the year end of 31 March 2019 to determine whether there has been a material change in the total value of these properties.</p> <p>Management's assessment of assets not revalued in year and asset revalued during the year has identified no material change to the properties current value compared to it's carrying value as at 31 March 2019.</p>	<p>As part of our audit, we performed the following procedures to ensure the estimates used and key judgements applied when valuing the land and buildings are prudent and reasonable, including:</p> <ul style="list-style-type: none"> • Assessment of management's expert (external RICS qualified valuers) • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method as relevant. There were no significant changes to the valuation method • Consistency of estimate used • Reasonableness of the movement in the estimate. • Adequacy of disclosure of estimate in the financial statements. 	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability:</p> <p>£15.3m</p> <p>(Before McCloud Adjustment, see page 22 for further information)</p> <p>The Council's total net pension liability at 31 March 2019 is £15.3m (PY £17.1m) comprising the Council's element of the North Yorkshire Local Government Pension Scheme and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses AON an actuarial firm, to provide actuarial valuations of the Council and group's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016-17.</p> <p>A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £1.8m net decrease in the Council's pension fund liability in 2018-19.</p>	<p>As part of our audit , we performed the following procedures to ensure the estimates used and key judgements applied when valuing the Council's pension liability were prudent and reasonable:</p> <ul style="list-style-type: none"> • Assessment of management's expert (for the Council this is AON) • Assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach • Use of PwC as auditor's expert to assess the actuary's assumptions – see table below for comparison with Actuary assumptions 	 Green																								
<table border="1"> <thead> <tr> <th data-bbox="731 492 1160 535">Assumption</th> <th data-bbox="1160 492 1367 535">Actuary Value</th> <th data-bbox="1367 492 1875 535">PwC range</th> <th data-bbox="1875 492 2055 535">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="731 535 1160 628">Discount rate</td> <td data-bbox="1160 535 1367 628">2.4% -2.5% for most employers</td> <td data-bbox="1367 535 1875 628">We are comfortable that the methodologies used to establish discount rate will produce reasonable assumption at 31 March 2019.</td> <td data-bbox="1875 535 2055 628" style="text-align: center;">● Green</td> </tr> <tr> <td data-bbox="731 628 1160 749">Pension increase rate</td> <td data-bbox="1160 628 1367 749">Dependent on duration (2.20%-2.10%for most employers</td> <td data-bbox="1367 628 1875 749">We are comfortable that the methodologies used to establish pension increase rate will produce reasonable assumption at 31 March 2019.</td> <td data-bbox="1875 628 2055 749" style="text-align: center;">● Green</td> </tr> <tr> <td data-bbox="731 749 1160 856">Salary growth</td> <td data-bbox="1160 749 1367 856">1.25% above the CPI inflation adjustment</td> <td data-bbox="1367 749 1875 856">We are comfortable that the methodologies used to establish salary growth will produce reasonable assumption at 31 March 2019.</td> <td data-bbox="1875 749 2055 856" style="text-align: center;">● Green</td> </tr> <tr> <td data-bbox="731 856 1160 985">Life expectancy – Males currently aged 45 in 20 years time</td> <td data-bbox="1160 856 1367 985">23.9</td> <td data-bbox="1367 856 1875 985">We are comfortable that the methodologies used to establish life expectancy will produce reasonable assumption at 31 March 2019.</td> <td data-bbox="1875 856 2055 985" style="text-align: center;">● Green</td> </tr> <tr> <td data-bbox="731 985 1160 1106">Life expectancy – Females currently aged 45 in 20 years time</td> <td data-bbox="1160 985 1367 1106">27.2</td> <td data-bbox="1367 985 1875 1106">We are comfortable that the methodologies used to establish life expectancy will produce reasonable assumption at 31 March 2019.</td> <td data-bbox="1875 985 2055 1106" style="text-align: center;">● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4% -2.5% for most employers	We are comfortable that the methodologies used to establish discount rate will produce reasonable assumption at 31 March 2019.	● Green	Pension increase rate	Dependent on duration (2.20%-2.10%for most employers	We are comfortable that the methodologies used to establish pension increase rate will produce reasonable assumption at 31 March 2019.	● Green	Salary growth	1.25% above the CPI inflation adjustment	We are comfortable that the methodologies used to establish salary growth will produce reasonable assumption at 31 March 2019.	● Green	Life expectancy – Males currently aged 45 in 20 years time	23.9	We are comfortable that the methodologies used to establish life expectancy will produce reasonable assumption at 31 March 2019.	● Green	Life expectancy – Females currently aged 45 in 20 years time	27.2	We are comfortable that the methodologies used to establish life expectancy will produce reasonable assumption at 31 March 2019.	● Green	<ul style="list-style-type: none"> • Impact of any changes to valuation method • Reasonableness of the Council's share of LGPS pension assets • Reasonableness of the movement in the estimate • Quantifying the impact of the McCloud judgement and GMP on the group and Council's pension fund balance (note work still in progress on this matter at the date of this report) • Adequacy of disclosure of estimate in the financial statements. • Completeness and accuracy of the underlying information used to determine the estimate 	
Assumption	Actuary Value	PwC range	Assessment																							
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Going concern

Our responsibility: As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

- Final outturn for year ending 31 March 2019
- Approved Budget 2019-20
- Medium Term Financial Strategy (MTFS) 2019-20 to 2021-22 and assumptions
- Efficiency savings target 2019-20
- Efficiency savings proposals 2020-21 onwards
- The robustness of the Budget and recommended level of reserves
- Reserves Strategy 2019-20 onwards
- Assessment of going concern basis paper provided by management for 2018-19

Auditor commentary

Management produced a going concern assessment paper as part of their 2018-19 accounts preparation procedures. It is recognised good practice for local authorities to perform an appropriate going concern review. The review covered the guidance from the CIPFA Code 2018-19 on the going concern concept.

In the vast majority of cases, local authorities shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future.

The Council’s going concern report included the Council’s thought process in relation to going concern principles and how that specifically applies to the circumstances in place at the Council. From our consideration of management’s assessment and our review of key documents, we would note the following key points:

- the Council’s level of earmarked general fund reserves of £15m as at 31 March 2019 (an increase of £2.2m from the prior year) and an underspend of £1.4m (or 21%) against a net revenue budget of £6.6m in 2018-19. This followed an underspend of £2m (or 32%) on 2017-18’s net revenue budget of c6.2m. Whilst there are issues in relation to the level of underspends delivered at the Council (and we reflect on this in our VFM section of this report), given the current financial challenges facing the local government sector the Council is currently in a relatively healthy financial position to manage any significant unexpected financial difficulties
- the future reserves position highlights a projected general fund reserve of £11.2m as at 31 March 2020 compared to its’ net budget position of c£8m for the same year, the projections assume that capital reserves will be utilised in 2019-20, including £2.4m for the Public Services Hub. The Council’s projected reserves as at 31 March 2020 are 1.4 times the Council’s net budget for the same period.
- the financial content of the approved MTFS for 2019-20 to 2021-22, the 2019-20 balanced budget and identified savings target do not highlight any going concern issues for the coming 12 months from the date of this report.

Work performed

We performed work on the MTFS, held meetings with senior management to discuss the MTFS, budget setting and savings plans.

Auditor commentary

- Our work indicates that there are no material uncertainties in terms of the going concern assessment by the management and no further disclosures are considered necessary in the Financial Statements.

Concluding comments

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer (s151) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer (s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We are satisfied with management’s assessment that the going concern basis is appropriate for the 2018-19 financial statements.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Internal Audit and noted Internal Audit updates to the Overview and Scrutiny Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures. Our work did not identify any material incidents during interim and final audits.
2	Matters in relation to related parties	<ul style="list-style-type: none"> Based on our review of related party transactions to date, we are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council and will be included as a separate agenda item at the Overview and Scrutiny Committee on 24 July 2019. The letter is expected to be approved and signed by the Policy and Resources Committee on 25 July 2019 We have included a specific representation around the unadjusted misstatement reported at page 23 of this report.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bank, loans and investments counterparties. The majority of these requests were returned with positive confirmations, however, when requests were not received, we carried out appropriate alternative procedures by observing and obtaining copies of online banks statements to confirm the balances as at 31 March 2019.
6	Disclosures	<ul style="list-style-type: none"> We have identified some disclosure amendments to assist in the understanding of the financial statements. These are included at Appendix B.
7	Significant difficulties	<ul style="list-style-type: none"> We did not identify any significant difficulties with management or working papers during the course of our audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
<p>1 Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our review of the AGS identified a small number of areas for enhanced disclosure. The Council has accepted our findings on the AGS and a revised version is due to be presented to the Overview and Scrutiny Committee on 24 July.</p> <p>Our review of the Narrative Report also identified some areas for enhanced disclosure. The Council has agreed to update its Narrative Report to take into account our comments.</p> <p>Subject to satisfactory receipt and review of the revised AGS and Narrative Report taking into account our comments, we plan to issue an unmodified opinion in this respect – please see our proposed audit opinion at Appendix D.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This work is not required as the Council does not exceed the threshold set by the NAO for such specified procedures.</p>
<p>4 Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2018-19 audit of the Council in the audit opinion, as detailed in Appendix D.</p>

3. Value for Money

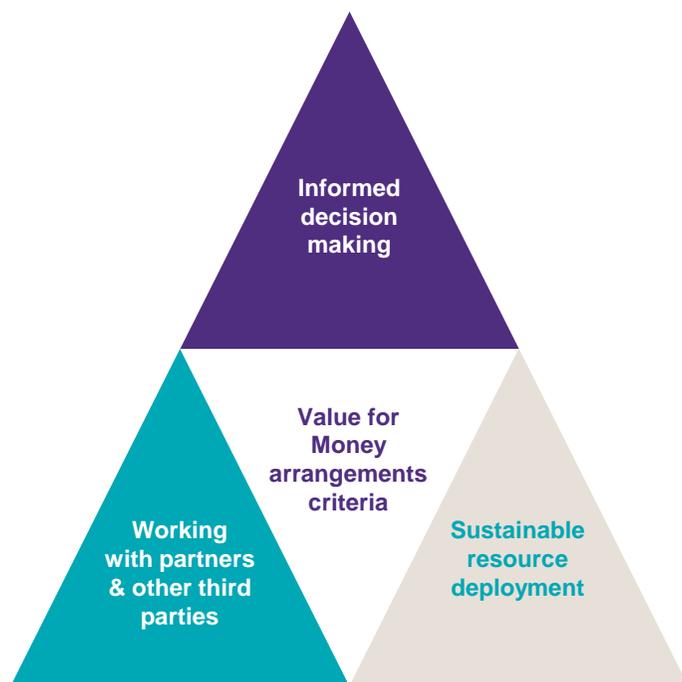
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in January 2019

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main consideration was:

- Embedding governance, risk management and financial monitoring arrangements to support informed decision making.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on page 17.

Overall conclusion

We have completed our risk based review of the Council's value for money arrangements.

We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for, in relation to embedding risk management and financial monitoring arrangements. This impacts on the Council's ability to satisfy the 'informed decision making' VFM criteria.

Our work identified that following the new senior management team's arrival in early 2018-19, they had taken steps to enhance the Council's risk management and financial monitoring arrangements. However, these arrangements were not sufficiently embedded during 2018-19 as a whole.

We consider our findings warrant an 'except for' VFM qualification opinion under the guidance issued by the NAO. We have discussed our proposal with Grant Thornton's national VFM consistency panel and they are in agreement with our proposal.

The text of our opinion which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed a recommendation and management response in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Significant risk reported in the Audit Plan	Findings	Conclusion
<p>Embedding governance, risk management and financial monitoring arrangements to support informed decision making</p> <p>In 2017-18, the Council's Annual Governance Statement (AGS) highlighted that improvements were required to the Council's risk management arrangements. We are aware that Internal Audit's review of risk management in both 2016-17 and 2017-18 resulted in an assessment of 'limited assurance' for the Council's arrangements in this area and that significant improvements were required.</p> <p>In our discussions with officers and planning work to date, we have noted the previous issues with regard to monitoring, oversight and communicating and reporting of risk management and related issues. We are also aware of internal audit's previous findings in this area.</p> <p>The Council acknowledges that the identifying, mitigating, prioritising, and timely reporting to Members of its significant risks are an important factor in its governance environment.</p> <p>The Council acknowledges that enhancements to its risk management and reporting arrangements are required and is taking steps to do this. This is a key area that requires improvement at the Council.</p> <p>As part of our VFM work, we will:</p> <ul style="list-style-type: none"> consider the arrangements, governance structures and internal monitoring processes in place around risk management at the Council continue to meet with senior management and Internal Audit to discuss the progress the Council is making around risk management arrangements consider how the Council is addressing the findings reported in 2017-18 AGS, and what narrative and findings will be include in the 2018-19 AGS. 	<p>Our focus in this area was around arrangements in place to embed risk management and monitoring arrangements to secure economy, efficiency and effectiveness in Council's use of resources. Our findings were as follows:</p> <ul style="list-style-type: none"> Our initial work during the risk assessment stage highlighted there were gaps in Council's risk management arrangements around identification, prioritisation, registration in a strategic risk register, action taken to mitigate the risks and timely reporting to the Council and relevant Committees including Overview and Scrutiny Committee. In addition, we considered the adequacy of the Council's in-year financial reporting to Members. We understand that no in-year financial reporting was performed in 2017-18 with the resulting £2m underspend against the £6.2m budget in 2017-18 coming as a surprise to many Members and stakeholders. Our subsequent work indicated the Chief Executive and the Chief Finance Officer, both newly appointed in 2018-19, recognise the need to enhance the Council's governance arrangements and have started to take action to improve risk management and financial monitoring arrangements . As part of this process, the Council conducted meetings with relevant stakeholders such as senior officers, Members and Internal Audit before revising and updating the Council's Strategic Risk Register to make it more relevant to the Council's key challenges and priorities. During 2018-19, the Chief Executive commissioned number of 'health checks' and carried out a 'root cause analysis' to understand the underlying issues facing the Council and how those could be prioritised and actioned and how progress against the challenges could be monitored. Health checks were carried out in a number of areas including Customer Services, HR and workforce, Projects and Health and Safety. The health check reviews identified some gaps in assurances available to support informed decision making, key risks and challenges to the successful delivery of the Council's objectives. A lack of a formal framework to register, action, monitor and timely report such risks was noted. As a result, a new updated Strategic Risk Register was formulated from the outcomes of these health checks. This was reported to the Audit and Scrutiny Committee in January 2019. In addition, the Council produced an in year financial monitoring report, reported to Members in end of May 2019 – which highlighted the Council was projected an underspend of £1.4m on its £6.1m 2018-19 budget. Both of these developments, on risk management and financial monitoring, are a positive step forward for the Council and are to be commended for the work done in 2018-19. However, given that both were only implemented during the second half of 2018-19 and we are required to review the arrangements in place for the full April 2018 to March 2019 period, we cannot state that they were embedded and operating for the full 2018-19 period. As such, we are proposing a qualified 'except for' VFM conclusion as proper arrangements were not in place for the full year. Our continuing discussions with senior management indicates embedding risk management and financial monitoring arrangements are key priorities to support informed decision making in 2019-20 and beyond. We will continue to monitor developments in this areas as a part of our 2019-20 audit planning. 	<p>We concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for, in relation to informed decision making VFM criteria.</p> <p>Our work identified that risk management and governance arrangements were not sufficiently embedded during 2018-19 and as such result in a proposed 'qualified 'except for' conclusion as set out in the audit opinion at Appendix D.</p> <p>We have raised a recommendation in relation to our VFM findings in the Action Plan at Appendix A.</p>

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed at Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related:			
Housing Benefit Certification	11,484	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,484 in comparison to the total fee for the audit of £32,206 and in particular relative to Grant Thornton UK LLP's turnover overall.
Non-Audit related:			
Chief Finance Officer Insights and Place Analytics subscription (2019-20 related)	3,500 *	Self-Interest (because this is a subscription)	This service is provided by a separate team within Grant Thornton UK LLP. There is no exchange of information relating to the audit between the two teams and therefore no impairment of auditor independence. The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 per annum in comparison to the total fee for the audit of £32,206 and in particular relative to Grant Thornton UK LLP's turnover overall.

* We have agreed one non-Audit related service since the year end 31 March 2019. This relates to Chief Finance Officer Insights and Place Analytics subscription for 2019-20. Though this service relates to 2019-20, for transparency we have disclosed this on the basis of reporting all agreed non-audit fees as at the date of this report.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings (ISA260) report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

We have not provided any other services to the Council in 2017-18 prior to our appointment as external auditors to the Council on 1 April 2018.

Appendix A: Action Plan

We have identified the recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019-20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Rec	Issue and risk	Recommendations
1	<p>Interim Audit Recommendations</p> <p>We reported our 2018-19 Interim Audit Findings to Overview and Scrutiny Committee on 13 June 2019.</p> <p>It included 7 recommendations with management responses.</p>	<p>We have not replicated those recommendations in this report.</p> <p>We will report on the Council's progress against these recommendations during the course of the 2019-20 audit</p>
2	<p>Embedding governance, risk management and financial monitoring arrangements to support informed decision making</p> <p>As noted in our VFM section, we identified that Council's risk management and governance arrangements were not sufficiently embedded during 2018-19.</p> <p>Our work in this area identified the 'Health Checks' undertaken by the Council. The Health Checks highlighted key risks to the Council's strategic objectives as well as day to day operations.</p> <p>Effective risk management is at the heart of good governance and vital to informed decision making to secure good value for money of Council's resources.</p> <p>Not embedding sound risk management and monitoring arrangements for informed decision making could have significant consequences to the Council's operations and the outcomes delivered to the people it serves.</p> <p>The senior management team, newly established in 2018-19, understand this and have been actively engaged in reviewing the Council's approach to governance, risk management and financial management. The reviews performed and changes initiated during 2018-19 should help to strengthen the Council's arrangements in 2019-20.</p>	<p>As part of the continued need to strengthen and embed governance, risk management and financial monitoring arrangements to support informed decision making, the Council should:</p> <ul style="list-style-type: none"> continue to update the risk register on a regular basis, firstly as a senior management team and then by reporting to Members, to ensure the key risks of the Council are being appropriately considered, discussed and mitigated. The Council should consider quarterly reporting of the risk register to the Overview and Scrutiny Committee ensure Members are kept regularly informed of the Council's performance against it's budget and capital programme. This could be via quarterly reports to Members highlighting any key areas of over or underspends and the mitigations and actions proposed by senior officers to ensure agreed budgets are delivered broadly in line with agreed spending limits (to avoid the unexpected nature of the high levels of underspend witnessed in recent years) continue to implement the proposals towards an open and transparent culture regarding governance. Ensuring senior management and Members have access to up-to-date information on the Council's key performance objectives, key risks and financial projections – making the various governance tools 'live' documents ensuring they are subject to regular update, discussion and appropriate actions are agreed. <p>Management response</p> <p>Agreed. Management Actions were put in place mid-way through 2018-19 following the appointment of new senior management staff to ensure these issues were being addressed, including a new s151 officer. A new Chief Executive began in September 2019, followed. These included sharing of budget monitoring information at Q2 (to end of Sept) and Q3 (to end of December) with all members and presenting estimates of the outturn which were in line with the financial position as at 31 March 2019.</p> <p>Significant progress has also been made with respect to risk management including a refresh of the overall strategy and a new Corporate Risk Register. Members have seen and contributed to both of these and the Register is now a live document which is reviewed regularly by Strategic Management Board and Overview and Scrutiny Committee. Service Risk Registers have also been developed and workshops held with senior staff. Consideration has been given to Governance arrangements and how these will be strengthened. This will be partially achieved by a new management structure and targeted resources but also by a review of key policies and processes.</p> <ul style="list-style-type: none"> Anton Hodge, Chief Finance Officer, ongoing

Appendix A: Action Plan (continued)

Rec	Issue and risk	Recommendations
3	<p>Valuation of Land and Buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. As part of this process, certain land and buildings were valued during 2018-19.</p> <p>Our audit work highlighted that the outcome of this exercise in relation to upward valuations and impairments were not appropriately accounted for in the draft financial statements.</p> <p>Further to our discussions with the management, material adjustments were made to correct this issue in the financial statements (see Appendix B).</p> <p>Land and buildings form a key part of Council's total asset base. In addition, valuation of Land and buildings is considered as a significant risk in the Audit Plan for 2018-19 and appropriately accounting for valuation is an important aspect of the accounts preparation process.</p> <p>A detailed review of the draft accounts by someone who is experienced in local government accounting but are not involved in the detailed production of the accounts, before publishing the draft accounts could help to mitigate such omissions in the future.</p>	<p>The Council should further strengthen the draft accounts review, process prior to publishing the draft accounts, particularly in relation to significant risk areas. This should identify any material omissions within the draft accounts prior to their publication and presented for audit.</p> <p>Management response</p> <p>Additional checks to be incorporated into the closedown timetable to ensure a second review of supporting working papers and backing documents are carried out for significant risk areas. This will be carried out by an Accountant or above who has not been involved in preparing the draft accounting entries.</p> <ul style="list-style-type: none"> • Michelle Oates, Senior Accountant – External Clients, 31 May 2020

Appendix B: Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We can confirm that there were no unadjusted misstatements above our triviality level.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on the Council's useable reserves
<p>1 Valuation of Land and Buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. As part of this process, certain land and buildings were valued during 2018-19. Our audit work highlighted that outcome of this exercise in relation to upward valuations and impairments were not appropriately accounted for in the draft financial statements.</p> <p>In addition, we also noted that land valued at £72k had in effect been doubled counted and therefore required reversing out from the updated accounts.</p> <p>Further to our discussions with the management, adjustments were made to correct this issue in the financial statements.</p>	<p>Dr Loss on Impairment of Assets 55</p> <p>Cr Previous revaluation charged reversal 55</p> <p>Cr Other Comprehensive Income 562</p>	<p>Dr Land and Buildings 562</p> <p>Cr Revaluation Reserve 562</p> <p>Dr MIRS 562</p> <p>Dr Revaluation Reserve 9</p> <p>Cr CAA 9</p> <p>Dr revaluation reserve 72</p> <p>Cr land and buildings 72</p>	<p>There is no impact on the Authority's useable reserves arising from this adjustment.</p>
<p>2 Pension Liabilities – McCloud legal case</p> <p>As a result of Supreme Court's decision on 27 June 2019 denying the Government to appeal against the 'McCloud case' gave rise to reassess the Council's IAS19 liabilities and associated disclosures. The Council is responsible for making the estimates included in the financial statements and for ensuring that the financial statements are not materially misstated which also includes IAS19 entries.</p> <p>Due to significant amounts involved under pension liabilities, the Council made a decision and instructed its actuary to run a revised IAS19 report incorporating the impact of the McCloud and GMP judgement.</p> <p>The assessment is expected to result in a material change to the previously reported pension liabilities in the draft accounts (to a suggested impact of c£737k). We anticipate the Council will incorporate the revised figures into the financial statements once received from the actuary.</p>	<p>£TBC</p> <p>Change to CIES actuarial gains/losses on pensions assets/liabilities</p> <p>£TBC</p> <p>Reversal within the MIRS</p> <p><i>[the value of this adjustment is TBC subject to receipt of the detailed actuary report on the impact of McCloud & GMP which is currently outstanding as at the date of this report]</i></p>	<p>c737</p> <p>Increase in pension liability (c737)</p> <p>Increase in pension reserve deficit</p>	<p>There is no impact on the Authority's useable reserves arising from this adjustment.</p>

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
1.	Disclosure	Capital Commitments note was updated to reflect the appropriate capital commitments as at 31 March 2019.	Capital Commitments Note 14	✓
2.	Disclosure	Minor presentational adjustments were made to the Narrative Report to ensure the content was consistent with the financial information and the activities during year ended 31 March 2019.	Narrative Report	✓
3.	Disclosure	Net gain has been amended to show £208k which was a casting error.	Investment Properties Note 16	✓
4.	Disclosure	The Expenditure and Funding Analysis statement is not a primary statement. As such we requested this to be moved from its original location within the primary statements in the draft accounts. Management have appropriately moved the EFA statement to after the primary statements.	Expenditure and Funding Analysis	✓
5.	Disclosure	Minor presentational adjustments were made to the Accounting Policies note to reflect the applicable accounting policies of the Council.	Accounting Policies Note 1	✓
6.	Disclosure	The notes disclosed under Officers Remuneration disclosure table were updated to further clarify to which job titles the payments have been made in 2018-19 and 2017-18. In addition, narrative was added below the table to reflect the re-charge arrangements between the Council and NYCC in respect of the current Chief Executive and Chief Finance Officer.	Officers Remuneration Note 32	✓
7.	Disclosure	The initial draft accounts included the result of the EU referendum result from 2016 as a post balance sheet event. The note has been updated to confirm that there have been no events after the balance sheet date.	Non-adjusting events after the reporting date Note 9	✓
8.	Disclosure	Additional note was added to clarify that supplementary information provided does not form part of the External Audit opinion for the year ended 31 March 2019.	Analysis of the cost of services - page 93-94	✓

Audit Adjustments

Unadjusted misstatements

We note below the details of an adjustment identified during the 2018-19 audit which has not been made within the final set of financial statements. The Overview and Scrutiny Committee is required to approve management's proposed treatment of the item recorded below:

- In our audit testing of creditors we identified a balance of £25k which related to grant funding received in 2014-15 from North Yorkshire County Council in respect of capital spend in relation to supporting independent living for elderly members of the region. We understand the Council incurred appropriate spend in relation to the grant in 2014-15, leaving a balance of £25k carried forward as at 31 March 2015. The Council's original plan was to release the remaining balance in 2015-16 following incurred spending in this area, however, this release of income did not take place and the balance has sat within creditors for the past four year-ends.
- Upon identifying the balance within our review of creditors, we discussed the background and details of the funding with the finance team. Given that the relevant spending in this area appears to have been incurred and the conditions appear to have been met to recognise the income, and that no request has been made from NYCC for repayment of the balance over the 4 years, it would be appropriate, in our view, to release the balance from creditors to income (the amount is above our trivial reporting level as set out on page 5).
- This would have the effect of increasing the Council's 2018-19 surplus by £25k with a resulting increase in the Council's useable reserves.
- Management have considered our proposal but are not minded to adjust the accounts on the grounds of materiality. Although the balance is above our triviality reporting threshold, it is not a material error. Therefore should the Committee agree with management and not adjust for this issue, it would not impact on our ability to award an unqualified opinion on the accounts (on the basis that they would still provide a materially accurate true and fair view).

Appendix C: Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Planned fee	Final proposed fee	2017-18 fee (to predecessor auditor)
Authority Audit	£32,206	TBC*	£41,826
Total audit fees (excluding VAT)	£32,206	TBC*	£41,826

* In light of the additional audit work to be performed on the Pension balances and entries in the Authority's accounts (as a result of the McCloud judgement and GMP), the additional work performed on the Value For Money conclusion (compared to 2017-18) and the additional auditing testing performed on the Council's accounts following the findings from our interim audit, we are proposing an increase in the audit fee for 2018-19 of £10,000. This proposal has been discussed and agreed with the s151 officer during April and was raised with the Overview and Scrutiny Committee in our interim report in June 2019. We will provide an update on this in our Annual Audit Letter, due to be agreed with management in August and presented to the Overview and Scrutiny Committee in October 2019. Final approval of any additional audit fee will be by Public Sector Audit Appointments Ltd (PSAA).

The audit fees reconcile to note 33 in the financial statements.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Housing Benefit Certification	11,484
Non-audit services:	
• Chief Finance Officer Insights and Place Analytics subscription (2019-20)	3,500*

* We have agreed one non-Audit related service since the year end 31 March 2019. This relates to Chief Finance Officer Insights and Place Analytics subscription for 2019-20. Though this service relates to 2019-20, for transparency we have disclosed this on the basis of reporting all agreed non-audit fees as at the date of this report.

Appendix D: Audit opinion (proposed)

We anticipate we will provide the Council with an unqualified 'clean' audit opinion for the financial statements audit and 'except for' qualified opinion for the Value For Money conclusion, by 31 July 2019.

Independent auditor's report to the members of Ryedale District Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ryedale District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Notes to the Accounts including Accounting Policies, the Collection Fund Statement and associated notes to the Collection Fund. The notes to the financial statements include the Expenditure and Funding Analysis. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018-19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018-19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer (s151)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer (s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer (s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the financial statements, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Appendix D: Audit opinion (continued)

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer (s151) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer (s151). The Chief Finance Officer (s151) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer (s151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer (s151) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Overview and Scrutiny Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion (continued)

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matters:

- Our initial work highlighted there were gaps in Authority's risk management arrangements around identification, prioritisation, registration in a strategic risk register, action taken to mitigate the risks and timely reporting to the Authority and relevant Committees including Overview and Scrutiny Committee
- In addition, we considered the adequacy of the Authority's in-year financial reporting to Members. We understand that no in-year financial reporting was performed in 2017-18 with the resulting £2m underspend against the £6.2m budget in 2017-18 coming as a surprise to many Members and stakeholders.

Our work identified that following the new senior management team's arrival in early 2018-19, they had taken steps to enhance the Authority's risk management and financial monitoring arrangements. However, these arrangements were not sufficiently embedded during 2018-19 as a whole.

These matters are evidence of weaknesses in proper governance arrangements in place during 2018-19, impacting on the Authority's ability to demonstrate and apply the principles and values of sound governance, to inform decision making, and to support the sustainable delivery of Authority's strategic priorities.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Ryedale District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice

Appendix D: Audit opinion

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

TO BE SIGNED

Gareth Mills, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Leeds

Date: TBC



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