



# External Audit ISA260 Report 2017/18

**Ryedale District  
Council**

July 2018

**DRAFT**

Note - This is draft document and subject to change as we finalise our audit work. Text in red will be updated/removed as appropriate as our audit work is finalised.



# Summary for Audit Committee

**This document summarises the key findings in relation to our 2017-18 external audit at Ryedale District Council ('the Authority').**

**This report covers our final on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements.**

## Financial statements

**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 31 July 2018. We note the following outstanding work:**

- Enquiries in relation to the carrying value of assets not revalued in 2017/18 and the impairment review in 2017/18;
- Enquiries relating to pensions queries;
- Testing of post closing journal entries; and
- Final review of the financial statements following processing of adjustments.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 6):

- **Valuation of PPE;**
- **Valuation of Pensions Liabilities; and**
- **Faster Close.**

We have identified one audit adjustments with a total value of £0.652million. See page 21 for details. These adjustments result in a net decrease of £0.652 million in the reported surplus on provision of services. This adjustment also affected a number of other notes in the statement of accounts.

Based on our work, we have raised 5 new recommendations. Details of our recommendations can be found in Appendix 1.

**While we have completed the audit of the Council's draft financial statements subject to completing testing on the areas listed above, we have not yet completed the audit work on the Council's Whole of Government Accounts submission. Until that work is completed we will not be able to issue our completion certificate.**

# Summary for Audit Committee (cont.)

## Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure 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.**

See further details on page 14.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help.



An overhead photograph of four business professionals (three women and one man) seated around a white conference table. They are dressed in business attire (white shirts, light blue shirts, and a grey top). The table has two laptops and a black folder. The scene is brightly lit with natural light from windows on the right, creating strong shadows. A blue horizontal band is overlaid across the middle of the image, containing the text.

**Section one**

# Financial Statements

# Accounts production and audit process

**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.**

**The Authority's overall process for the preparation of the financial statements is adequate.**

**The Authority has implemented some of the recommendations in our *ISA 260 Report 2016/17*.**

## Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is adequate.

We also consider the Authority's accounting practices appropriate.

## Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

## Implementation of recommendations

We raised 2 recommendations in our ISA 260 Report 2016/17. Further details are included in Appendix 2.

## Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

## Quality of supporting working papers

The supporting working papers were provided in a timely manner and were of an adequate quality.

## Response to audit queries

Officers dealt with our audit queries in a timely manner.

# Specific audit areas

**We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. 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.**

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

## 01

### 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.

## 02

### Fraudulent 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 2017-18* 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.

# Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

<b>Risk:</b>	<b>Valuation of PPE</b> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p>
<b>Our assessment and work undertaken:</b>	<p>We reviewed the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.</p> <p>In addition, we considered movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).</p> <p>As a result of this work we determined that the Authority has accounted for the valuation of PPE appropriately.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant &amp; Equipment at page 9.</p>

# Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

<p><b>Risk:</b></p>	<p><b>Pension Liabilities</b></p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of North Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<p><b>Our assessment and work undertaken:</b></p>	<p>As part of our work we reviewed the controls that the Council has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the Actuary.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges, and consider the need to make use of a KPMG Actuary. We reviewed the methodology applied in the valuation by the Actuary.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>As a result of this work we determined that the Authority has accounted for the pension liability appropriately.</p> <p>We did identify one audit misstatement which has been adjusted for in the statement of accounts. This related to a pensions up front payment towards the pension deficit which had incorrectly been included as a prepayment in the draft statement of accounts. This cost has to be fully recognised in the CIES in the year of the payment. These adjustments result in a net decrease of £0.652 million in the reported surplus on provision of services. This adjustment also affected a number of other notes in the statement of accounts.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 10.</p>



# Specific audit areas (cont.)

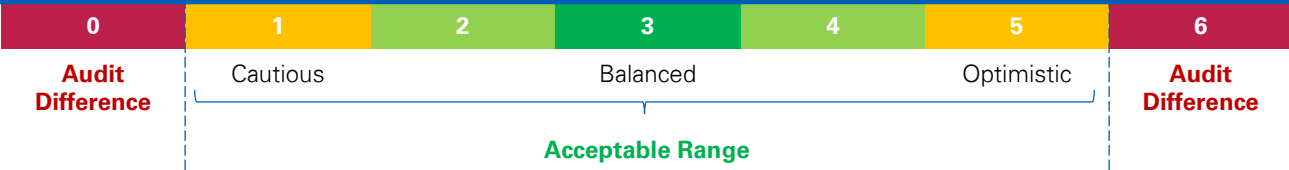
## Significant Audit Risks – Authority (cont.)

<b>Risk:</b>	<p><b>Faster Close</b></p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;</li><li>— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<b>Our assessment and work undertaken:</b>	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines.</p> <p>We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent that of prior years and a result we identified that faster close did not pose a significant risk to the audit. Therefore this does not constitute a significant risk to the financial statements audit.</p>

# Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence



Subjective area	2017-18	2016-17	Commentary
Provisions	3	3	The provisions included in the accounts are balanced. We consider the provisions and related disclosures to be proportionate.
Accruals	3	3	Our work has not identified any matters arising with the accruals that the Council has made. The accruals tested were supported by detailed calculations and evidence and we conclude that the Council has taken a balanced approach to estimating these accruals.
Property Plant & Equipment (valuations)	3	3	<p>The Authority has utilised City of York Council valuers to review PPE assets.</p> <p>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.</p> <p>Our work has concluded that the Council’s valuer has taken a balanced and reasonable approach to valuing the assets, and that the resulting valuation is compliant with the Code of Practice requirements.</p>

# Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary																																
Valuation of pension assets and liabilities	4	3	<p>The Authority continues to use Aon Hewitt to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>The actual assumptions adopted by the actuary were determined to be slightly optimistic overall but fell within our expected ranges as set out below:</p> <table><tr><th>Assumption</th><th>Actuary Value</th><th>KPMG Range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.60%</td><td>2.35-2.65%</td><td>4</td></tr><tr><td>CPI inflation</td><td>2.10%</td><td>1.91-2.41%</td><td>3</td></tr><tr><td>Net discount rate</td><td>0.5%</td><td>(0.06)-0.74%</td><td>4</td></tr><tr><td>Salary Increases</td><td>CIP plus 1.25%</td><td>CPI plus 0% to 2.0%</td><td>3</td></tr><tr><td>Life expectancy</td><td></td><td></td><td></td></tr><tr><td>  Males currently 45/65</td><td>25.1/22.9</td><td>23.5/22.1</td><td>2</td></tr><tr><td>  Females currently 45/65</td><td>28.7/26.4</td><td>25.4/23.9</td><td></td></tr></table>	Assumption	Actuary Value	KPMG Range	Assessment	Discount rate	2.60%	2.35-2.65%	4	CPI inflation	2.10%	1.91-2.41%	3	Net discount rate	0.5%	(0.06)-0.74%	4	Salary Increases	CIP plus 1.25%	CPI plus 0% to 2.0%	3	Life expectancy				Males currently 45/65	25.1/22.9	23.5/22.1	2	Females currently 45/65	28.7/26.4	25.4/23.9	
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# Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing [an unqualified audit opinion on the Authority’s 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 25 July 2018.

### 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 this year’s audit was set at £0.4 million. Audit differences below £20k are not considered significant.

We identified one material misstatement relating to an up front payment of pension deficit contributions. The tables below illustrate the total impact of audit differences on the Authority’s movements on the General Fund for the year and balance sheet as at 31 March 2018. We identified a number of issues that have not been adjusted by management as they do not have a material effect on the financial statements.

In addition, 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 2017-18 (‘the Code’). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Movement on the General Fund 2017-18			Balance Sheet as at 31 March 2018		
£m	Pre-Audit	Post-Audit	£m	Pre-Audit	Post-Audit
Surplus on the provision of services	3,648	2,996	Property, Plant & Equipment	16,393	16,393
			Other long term assets	2,566	2,566
Adjustments between accounting basis and funding basis under regulations	468	1,120	Current assets	21,497	20,845
			Current liabilities	-5,753	-5,753
<b>Increase in General Fund</b>	<b>4,116</b>	<b>4,116</b>	Long term liabilities	-22,177	-22,177
			<b>Net worth</b>	<b>12,526</b>	<b>11,874</b>
			General Fund	12,808	12,808
			Other useable reserves	498	498
			Unusable reserves	-780	-1,432
			<b>Total Reserves</b>	<b>12,526</b>	<b>11,874</b>

### Annual governance statement

We have reviewed the Authority’s 2017-18 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 and is consistent with other information we are aware of from our audit of the financial statements.

### Narrative report

We have reviewed the Authority’s 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 2018, 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 S151 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 2017-18 financial statements.



## Section two

# Value for Money Arrangements



# Specific value for money risk areas

Our 2017-18 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.

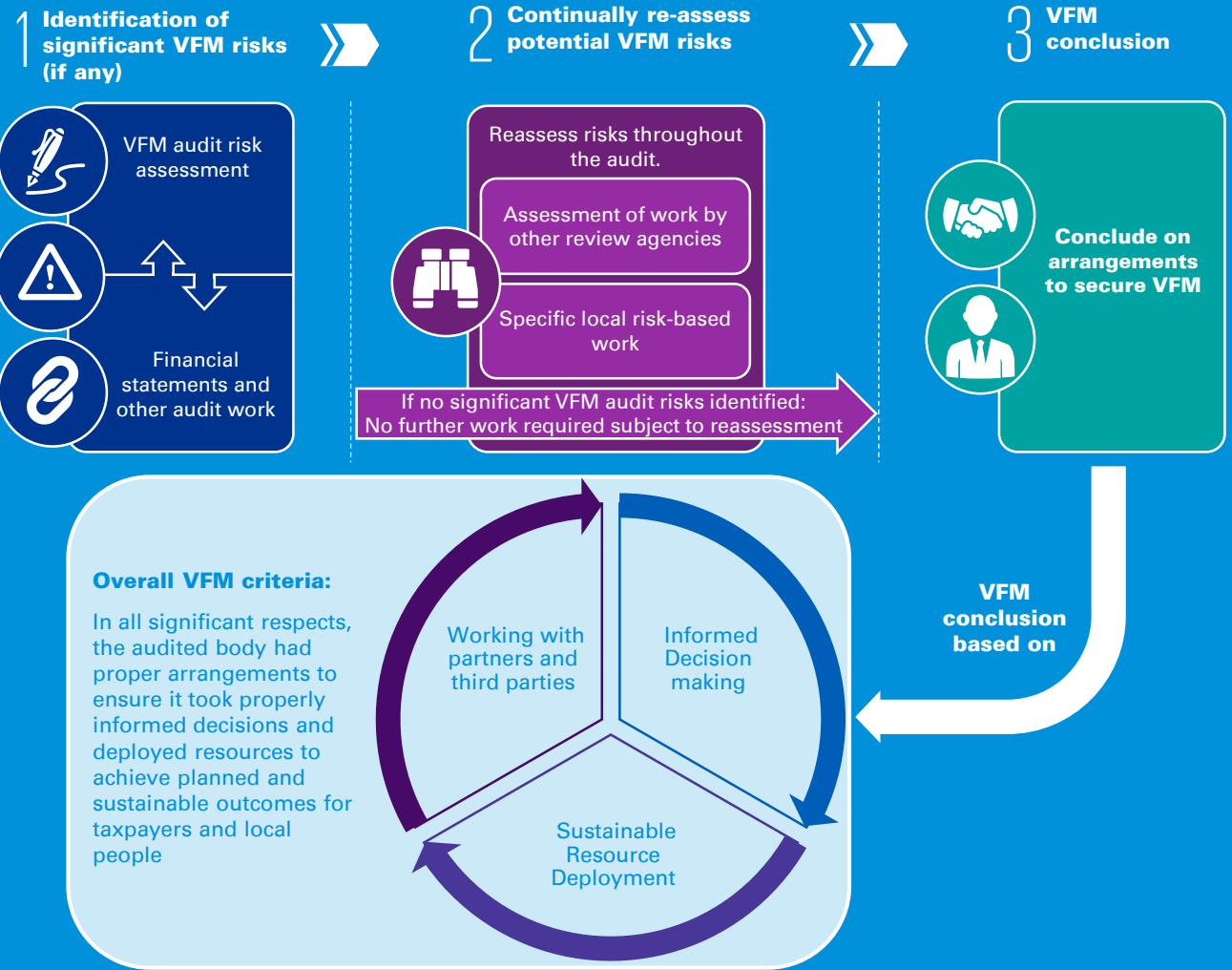
We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As communicated to you in our *External Audit Plan 2017-18*, we have not identified any risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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’.

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.’

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



# Appendices



# Key issues and recommendations

Our audit work on the Authority’s 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations 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 recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	<b>Priority One:</b> 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.	2	<b>Priority Two:</b> 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.	3	<b>Priority Three:</b> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
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The following is a summary of the issues and recommendations raised in the year 2017/18.

Priority	This Report	Total
High	0	0
Medium	1	1
Low	4	4
Total	5	5

# Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
1	3	<p><b>Northgate review of privileged access users</b></p> <p>There are no periodic reviews of the administrative roles for privileged access users. Responsibility for identification of excess privileges lies with line managers. This may result in users who have excess privileges on the Northgate system. We recommend instituting access users reviews, including the relevant privileges of each user. We also recommend that this is documented to provide evidence that this has been completed on a regular basis.</p>	<p>This has been identified in previous annual internal audits and it has been accepted that due to the relatively small number of staff employed by the Authority, members of the ICT &amp;/or Revenues and Benefits teams are familiar with everyone and this in itself can be an informal control. We do undertake an annual check however we are developing a regular procedure for identifying inactive accounts on the directory relating to individuals that may not be familiar to ICT &amp;/or Revenues and Benefits system administrators. Current procedure for RDC leavers involves a note on the intranet from HR and a formal user amendment form sent to ICT from the leaver’s manager.</p> <p><b>Responsible Officer</b></p> <p>Angela Jones, Customer Service Lead</p> <p><b>Implementation Deadline</b></p> <p>31st Oct 18</p>
2	3	<p><b>Northgate leavers</b></p> <p>There is no formalised notification process to notify the Northgate systems admin team of leavers to be removed from Northgate. We recommend instituting a formalised procedure to notify the Northgate team of leavers so these people can be removed from the system on a timely basis.</p>	<p>This has been identified in previous annual internal audits and it has been accepted that due to the relatively small number of staff employed by the Authority, members of the ICT, Revenues and Benefits teams are familiar with everyone and this in itself can be an informal control. We do undertake an annual check however we are developing a regular procedure for identifying inactive accounts on the directory relating to individuals that may not be familiar to ICT, Revenues and Benefits system administrators. Current procedure for RDC leavers involves a note on the intranet from HR and a formal user amendment form sent to ICT from the leaver’s manager.</p> <p><b>Responsible Officer</b></p> <p>Angela Jones, Customer Service Lead</p> <p><b>Implementation Deadline</b></p> <p>31st Oct 18</p>



# Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
3	3	<b>Civica review of system users</b> <p>There is no periodic review of the system's users, including super-users to determine if the current user access list is sufficient and correct. This is a control that should be undertaken on at least a quarterly basis to ensure that all system users, including super-users, are still correct, sufficient, and will effectively ensure that access to the system is restricted to those who require it.</p>	<p>This has been identified in previous annual internal audits and it has been accepted that due to the relatively small number of staff employed by the Authority, members of the ICT &amp;/or Customer Service (Business &amp; Democracy) teams are familiar with everyone and this in itself can be an informal control. We do undertake an annual check however we are developing a regular procedure for identifying inactive accounts on the directory relating to individuals that may not be familiar to ICT &amp;/or Customer Service (Business &amp; Democracy) administrators. Current procedure for RDC leavers involves a note on the intranet from HR and a formal user amendment form sent to ICT from the leaver's manager.</p> <p><b>Responsible Officer</b> Anton Hodge</p> <p><b>Implementation Deadline</b> 31st Oct 18</p>
4	3	<b>Payroll controls retaining of documentation</b> <p>The documentation of the control around reconciling oncosts invoices from CYC to the CYC voucher are not retained. As a matter of best practice, these should be retained going forward.</p> <p>The control around reviewing exception reports provided by City of York Council is not formally documented and retained. As a point of best practice, this should be documented.</p>	<p>We are currently reviewing our procedures.</p> <p><b>Responsible Officer</b> Andrew Ellis</p> <p><b>Implementation Deadline</b> 31st Oct 18</p>
5	2	<b>Resource in the accounts production team</b> <p>There have been recent staffing changes in the finance team that mean there is limited resource in the team. The financial statements are made up of a number of judgements and estimates that require management to come to a decision. The Council currently relies on consulting other Councils to come to a decision.</p> <p>We recommend that management review the current capacity of the team to determine whether further support is required from elsewhere.</p>	<p>A review of the resources available in the finance team is currently underway with a view to securing additional support from another Council.</p> <p><b>Responsible Officer</b> Anton Hodge</p> <p><b>Implementation Deadline</b> 31 Oct 2018</p>

# Follow-up of prior year IT recommendations

The Authority has implemented all of the recommendations raised through our previous audit.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17*.

Number of recommendations that were

Included in the original report	2
Implemented in year or superseded	2
Outstanding at the time of our audit	0

No.	Risk	Issue & Recommendation	Management Response	Status as at 23/07/2018
1	3	<p><b>Issue:</b></p> <p><b>Accruals identification</b></p> <p>During the cut-off testing we identified non-significant expenditure that had not been accrued into 2016/17.</p> <p>This was not in line with the Council’s accounting policy on accruals of income and Expenditure.</p> <p><b>Recommendation:</b></p> <p>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.</p>	<p>Accepted</p> <p>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.</p> <p><b>Responsible Officer</b> Resources &amp; Enabling Services Lead Officer</p> <p><b>Implementation Deadline</b> December 2017</p>	<p>Through our cut-off testing performed in 2017/18 we did not identify any issues.</p> <p><b>Implemented</b></p>

# Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 23/07/2018
2	2	<p><b>Issue:</b></p> <p><b>Response to Peer Review</b></p> <p>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.</p> <p>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.</p> <p>At Full Council, Members decided that they needed a members working party to address the issues raised and confirm / amend the suggested action plan.</p> <p>The working group has been set up and is planning to meet in November 2017.</p> <p><b>Recommendation:</b></p> <p>We recommend that action is agreed and implemented as soon as possible to address the issues identified in the peer review.</p>	<p>Accepted</p> <p>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.</p> <p>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</p> <p><b>Responsible Officer</b> Interim Chief Executive</p> <p><b>Implementation Deadline</b> July 2018</p>	<p>The CPC Improvement Plan Working Party have met on a number of occasions in the last 12 months. The improvement plan has not yet been agreed by members of Council but progress has been made against a number of action in the draft improvement plan and this has been reported to the members of the working party. The LGA CPC review team revisited the Council in April 2018 and the report of this visit is awaited and will be considered initially by the CPC Improvement Plan Working Party at their meeting on 13 September 2018.</p> <p><b>Implemented</b></p>

# 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 also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

### Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Ryedale District Council’s financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences – Authority (£’000)

No.	Income and expenditure statement	Assets	Liabilities	Basis of audit difference
1	Dr Cost of Services 652	Cr Prepayments 652		- This related to a pensions up front payment towards the pension deficit which had incorrectly been included as a prepayment in the draft statement of accounts. This cost has to be fully recognised in the CIES in the year of the payment. These adjustments result in a net decrease of £0.652 million in the reported surplus on provision of services. This adjustment also affected a number of other notes in the statement of accounts.
	Dr 652	Cr 652		Total impact of adjustments

### Unadjusted audit differences - Authority

Our audit did not identify any material unadjusted audit misstatements.

### Presentational adjustments - Authority

We identified a number of minor presentational adjustments required to ensure that the Authority’s financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (‘the Code’).

# 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 2017-18*, presented to you in January 2018 for the Authority.

## **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, an individual difference is considered to be clearly trivial if it is less than £20k 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.



## Appendix 5:

# Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified 1 adjusted audit differences with a total value of £0.652 million. See page 21 for details. These adjustments result in a net decrease of £0.652 million in the reported surplus on provision of services. See page 21 for further details.
Unadjusted audit differences	We have not identified any unadjusted audit differences.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have not identified any significant control deficiencies during our financial statements audit other those disclosed in Appendix 2. See Appendix 2 for further detail.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our financial statements audit report. A modification has been made to our opinion on the Authority's Value For Money arrangements.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

# Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority’s accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 10.</p>
Significant matters discussed or subject to correspondence with management	<p>The following significant matters arising from the audit which were discussed, or subject to correspondence, with management:</p> <ul style="list-style-type: none"><li>— Valuation of PPE;</li><li>— Valuation of pension liability; and</li><li>— Faster Close.</li></ul>

# Declaration of independence

## **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF RYEDALE DISTRICT COUNCIL**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### **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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

# Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 (planned fee) £	2016-17 £
Audit of the Authority	41,826	41,826
<b>Total audit services</b>	<b>41,826</b>	<b>41,826</b>
Audit related assurance services- housing benefits	11,484	12,150
<b>Total Non Audit Services</b>	<b>11,484</b>	<b>12,150</b>

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1 as none of the services provided count towards the cap. We therefore do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

# Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Estimated value of services committed but not yet delivered £
<b>Mandatory assurance services</b>			
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	11,484

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.



# Declaration of independence (cont.)

## **Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**

Appendix 7:

# Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £41,826 plus VAT (£41,826 in 2016/17), which is consistent the prior year.

Our work on the certification of the Authority’s Housing Benefit Subsidy return is planned for September 2018. The planned scale fee for this is £11,484 plus VAT (£12,150 in 2016/17).

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
<b>Accounts opinion and value for money work</b>		
PSAA Scale fee (Ryedale Council)	41,826	41,826
<b>Total audit services</b>	<b>41,826</b>	<b>41,826</b>
<b>Mandatory assurance services</b>		
Housing Benefits Certification (work planned for September)	11,484	12,150
<b>Total mandatory assurance services</b>	<b>11,484</b>	<b>12,150</b>
<b>Total non-audit services</b>	<b>11,484</b>	<b>12,150</b>
<b>Grand total fees for the Authority</b>	<b>53,310</b>	<b>53,976</b>

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

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This report is addressed to 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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://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, by email to [Andrew.Sayers@kpmg.co.uk](mailto: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](mailto: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 3HZ.

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