

Audit Progress Report and Sector Update

**Ryedale District Council
Year ending 31 March 2019**

16 October 2018



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Introduction



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We are delighted to be appointed as your external auditor and look forward to working with you to ensure you get maximum value from our audit work. We will be pragmatic and actively engage with you throughout the year in an open and transparent manner, ensuring you benefit from our wider insights and observations at all times.

Gareth Mills will be the Engagement Lead for the audit. Gareth is based in our Leeds office and has extensive experience working with Local Government and NHS bodies across the North of England. His responsibilities on this audit will include liaising with the Audit Committee, overseeing the work of the audit team and delivery of our audit opinion.

Thilina De Zoysa will be the Engagement Manager. Thilina is also based in our Leeds office and has worked extensively in public sector audit over the past 15 years. Thilina will manage the delivery of our audit fieldwork, complete our value for money conclusion work and assist Gareth in reporting our findings to the Audit Committee.

This paper provides the Audit Committee with an introduction to Grant Thornton and our audit approach, a report on our progress in delivering our responsibilities as your external auditor and a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Gareth or Thilina.

About Grant Thornton



Grant Thornton International Ltd

- One of the world's leading organisations of independent assurance, tax and advisory firms
- Combined turnover of \$4.6 billion
- Over 42,000 people based in over 130 countries.



Grant Thornton UK LLP

- UK member firm of Grant Thornton International Ltd
- Turnover of £534 million
- More than 180 partners, with 4,500 people
- Operates from 26 offices.



What we do

Audit and Assurance

- Audit
- Corporate governance
- Accounting support
- Technical accounting
- Royalty audits
- Cost and Contracts Assurance
- Healthcare Assurance
- Outsourced compliance services

Corporate Finance Services

- Strategic options reviews
- Taxation advice
- Acquisitions advice
- Disposals advice
- Advice on management buyouts, mergers and strategic alliances
- Advice on fund raising
- Capital markets

Recovery and Reorganisation Services

- Control assessment and implementation
- Credit advisory services
- Financial and operational turnarounds
- Liquidity management
- Performance improvement solutions
- Operational assessments
- Runoff
- Supply chain risk management
- Tax recovery
- Tax restructuring

Forensic and Investigation Services

- Expert witness
- Fraud solutions
- Forensic technology solutions
- Insurance claims solutions
- Internet intelligence tools
- Business Risk Services

Taxation

- Corporate tax
- International tax
- Expatriate tax
- IP and WHT planning
- Incentive arrangements
- Employee share schemes
- VAT and PAYE solutions
- Transfer pricing
- Outsourced compliance services

Transaction Advisory Services

- Due diligence
- Pensions and benefits
- Valuations
- Management assessment
- Operations and post deal services

Government Infrastructure Advisory

- Funding advice
- Financial modelling
- Economic advisory services
- Business growth advice
- Service delivery consultancy
- Procurement support
- General financial advisory services for the public sector

Business Risk Services

- Internal audit
- Corporate governance
- Business process Improvement
- Organisational change management
- Technology risk management

Our work in the Public Sector



Grant Thornton
An instinct for growth™

We are the only leading firm to have grown both our NHS and Local Government audit portfolios over the last two years. This achievement makes us the clear market leader in Local Public Audit.

We are the external auditors to:

- Approximately 40% of the Local Government sector.
- Over 30% of the NHS sector, including York Teaching Hospital NHS Foundation Trust.

We have a dedicated Public Sector Assurance team, including:

- Over 300 Local Government and NHS audit specialists.
- Over 30 Accredited Public Sector Engagement Leads, more than any other firm.
- We are the largest single CIPFA employer in the country.

Locally we have been appointed as the auditors to a number of bodies in Yorkshire, including North York Moors National Park Authority, Leeds City Council, West Yorkshire Police, Kirklees MBC, Barnsley MBC, Rotherham MBC, Doncaster MBC and South Yorkshire Police.

Our audit approach at a glance

Smooth transition

- We have extensive experience of transitioning into new clients and will do this at minimum disruption to you.
- We will quickly look to build up good working relationships with your team.



Audit planning

- We will meet with key management to identify financial statement and value for money risks.
- We will provide a prepared by client listing and agree a timetable for the audit.



Audit Plan

- Confirms financial statement and value for money risk areas.
- Sets out our audit scope and our responses to assessed risks.
- Formal communication with the Finance, Risk and Audit Committee.

Interim audit

- We will review key systems and controls.
- We will carry out early work on areas of audit risk.
- We will liaise with Internal Audit, review outputs and assess impact on our work.



Final accounts audit – June to July 2019

- Focused on risk areas.
- IDEA interrogation software utilised to provide efficiency and insight.
- Audit issues and potential adjustments, discussed and cleared with you as they arise.



Audit clearance meeting – July 2019

- Discuss audit issues with management.
- Agree treatment of any unadjusted differences.
- Practical recommendations on systems and controls.

Audit Findings (ISA260) Report – July 2019

- Sets out key audit and accounting issues and how these have been resolved.
- Provides comments on systems and controls, and review of accounting policies; conclusions and judgements.
- Includes value for money conclusion.



Completion – July 2019

- Finalise audit by 31 July 2019 deadline.
- Obtain Letter of Representation from management.
- Issue opinion covering financial statements and our value for money conclusion.



Feedback from you – Summer 2019

- Debrief meeting with senior finance staff.
- Action Plan to address findings.
- On-line satisfaction survey and/or independent client service review.

Progress as at 16 October 2018

Financial Statements Audit

Gareth Mills held an initial introductory meeting with the Interim Chief Executive and the then Section 151 Officer back in March 2018.

On 15 October Gareth and Thilina held a series of introductory meetings with officers. These involved meeting with the new Section 151 Officer, core members of the finance team, internal audit, the new Chief Executive and the Audit Committee Chair. The day was extremely useful to get to know key management and the issues facing Council.

We issued our Audit Fee Letter to management, outlining our planned audit fee for 2018-19, in April 2018. The Fee Letter is included in on the agenda for the Audit Committee on 25 October 2018.

In August 2018 we commenced handover procedures from the predecessor auditor, KPMG. During early October 2018, we visited the KPMG offices to review their 2017-18 audit file and discussed with members of the prior year audit team to gain an understanding of the key issues and risks that impacted both the financial statements and value for money audits.

We will commence our audit planning in November 2018 and we will present our Audit Plan to the Audit Committee in the New Year.

Our interim audit is expected to take place in February and March 2019 and our final accounts audit will take place in June and July 2019. Actual timings will be confirmed with the finance team in due course.

Our findings from the year-end audit will be reported to you in the Audit Findings ISA260 Report by 31 July 2019.

In August 2019 we will produce an Annual Audit Letter summarising our work for the 2018-19 year.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We will make our initial risk assessment to determine our approach and report this to you in our Audit Plan in the New Year.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other matters

Meetings

We will be meeting with the Chief Executive and S151 Officer on a quarterly basis throughout 2018-19. Additional meetings will take place with finance, internal audit and other officers as our 2018-19 audit progresses.

We will continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events. We will be inviting key finance staff to our annual accounts workshop which is expected to take place early in the New Year.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018-19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018-19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts Audit Plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019 (tbc)	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019 (tbc)	Not yet due
Audit Findings (ISA260) Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

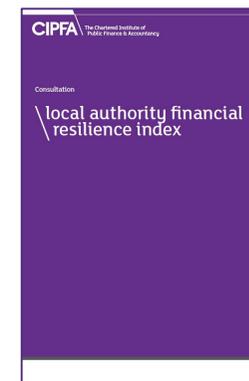
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Have members been briefed on the Council's response to the Financial Resilience Index consultation?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

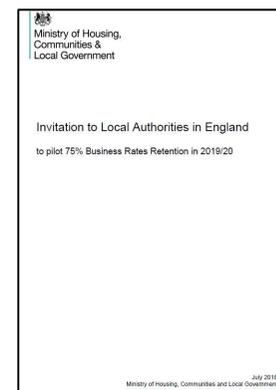
Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25 September 2018.

Business Rates pilots 2019/20

Challenge question:

Has your Council considered applying to be a Business Rates pilot?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

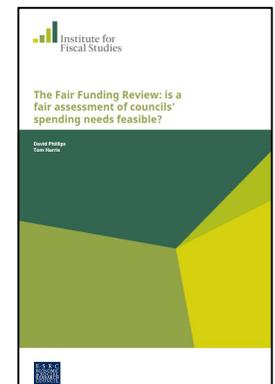
The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has the Council considered how our Supply Chain Insight tool can help support your supply chain assurance?



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

