

# The Annual Audit Letter for Ryedale District Council

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**Year ended 31 March 2019**

**August 2019**



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# 1. Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Ryedale District Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Overview and Scrutiny Committee as those charged with governance in our Audit Findings (ISA260) Report on 24 July 2019.

## Our work

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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £375,000, which was 1.8% of the Council's gross revenue expenditure.
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<b>Financial Statements opinion</b>	We gave an unqualified 'clean' audit opinion on the Council's financial statements on 31 July 2019.
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<b>Whole of Government Accounts (WGA)</b>	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. However this work was not required as the Council did not exceed the threshold set by the NAO for such specified procedures.
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<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for weaknesses identified in the Council's arrangements for managing risks effectively and timely reporting on financial performance to members. We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2019. For further details on Value for Money arrangements and our work concluded, see section 3 of this report, pages 10 and 11.
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<b>Certificate</b>	We certified that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.
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## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

## Working with the Council

In our first year of audit at the Council, we believe we have developed professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior officers including the Chief Executive, the s151 Officer, senior finance managers and the Chair of the Overview and Scrutiny Committee to understand the issues facing the Council
- an efficient audit - we delivered an efficient audit with you in June and July and worked well with your finance team
- understanding your operational environment and challenges – through the value for money conclusion work, we provided assurances around your arrangements in place to secure economy, efficiency and effectiveness in use of Council's resources

- Sharing our insight – we provided regular Overview and Scrutiny Committee updates covering best practice. We also contributed to discussions and debates on a variety of committee topics outside of external audit agenda items
- Providing accounts workshops – we provided your finance team with training workshops, focusing on key changes to 2018-19 financial statements and main risk areas for the audit.
- Supporting development – we provided a workshop for members of the Overview and Scrutiny Committee on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements. The day was an opportunity for members to network with other members across our Yorkshire local authority client base and discuss Audit Committee effectiveness.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**August 2019**

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## 2. Audit of the Financial Statements

### Our audit approach

#### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the financial statements to be £375,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. The level of materiality was revised to this amount following receipt of the Council's draft 2018-19 financial statements. We reported our updated materiality level in the Audit Findings (ISA260) Report in July 2019.

We also set a lower level of specific materiality of £5,000 for senior officer remuneration.

We set a lower threshold of £19,000, above which we reported errors to the Overview and Scrutiny Committee in our Audit Findings (ISA260) Report.

#### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the narrative report and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's operational activities and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Management over-ride of controls</b></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 faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management over-ride of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any significant changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any significant issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>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 (c14m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>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 at the financial statements date, where a rolling programme is used.</p> <p>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>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>discussed with the valuer the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested 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</li> <li>assessed how management have confirmed assets valued at 1 April 2018 have not significantly changed in value by the year end, 31 March 2019</li> <li>evaluated 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.</li> </ul>	<p>Our audit work identified some amendments to the original land and buildings figures reported in the draft accounts in relation to revaluation and impairments.</p> <p>These amendments were updated in the final audited version of the accounts. There was no impact on the Council's useable reserves arising from these adjustments.</p> <p>As part of our Audit Findings (ISA260) report presented to the Overview and Scrutiny Committee in July 2019, we agreed a recommendation to address our findings.</p> <p>No other significant issues were identified from our work.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of the pension fund net liability</b></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 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>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• updated 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</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liabilities</li> <li>• tested 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</li> <li>• performed 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</li> <li>• requested the council to obtain updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud judgement. We assessed the updated actuary report to understand the overall impact to the pension fund liability of the Council</li> <li>• obtained 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.</li> </ul>	<p>The Council requested updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud judgement.</p> <p>The revised report resulted in an increase in the Council's pension fund liability of £436k, which was adjusted in the final accounts approved in July 2019. This adjustment did not impact on the Council's level of useable reserves.</p> <p>Our audit work did not identify any other significant issues.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We issued an unqualified 'clean' opinion on the Council's financial statements on 31 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Overview and Scrutiny Committee on 24 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

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.

However, in line with previous years, this work was not required as the Council did not exceed the threshold set by the NAO for such specified procedures.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Ryedale District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

# 3. Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risk we identified and the work we performed are set out overleaf. We identified one risk in our Audit Plan presented to the Overview and Scrutiny Committee in January 2019.

As part of our Audit Findings (ISA260) report presented to the Overview and Scrutiny Committee in July 2019, we agreed one recommendation to address our findings. This was in relation to the continued need to strengthen and embed governance, risk management and financial monitoring arrangements to support informed decision making at the Council.

## Overall Value for Money conclusion

### 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 were satisfied that, in all significant respects, the Council 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 Council's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matters:

- For the first nine months of 2018-19, there were weaknesses in the Council arrangements for identifying, prioritising and recording risks in a strategic risk register, determining what actions should be taken to mitigate risks and providing members with timely reporting on risk management. The Council took action during the year to address these weaknesses and reported its updated Strategic Risk Register to the Overview and Scrutiny Committee in January 2019.
- Members have not been provided with adequate financial information throughout 2018-19. In May 2018 the Council's £2 million underspend against its £6.2 million budget for 2017-18 was reported to members for the first time. The Council took action during the year to address this issue, reporting in-year 2018-19 financial performance to members in October 2018.

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 considered our findings warranted an 'except for' VFM qualification opinion under the guidance issued by the NAO.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Embedding governance, risk management and financial monitoring arrangements to support informed decision making</b></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 up to January 2019, 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 acknowledged that identifying, mitigating, prioritising, and timely reporting to Members of its significant risks are an important factor in its governance environment.</p> <p>The Council also acknowledged that enhancements to its risk management and reporting arrangements are required and this is a key area that requires improvement at the Council.</p> <p>We therefore considered this as a significant VFM risk for the Council in 2018-19.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>reviewed health checks reports commissioned and produced by the Council</li> <li>Reviewed the Council's latest Corporate Risk Register</li> <li>discussed key governance and risk management arrangements with the senior management</li> <li>reviewed key financial and operational documents including the final outturn report for 2018-19</li> </ul> <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.</p>	<p>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.</p> <p>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 again the £6.2m budget in 2017-18 coming as a surprise to many Members and stakeholders.</p> <p>Our subsequent work indicated the Chief Executive and the Chief Finance Officer, both newly appointed in 2018-19, recognised the need to enhance the Council's governance arrangements and started to take action to improve risk management and financial monitoring arrangements .</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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 issued a qualified 'except for' VFM conclusion as proper arrangements were not in place for the full year.</p> <p>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 part of our 2019-20 audit planning.</p> <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 resulted in a 'qualified 'except for' conclusion as set out in our audit opinion issued in July 2019. For more information around our basis for qualified conclusion, see page 10.</p>

# Appendix A: Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	January 2019
Interim Audit Findings	June 2019
Audit Findings (ISA260) Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017-18 fees £ (KPMG)
Statutory audit	32,206	TBC – see table on right	41,826
<b>Total fees</b>	<b>32,206</b>	<b>TBC</b>	<b>41,826</b>

Fees for other services	Fees £
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### Audit related services:

- Housing Benefit Certification 11,484

### Non-audit services:

- Chief Finance Officer Insights and Place Analytics subscription (2019-20) 3,500\*

### \*Non- audit services

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 Annual Audit Letter. None of the services provided are subject to contingent fees. We have not provided any other services in 2017-18 prior to our appointment as external auditors to the Council on 1 April 2018.

**Audit fee variation:** As outlined in our Audit Plan, the 2018-19 scale fee published by PSAA of £32,206 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional audit work. We noted this expectation in our ISA260 Report in July and our interim findings in June. The areas of additional work and resulting fee implications are set out in the following table.

Area	Reason	Fee proposed £
<b>Value for Money Conclusion work &amp; additional audit testing as a result of interim audit findings</b>	Our initial risk assessment identified one significant risk (see page 10) which we performed additional work to inform our VFM conclusion (no significant VFM risks were identified in the prior year by our predecessor).  As a result of our interim audit findings which we reported to Overview and Scrutiny Committee in June, we reduced the materiality level and increased our audit procedures in June and July. This resulted additional testing.	7,000
<b>McCloud: Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
<b>Pensions: IAS 19 audit work</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
<b>Land and Building Valuation: work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on land and buildings valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
<b>Total</b>		<b>11,500</b>

The proposed fee variations are subject to PSAA approval.



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