

The Annual Audit Letter for Ryedale District Council

Year ended 31 March 2020

12 January 2021



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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 2020.

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 22 October 2020.

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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £400,000 which is 1.8% of the Council's gross revenue expenditure.
Financial Statements opinion	We issued an unqualified opinion on the Council financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings including investment properties. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

Certificate 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 30 November 2020.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, both operationally and in preparing the financial statements. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including remotely accessing working papers and financial systems. In addition, face to face meetings have been replaced by telephone and video conferencing arrangements.

This is our second year of audit at Ryedale District Council and we believe we have continued to develop professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior finance managers and members of the Overview and Scrutiny Committee to understand the issues facing the Council
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness

- sharing our insight – we provided regular updates to Overview and Scrutiny Committee covering best practice
- providing training – we provided your teams with training on financial statements and annual reporting.

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
January 2021

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 Council's financial statements to be £400,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £20,000, above which we reported errors to the Overview and Scrutiny Committee in our Audit Findings 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; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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 business 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 Addendum	How we responded to the risk	Findings and conclusions
<p>Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected these circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus 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 have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as land and building assets and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 	<p>On the basis of our work, we concluded that our audit report opinion would be unqualified with an emphasis of matter relating to the material uncertainty around the valuation of land and buildings including investment properties. This change to our opinion was a direct result of the impact of Covid-19. The reporting of a material uncertainty on the valuation of land and buildings is consistent across our other local authority audits.</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>Management over-ride of controls</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 Authority 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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• analysed the journals listing and determined the criteria for selecting high risk unusual journals• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	<p>There were no issues arising from our work which we needed to bring to your attention.</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>Valuation of land and buildings, including investment properties</p> <p>The Authority re-values 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 (c£19 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>Update April 2020: The covid-19 pandemic has resulted in the volatility of financial and property markets. This will increase the uncertainty of assumptions applied by management to asset valuations.</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 have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Authority's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value at year end considered, where the valuation date was not 31 March 2020 for assets valued in year, the arrangements management had used to ensure the valuation remains materially appropriate at 31 March 2020. 	<p>Our audit work did not identify any issues in respect of the valuation of land and buildings except for the following matter:</p> <p>The Council uses a RICS qualified valuation specialist for land and building valuations including investment properties. The valuation reports by this valuation specialist included a material valuation uncertainty paragraph for land and buildings valuations as a result of Covid-19 . We considered it appropriate to include an emphasis of matter in our audit opinion relating to this material uncertainty. It is important to note that this was a national issue, applying to local authorities with material land and building asset bases</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>Valuation of pension fund net liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, 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 (c£15.7m in the Authority's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority'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 work, we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook 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 • obtained assurances from the auditor of the 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. 	<p>Our audit work did not identify any issues in respect of the valuation of pension fund net liability.</p>

Audit of the Financial Statements

Audit opinion

We issued an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the accounts preparation and audit process. Restrictions for non-essential travel meant both Council and audit staff had to work remotely, including remotely accessing working papers and financial systems. In addition, face to face meetings were replaced by telephone and video conferencing arrangements.

The Council presented us with draft financial statements in accordance with the agreed 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 despite the challenges arising from Covid-19.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Overview and Scrutiny Committee on 22 October 2020.

We identified some misclassification and disclosure issues during the audit which were all corrected in the final set of financial statements.

It is important to note that none of the amendments had any impact on the level of useable reserves of the Council.

Annual Governance Statement and Narrative Report

We were also required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website alongside the final Statement of Accounts.

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 carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

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 30 November 2020.

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 April 2020 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 risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in October 2020, we agreed one recommendation to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – October 2020)
<p>Embedding risk management and financial monitoring arrangements to support informed decision making</p> <p>In 2018-19, our work identified that risk management and governance arrangements were not sufficiently embedded and as a result, we issued an ‘except for’ qualified VFM conclusion in relation to ‘informed decision making’ VFM criteria.</p> <p>Whilst positive progress had been made to the Council’s arrangements in these areas during 2018-19, following the recognition of the issues by the new Senior Management Team, the revised arrangements had not been in place for the duration of 2018-19 and were therefore not embedded.</p> <p>We noted in our 2018-19 Annual Audit Letter that embedding the enhanced arrangements for risk management, financial monitoring and governance continued to be key priorities for the Council in order to support informed decision making in 2019-20 and beyond.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> • reviewed governance and risk management arrangements and internal monitoring processes in place at the Council • continued to meet with senior management on a regular basis to discuss the progress the Council is making around risk management and financial monitoring, for example, reviewing the reporting of the Council’s performance against its budget and any level of variances • examined how the Council is addressing our 2018-19 audit recommendations on embedding risk management and monitoring arrangements to support informed decision making • observed the discussion and level of challenge on governance and risk management issues which take place at the Overview and Scrutiny Committee • reviewed the timeliness of financial reporting of the Council’s financial performance to relevant committees. 	<p>Our focus in this area was around arrangements in place to embed risk management and monitoring arrangements to secure economy, efficiency and effectiveness in Council’s use of resources. Our findings were as follows:</p> <ul style="list-style-type: none"> • The Council’s performance against the budget is now a standing agenda item at both Policy and Resources Committee (PRC) and Overview and Scrutiny Committee (OSC) meetings . It covers the budget, the actuals to that quarter, variations to budget, reasons for the variations and final predicted forecast for the year. It also covers the savings against the plan. The Council’s performance against the capital programme is also reported in the same report to relevant committees covering the budget against the actual and reasons for any variations. • The outturn for the year is reported to the Council and relevant Committees covering the annual budget against the variations with detail commentaries for variations and associated actions. • As noted in our 2018-19 Audit Finding Report, a Strategic Risk Register (SRR) was formulated, introduced and reported to the Audit and Scrutiny Committee in January 2019. • Our work in 2019-20 identified that an updated risk register is also a standard item in Committee Reporting. This work has been recognised and endorsed by Members who see it as an important part of the Council’s risk management and improvement strategy. The updating of the SRR during 2019-20 has demonstrated the Council’s improvement journey, showing how risks are being managed and mitigated over that period. However, risk management is an ongoing process, and management are aware that the SRR is a live document that needs to be routinely reviewed, updated and reported to those charged with governance.

Value for Money conclusion

Value for Money Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – October 2020)
<p>Embedding risk management and financial monitoring arrangements to support informed decision making – continued</p>	<p>See page 12</p>	<ul style="list-style-type: none"> • Our reviews indicated that the SRR covers detail description of the actual risk, risk owner, causes of risks, consequences if it materialises, proactive and reactive controls and mitigation actions required. • Covid -19 response: The Council was pro-active in terms of its Covid-19 response and its first report to Policy and Resources Committee was made on 19 March 2020, just prior to the national lockdown. The report outlined the approach to service delivery during Covid-19, noted the delegated powers held by the Chief Executive which can be used in an emergency, and recommended that Council's endorsement of a budget of £250,000 being made available from general fund reserves to support the responses immediately. This is also an indication of how the Authority has progressed embedding risk management and financial monitoring arrangements to support informed decision making and responding to key risks facing the Council. <p>Conclusion:</p> <p>We concluded that the Council has proper arrangements in place for embedding risk management and financial monitoring arrangements to support informed decision making.</p> <p>Our overall conclusion on VFM is reported at page 11.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings (ISA260) Report	October 2020
Annual Audit Letter	January 2021

Fees 2019-20

	Planned fees £	Actual fees £	2018-19 Actual fees £	2017-18 Actual fees KPMG £
PSAA scale fee	32,206	32,206	32,206	41,826
Audit fee variations * (see page 15)	12,500	19,500	11,500	-
Total proposed fees	44,706	51,706	43,706	41,826

* Audit fee variations

As outlined in our Audit Plan, the 2019-20 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 work. This was reported in our Audit Plan dated 24 January 2020 and has been updated to reflect the actual outturn on completion of our audit.

Audit fee variation – continued

Our Audit Plan included a fee variation for £12,500 to take into account the additional audit work to be performed in relation to PPE, pensions and key areas of estimate and judgement. Over the past ten months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019-20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values and the Council's proportion of investment properties from the South Yorkshire Pension Fund.
- Value for Money arrangements criteria – we have been required to consider the VFM arrangements of audited bodies. There is more emphases on VFM work now and this has increased the amount of work that we need to undertake on VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Our work on embedding risk management and financial monitoring arrangements to support informed decision making as a significant VFM risk (reported at pages 12-13) included a considerable amount of additional work than originally planned, including presentations to our national VFM panel, before we reached our conclusion.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines also being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

As a result of the above, increased costs have been incurred due to the additional time taken to deliver the audit this year. We have discussed the likelihood of an additional fee variation with the S151 Officer, noting an expected variation of c15% or £7,000 of the above planned fee, taking the proposed fee to £51,706.

Please note that all proposed additional fee variations are subject to approval by PSAA in line with the Terms of Appointment.

A. Reports issued and fees - continued

Non-audit fees for other services	Fee £
Audit Related Services:	
Housing Benefit Subsidy return 2019-20 *	11,500 [TBC work ongoing]
Non-Audit Related Services:	
Chief Finance Officer Insights and Place Analytics subscription	3,840 (ongoing service)

NOTE:

* The £11,500 is the base fee for Housing Benefit Subsidy certification. For each 40+ testing workbook undertaken:

£2,200 – where the work is completed by the Council and re-performed by Grant Thornton

£4,400 – where the work is undertaken by Grant Thornton

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table alongside summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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