



# Annual Audit Letter

*Year ending 31 March 2018*

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Torbay Council  
20 August 2018



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# Executive Summary

**Purpose**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Torbay Council (the Council) for the year ended 31 March 2018.

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 Audit Committee as those charged with governance in our Audit Findings Report on 25 July 2018.

**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.

**Our work**

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £5,604k, which is 1.95% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 26 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<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 in relation to understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and for planning, organising and developing the workforce effectively to deliver strategic priorities. We therefore qualified our value for money conclusion in our audit report to the Council on 26 July 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the accounts of Torbay Council as an objection to the 2016/17 financial statements has not yet been concluded.

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# Executive Summary

## **Working with the Council**

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June. The audit opinion was then issued before the new earlier deadline of 31 July.
- VFM - we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your team with update training on financial accounts.

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 2018**

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# Audit of the Accounts

## 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 accounts to be £5,604k, which is 1.95% 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.

We also set a lower level of specific materiality for termination benefits of £20k and for senior officer remuneration of £14.7k.

We set a lower threshold of £280k, above which we reported errors to the Audit 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 and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are 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 is 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 Accounts

## 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 override 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.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• tested journal entries</li> <li>• reviewed unusual significant transactions</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p>

# Audit of the Accounts

## Significant Audit Risks (continued)

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>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li><li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li><li>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 26 July 2018, in advance of the earlier national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts 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 accounts**

We reported the key issues from our audit to the Council's Audit Committee on 25 July 2018.

## **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.

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

We are unable to certify that we have completed the audit of the accounts of Torbay Council as there is an objection to the 2016/17 accounts is still in progress. The 2016/17 and 2017/18 audits cannot be closed until this has been concluded.

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# 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 key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed recommendations to address our findings:

- The Council must develop realistic savings plans to bridge the budget gap in 2018/19 to 2020/21.
- In the light of being unable to recruit a Director of Transformation, the Council needs to consider whether it has adequate capacity to support and deliver its Transformation Programme.

## Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Ofsted issued a report on the Council's children's services in January 2016 which rated these as 'inadequate'. Since issuing its report Ofsted has published the outcome of the monitoring inspections carried out, with the most recent being in February 2018. This notes that the Council's progress in improving services for its children and young people remains too slow and that the quality of service that some children looked after receive has declined since it was inspected in October 2015.

We concluded that this is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Ofsted inspection of children's services</b></p> <p>Ofsted issued a report on the Council's children's services in January 2016 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements. Following government direction the Council will be entering a contractual arrangement with Plymouth City Council, who will provide Children's Services on behalf of the Council.</p>	<p>We reviewed the latest position on the arrangements for Plymouth City Council to deliver Children's Services for Torbay from 1/4/18. We also review updated reports from Ofsted as they become available and took these into account in forming our conclusion.</p> <p>The Secretary of State for Education issued a Statutory Direction to the Council in October 2017 directing them to co-operate in the development of a contractual arrangement with Plymouth City Council, who will deliver Children's Services on Torbay's behalf from 2018/19. Arrangements are in place and this has happened with effect from 1/4/18. Alison Botham will be the Joint Director for Children's Services at Torbay Council and Plymouth City Council from 6 July 2018.</p> <p>Ofsted carried out monitoring visits in the year:</p> <ul style="list-style-type: none"> <li>- The July visit reviewed the progress made for care leavers. The letter concluded that "While the pace of change in other areas of the service has been steady and improvements have been implemented and monitored effectively, the quality of service that care leavers receive is not improving swiftly enough."</li> <li>- The February 2018 visit reviewed the progress of children looked after. The letter conclude that "A culture of resistance to challenge within many areas of the workforce remains. This ultimately acts as a barrier to achieving permanent improvement for children across children's services in Torbay. Actions introduced by senior managers to challenge this poor performance have not been effective in the two years since the full inspection".</li> </ul>	<p>Since issuing its report Ofsted has published the outcome of the monitoring inspections carried out, with the most recent being in February 2018. This notes that the Council's progress in improving services for its children and young people remains too slow and that the quality of service that some children looked after receive has declined since it was inspected in October 2015.</p> <p><b>We concluded that this is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.</b></p>

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Medium term financial planning</b></p> <p>The Chief Finance Officer's Report on the 2018/19 budget indicates shows that the Council needs to identify further savings in the region of £8m over the 2019/20-2020/21 period. The Medium Term Resource Plan (MTRP) is due to be updated by the end of March 2018 to reflect the 2018/19 budget and the updated forecast position on future funding and pressures.</p>	<p>We reviewed the Council's latest MTRP and the 2018/19 budget, considering the assumptions that underpin the figures within them. We also reviewed the 2017/18 savings achieved against those originally planned.</p> <p>The revenue outturn for 2017/18 shows an overspend of £1.7m, which is mainly due to the pressures in Children's Services, offset by savings elsewhere. The Council monitors the savings being achieved against those planned throughout the year with a Savings tracker going to Senior Leadership Team (SLT) on a monthly basis.</p> <p>A balanced budget was set for 2018/19, which including savings of £7.1m. The Council's latest update to the Medium Term Resource Plan was in March 2018. This shows the budget gap in 2019/20 to 2021/22 to be £14.7m. The MTRP is a public document and is updated regularly to reflect changes as they are known. It is a comprehensive document that clearly sets out the financial challenges facing Torbay over the next three years. The MTRP contains reasonable assumptions about the figures over the next four years but also highlights the uncertainties, with 2020/21 being flagged as a key year due to changes in the funding allocation to councils proposed for that year, noting that the population increase for the Torbay area is slower than the national average and assuming a reduction would be likely as a result.</p> <p>The Council are currently working on the development of the 2019/20 budget over the summer, with the consultation on the 2019/20 budget scheduled for October 2018.</p>	<p>The Council's MTRP has a gap of £14.7m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Council given the savings it has had to make in recent years, with £7.1m required for 2018/19. The Council must urgently develop realistic savings plans to bridge the budget gap while carefully monitoring the achievement of planned savings in 2018/19.</p> <p><b>On that basis we concluded that while the level of savings needed represents a significant challenge for the Council, the risk was sufficiently mitigated and the Council has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</b></p>

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Transformation Programme</b></p> <p>The Council is progressing a number of transformation projects as it seeks alternative methods of delivery and increased rates of return on investment. It has established an Investment Fund to invest in property and the level of funds committed has increased to over £115m. It has also set up a holding company for two Housing Companies although these are not trading in 2017/18. There are various other transformation projects progressing at different stages.</p>	<p>We reviewed the arrangements being put in place by the Council for these new initiatives, including whether appropriate advice has been taken.</p> <p>The Council's Transformation Programme Manager currently reports to the Chief Executive, who is responsible for the Transformation Programme overall and chairs the Transformation Board.</p> <p>The Transformation Board consists of the members of Senior Leadership Team (SLT), with members being kept informed via Programme Manager reports and updates to the Executive Group and all member communications. The Board meets monthly and considers new projects in the pipeline as well as monitoring the progress on existing projects. The reporting includes a dashboard of progress on all projects, with RAG rating of the savings being achieved against those planned.</p> <p>The Council has sought external advice on complex schemes, such as the development of the Housing Companies, as this was a new area for the Council.</p> <p>The Council's capacity to deal with the range and volume of transformation projects had been raised as a concern by LGA and CIPFA previously. The Council responded by setting up a Transformation Team. The Team were initially temporary appointments but have now been made permanent. The Council has tried to recruit a Director of Transformation to increase and enhance its capacity in this crucial area but was unsuccessful in attracting suitable candidates.</p>	<p><b>We concluded that the Council has appropriate arrangements in place for managing and monitoring its transformation programme but there remains concerns over the capacity of the Council to develop, manage and deliver these schemes, on top of delivering the day job. This is something that the Council needs to address in order to give its Transformation Programme the best chance of delivering the changes and savings required.</b></p>

# 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	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

## Fees

	Planned fee 2017/18 £	Actual fees 2017/18 £	2016/17 fees £
Statutory Council audit	102,053	102,053	102,053
Housing Benefit Grant Certification	8,125	* 8,125	12,237
<b>Total fees</b>	<b>110,178</b>	<b>110,178</b>	<b>114,290</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

\* This is the scale fee for 2017/18. The final fee will be confirmed in the Annual Certification Letter.

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Teachers Pension	3,800
<b>Non-Audit related services</b>	
- None	

## 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 above 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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