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Date: Friday, 24 July 2015

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Town Hall  
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Dear Member

**AUDIT COMMITTEE - WEDNESDAY, 29 JULY 2015**

I am now able to enclose, for consideration at the Wednesday, 29 July 2015 meeting of the Audit Committee, the following reports that were unavailable when the agenda was printed.

<b>Agenda No</b>	<b>Item</b>	<b>Page</b>
8.	<b>Torbay Council Audit Findings Report 2014/15</b>	(Pages 201 - 232)
9.	<b>Statement of Accounts and Annual Governance Statement 2014/15</b>	(Pages 233 - 236)

Yours sincerely

Lisa Antrobus  
Clerk

# The Audit Findings for Torbay Council

Year ended 31 March 2015

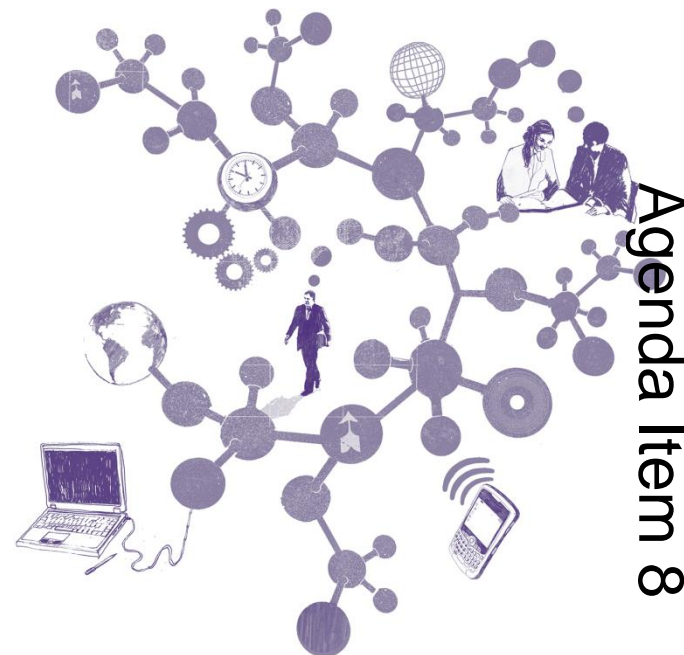
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Torbay Council  
Town Hall  
Castle Circus  
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29 July 2015

Dear Members of the Audit Committee

### **Audit Findings for Torbay Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Torbay Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Alex Walling, Engagement Lead

#### Chartered Accountants

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Torbay Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 18 March 2015.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of work on the value of the asset included in the accounts for the defined benefit pension scheme and receipt of the assurance letter from the auditor of the Devon Pension Fund
- third party confirmation of the Council's investments – confirmation of the balances with RBS and Goldman Sachs at the 31/3/15 are outstanding
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation

- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. This is a credit to the Finance team as the timetable enabled an early audit start date of 15 June 2015 with reporting to the Audit Committee at the end of July. We also had a number of helpful early discussions with the Finance team around key technical issues, particularly around the changes in the requirements for accounting for local authority maintained schools. This enabled the early resolution of issues that would have been difficult to resolve promptly once the audit was in progress.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts were produced to a good standard
- the audit has been facilitated by good supporting working papers and excellent assistance from the finance team.

We have not identified any adjustments affecting the Council's reported financial position. We have identified a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

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

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### **Findings**

Our review of progress against deficiencies identified in the Council's IT control environment found that two issues that we reported in our 2013/14 report have not been resolved.

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer.

We have made a small number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**July 2015**

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## Section 2: Audit findings

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 18 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 18 March 2015.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Torbay Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	N/A – presumed risk has been rebutted.
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• testing of journals entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

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# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 210</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested operating expenses including                             <ul style="list-style-type: none"> <li>• Sample testing of expenses transactions and year end adjustments/reconciliations</li> <li>• Testing for unrecorded liabilities by review of post year end payments and review of goods not received notes at year end</li> <li>• Review of estimates, judgements and decisions made by management for unusual and large amounts</li> </ul> </li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration, benefit obligations and expenses understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested employee remuneration including                             <ul style="list-style-type: none"> <li>• Sample testing of remuneration transactions to underlying evidence</li> <li>• Analytical procedures over the payroll figures throughout the year to ensure that they are reasonable and complete</li> <li>• Review of the year end reconciliation of the payroll system to the HMRC return and the ledger.</li> </ul> </li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.




Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>• Activity is accounted for in the year that it takes place, not simply when cash payments are made or received</li> <li>• Revenue from the sale of goods is recognised when the Council can measure reliably the percentage of completion and it is probable that the economic benefits or service potential will flow to the Council.</li> </ul>	<p>We have reviewed the Council's recognition of revenue policies and found that additional disclosure was required for material income sources such as fees and charges and council tax and NNDR income, which had been excluded as part of the cutting the clutter agenda. These have been included in the revised financial statements and we are satisfied that :</p> <ul style="list-style-type: none"> <li>- Appropriate policies have been used</li> <li>- Accounting policies have been adequately disclosed</li> <li>- Revenue had been appropriately recognised</li> </ul>	<p style="text-align: center;">● <b>Amber</b></p>
<p><b>Estimates and judgements</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include :                             <ul style="list-style-type: none"> <li>• useful life of capital equipment</li> <li>• pension fund valuations and settlements</li> <li>• revaluations</li> <li>• Impairments</li> <li>• provisions</li> <li>• accruals</li> </ul> </li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> <li>- Appropriate policies have been used</li> <li>- Accounting policies have been adequately disclosed</li> <li>- Areas where judgement had been used were supported by the work of an expert or a third party</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>

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**Assessment**

- Marginal accounting policy
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements - local authority maintained schools premises</b>  Page 212	<p>The Council has recognised school buildings on the balance sheet for all schools other than Academy schools.</p> <p>Land associated with school has been recognised on the balance sheet for Community and Foundation schools.</p>	<p>We have reviewed the rationale supporting the judgements made by the Council in respect of its accounting policy for the treatment of local authority maintained schools. We are satisfied that the judgements made by the Council are reasonable and that the policy is appropriate and adequately disclosed.</p>	 <b>Green</b>
<b>Going concern</b>  Page 212	<p>Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed Management's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	 <b>Green</b>
<b>Other accounting policies</b>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of other accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 <b>Green</b>

**Assessment**
 Marginal accounting policy

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

# Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	<b>X</b>	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p>In previous years the Council carried out a rolling programme of revaluations, with the date of the valuations varying between 1 April 2009 and 1 April 2013. This approach was similar to many other authorities and we were satisfied that you had assured yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>• the revaluation of the class of assets is completed within a 'short period'</li> <li>• the revaluations are kept up to date.</li> </ul> <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>The Council has continued with its rolling programme of revaluations with the dates varying between 1 April 2010 and 1 April 2014. However after planning discussions with the external audit team, the Council has enhanced its asset register to enable reporting by property type. The Valuer has then provided enhanced commentary to support his valuations.</p> <p>We were satisfied that you had assured yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2015.</p>

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**Assessment**  
 ✓ Action completed  
 X Not yet addressed

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no non-trivial omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations PWLB, Dexia Credit Local and Barclays for loans and requested from management permission to send confirmation requests to NatWest, Lloyds, RBS, Santander, Goldman Sachs, Handelsbanken, Aberdeen Asset Management, the Public Sector Deposit Fund and the Greater London Authority for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation with the exception of RBS and Goldman Sachs which remain outstanding. These are being followed up and we anticipate receipt of these before the date of the Audit Committee, and we will update members at the meeting.</li> </ul>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> <li>The Northgate Payroll system has weak password management controls in relation to the complexity of passwords and the frequency of renewal period. This was first identified in our 2012/13 review and our recommendations at that time had not been implemented in 2013/14.</li> </ul>	<ul style="list-style-type: none"> <li>The Council has had an external IT Healthcheck which didn't flag any risks around the current 90 days password renewal policy and the policy remain unchanged. However, when logging on to the new payroll system, in addition to their password, users will be required to enter three further pieces of information out of six gathered when staff first register on the system.</li> <li>ABS FIMS improvements have not yet been actioned. We have made a recommendation in the action plan in Appendix A to ensure that this is addressed..</li> </ul>
	X	<ul style="list-style-type: none"> <li>The same issues were also identified with the ABS FIMS system.</li> </ul>	
2.	X	<ul style="list-style-type: none"> <li>Login sessions on the network and therefore over the financially critical systems without their own password security are not automatically disconnected after a period of inactivity.</li> </ul>	<ul style="list-style-type: none"> <li>The recommendation to enable the active directory screensaver policy to lock screens after inactivity of 15 minutes was not agreed in 2013/14 but the action plan response stated that PC Support would be asked to look into this further and come up with a final recommendation. There has been no change to the Council's position and we have repeated our recommendation in the action plan in Appendix A.</li> </ul>

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**Assessment**  
 ✓ Action completed  
 X Not yet addressed

## Adjusted misstatements

There were no adjusted misstatements.

## Unadjusted misstatements

There are no unadjusted misstatements

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	1,654	Note 30 – Grant income	Statements amended – disclosure only. S.31 NNDR grant had been incorrectly included in both the Other General Grants and NNDR retention scheme lines within the note.
2 Disclosure	1,700	Note 10 – Taxation and Non Specific Grant Income	Statements amended – disclosure only. £1.7m NNDR deficit was included within Non-ringfenced government grants rather than in NNDR income.
3 Disclosure	N/A	Collection Fund Note B	Statements amended – disclosure only. The small business non-domestic rating multiplier needs to be updated to reflect 2014-15 values
4 Disclosure	N/A	Note 39 – Summary of significant accounting policies	Statements amended – disclosure only. The accounting policies for the accruals of income had been excluded from the accounts as part of cutting the clutter. Additional disclosure was required for recognition of material income sources such as fees and charges and council tax & NNDR income.

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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

The criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council's arrangements to secure financial resilience are adequate.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has effective arrangements in place.

Further detail is provided on the following pages.

### Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council has a good track record of performance against the Key Indicators of Performance and we did not identify any deterioration.	<b>Green</b>
<b>Strategic financial planning</b>	The Council has got good financial planning processes in place. A four year Medium Term Resource Plan (MTRP) is in place covering 2015/16 to 2018/19. This is regularly reviewed and updated. The MTRP reflects the impact of the reductions in government grant and estimates that the Council will have a budget gap of £32.8m by 2018/19. The Council faces a significant challenge to identify the necessary savings. Approximately 65% of the Council's expenditure is on social care, which is subject to demand pressures, making budget reductions extremely challenging. This work is in progress with the intention being that options for a balanced three year budget will be considered by Council in Autumn 2015.	<b>Amber</b>
<b>Financial governance</b>	The Council has good governance arrangements in place, with a good understanding of the financial environment at all levels of the Council. Financial reporting continues to be clear and comprehensive.	<b>Green</b>
<b>Financial control</b>	There is a robust budget setting process in place, which included a full consultation on the proposed budget savings for the 2015/16 budget. The Council identified £12m of savings in the 2015/16 budget which are being closely monitored. The Council has a good track record of managing and achieving its budget, although this was only possible in 2014/15 through the application of contingency and reserves and strict financial control by management.  The risk management arrangements is still not fully embedded at the operational risk management level and the format of the reporting of the strategic risk register to members is still developing, although progress is being made.	<b>Amber</b>
<b>Prioritising resources</b>	Members and officers have a good understanding of the financial environment and there is robust challenge and effective leadership. Senior members and officers receive complete, accurate, reliable and timely financial information to enable effective decision making.	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Improving efficiency &amp; productivity</b>	Improving efficiency and productivity was assessed as a low risk area for our VfM work. We limited our work to a high level review of the Council's progress on new way of delivering its services, such as the Integrated Care Organisation (ICO), the Youth Trust and the Torbay Public Service Trust.	<b>Green</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Focus of the Medium Term Financial Plan</b>	The Council's MTRP has a gap of £32.8m over the 2016/17 - 2018/19 period. This represents a considerable challenge for the Council given the savings it has had to make in recent years. The Council must urgently develop realistic savings plans to bridge the budget gap in the MTRP timeframe.	<b>Amber</b>
<b>Savings Plans</b>	The Council's 2015/16 budget includes savings of £12m. If these are not achieved there will be even greater pressure on the savings to be identified in 2016/17 to 2018/19. The 2015/16 savings are being separately monitored by a savings tracker that is reported to Senior Leadership Team (SLT). Given the continuing in-year pressures in Childrens' Services and Adult Social Care, the 2015/16 savings will require careful monitoring throughout the year.	<b>Amber</b>
<b>Risk Management</b>	The Council needs to continue working to embed the new risk management process throughout the Council.	<b>Amber</b>



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## Section 4: Fees, non-audit services and independence

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# Fees, non-audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	136,070	136,070
Grant certification on behalf of Audit Commission *	12,840	12,840
<b>Total audit fees</b>	<b>148,910</b>	<b>148,910</b>

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

\* - work on-going – final fee to be confirmed in our Annual Certification Report

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## Fees for other services

Service	Fees £
<b>Audit related services</b>	
Teachers Pension	3,800
<b>Non audit related services</b>	Nil

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## Section 5: Communication of audit matters

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01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The ABS FIMS system has weak password controls in relation to the complexity and frequency of change, which has been highlighted in previous audit reports. This weakness needs to be addressed by the Council.	Medium	The Council are pursuing two avenues to address the ABS issue, the introduction of SSL and the introduction of single sign-on (active directory tie-in).	31 March 2016 Bob Clark – Executive Head Customer Services
2	The active directory screensaver policy should be enabled to automatically lock the user screens after a period of inactivity after a maximum period of 15 minutes.	Medium	Agree to review - This is something we could implement to strengthen our security however most staff (to comply with IT security policy) should be locking their active session when they leave their office for meetings, etc. The issue with locking the session automatically after 15 minutes of inactivity can be annoying to our users if they are actually still at their desks working but not accessing their PC's. In this scenario we see no reason why the PC should be locked.	30 September 2015 Bob Clark – Executive Head Customer Services
3	The Council must urgently develop realistic savings plans to bridge the budget gaps in 2016/17 to 2018/19.	High	Accepted – SLT are considering options to inform the budget process. The aim is to have a three year budget agreed in 2015/16.	February 2016 Martin Phillips – Chief Accountant
4	With continuing in-year pressures on Childrens' Services and Adult Social Care, the 2015/16 savings will require careful monitoring throughout the year.	High	Accepted – SLT receive monthly updates on the financial position and action plans are implemented as necessary.	On-going Martin Phillips – Chief Accountant
5	The Council must continue to work to fully embed the risk management process throughout the Council.	High	Accepted – Risk management arrangements and reporting are being improved.	On-going Anne-Marie Bond – Assistant Director for Corporate and Business Services

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# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORBAY COUNCIL

We have audited the financial statements of Torbay Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Torbay Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the operating and financial review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Torbay Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

## Opinion on other matters

In our opinion, the information given in the operating and financial review for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Torbay Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Certificate**

We certify that we have completed the audit of the financial statements of Torbay Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alex Walling  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

XX July 2015





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Please reply to: Martin Phillips

**Chief Finance Officer**

Town Hall, Castle Circus

Torquay

TQ1 3DR

**My ref:** MP/GT

**Your ref:**

**Telephone:** 01803 207285

**Fax:**

**E-mail:** martin.phillips@torbay.gov.uk

**Website:** www.torbay.gov.uk

**Date:** 29 July 2015

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

Dear Alex

## **Torbay Council**

### **Financial Statements for the year ended 31 March 2015**

This representation letter is provided in connection with the audit of the financial statements of Torbay Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements for the Council including maintained schools in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a

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Schools and services for children and young people • social care and housing • recycling, waste disposal and clean streets • community safety • roads and transportation • town planning • tourism, harbours and economic regeneration • consumer protection and licensing • leisure, museums, libraries and arts

If you require this in a different format or language, please contact me.

material effect on the financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the disclosures changes schedule included in your Audit Findings Report. The financial statements have been amended for these disclosure changes and are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

- xv We have provided you with:

- a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b additional information that you have requested from us for the purpose of your audit; and
  - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
- a management;
  - b employees who have significant roles in internal control; or
  - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Approval**

The approval of this letter of representation was by the Council's Audit Committee at its meeting on **29 July 2015**.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

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