The Audit Findings for Torbay Council

Year ended 31 March 2020

23 November 2020

Contents

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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Torbay Council (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council .

The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

Management were able to provide us with the draft financial statements for audit on 11 August 2020 in advance of the deadline.

We communicated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan in June 2020. In the audit plan we reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 8.

We held meetings with your key finance staff to discuss the impact of Covid-19 on the Council’s financial statements. We also discussed the financial implications in terms of Investment valuations and going concern. This assisted you in preparing accounts in compliance with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20.

The finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely throughout the audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) have been used where necessary. Inevitably in these circumstances resolving audit queries takes longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible.

Headlines (continued)

This table summarises the key findings and other matters arising from the statutory audit of Torbay Council (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group and Council’s income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work will be completed remotely during October to November. Our findings are summarised on pages 6 to 21. As at the date of writing (early November), we have not identified any adjusted error to the financial statements at this stage.

We have a number of areas where our work remains in progress (see page 6). Should any further misstatements be identified, either as a result of this review or any other aspect of our work, we will report these to you before issuing our opinion.

We have also raised recommendations for management as a result of our audit work in Appendix A.

Our work is nearing completion and, as at the date of writing, there are no matters of which we are aware that would require modification of our audit opinion (provided separately) or material changes to the financial statements, subject to the outstanding matters outlined on page 6 of this report.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion, subject to resolving outstanding matters, will be unqualified. It will include an Emphasis of Matter paragraph, highlighting material uncertainties around the valuation of land and buildings, investment properties and pension fund property investments as at 31 March 2020, which you have reflected in your accounts. An emphasis of matter paragraph is not a qualification.

Headlines (continued)

This table summarises the key findings and other matters arising from the statutory audit of Torbay Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Torbay Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an except for qualification of the Value for Money Conclusion. As in the previous year the except for qualification relates to evidence of weakness in arrangements from the OFSTED inspection of children's services. Our findings are summarised on pages 22 to 29.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have not received any questions or objections in relation to the Council's financial statements. We have completed the majority of our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion, although this is dependent on the completion of the procedures required on the Council's Whole of Government Accounts submission.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Headlines (continued)

Financial statements continued	Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing an unqualified audit opinion. The outstanding matters include the following items where we are awaiting information from you as at the date of this report:
	• Information awaited
	  • TDA pension pass through (legal advice)
	  • supporting documents relating to operating expenditure
	  • IAS19 controls assurance letter from the auditor of Devon Pension Fund
	• Information received recently and in progress:
	  • Completion of work relating to Property, Plant and Equipment and Investment Properties
	  • Completion of work relating to Pension liabilities Completion of testing in respect of debtors, the bad debt provision, creditors and grant income
	  • Payroll testing (evidence to support payroll substantive analytical review and support for starter and leaver testing)
	  • transaction level breakdown of long term creditor listing for sample testing
	  • queries to the Council’s valuer relating to property valuation samples and lease disclosure samples
	• Closing procedures once all audit work is completed
	  • Manager and engagement lead quality review of audit files and resolution of any arising queries
	  • Undertaking specified procedures for group significant component and review of consolidation
	  • Finalisation of work in respect of subsequent events
	  • Agreement of your management representation letter
	  • Receipt and review of the final set of approved financial statements
	  • Receipt and review of the final approved annual governance statements
	Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our work is nearing completion and, subject to outstanding queries being resolved as set out on page 6, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 November 2020, as detailed in Appendix D.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	5,720,000	5,634,000	Based on 2% of your gross expenditure for the year
Performance materiality	4,290,000	4,225,500	Using 75% of materiality to reflect our assessment of risk
Trivial matters	286,000	281,700	5% of materiality
Materiality for Senior Officer Remuneration	100,000	100,000	Particular public interest

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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 current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • 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; and • 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. 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	We have: • worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • 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 in the absence of physical verification of assets through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations, pension fund liability valuations and recovery of receivable balances; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 4 to the financial statements. The Council has also included a Covid 19 disclosure in its Subsequent Events (Note 5) in relation to the ongoing impact of the Covid-19 pandemic. The Council acknowledged the impact of the pandemic on both the community and the Council will continue in the longer term and that longer term impact is currently unknown. Where the Council has a market price such as in its property assets and its share of pension fund property, assets values as at 31 March 2020 have been used. However for property valuations there was "material valuation uncertainty" as at 31 March 2020. The Council participate in Devon County Pension Fund. We anticipate that there will be a disclosure relating to the 'material valuation uncertainty' in Pension Fund final account at the completion of pension fund audit. We are awaiting for the pension fund auditor letter and we will communicate with the Council to ensure the wording in the accounts is in line with Pension Fund final account. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting material uncertainties in property valuation and pension liabilities. To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 6. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Fraudulent revenue and expenditure recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for Torbay Council.** We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work has not identified any issues in respect of improper revenue recognition.
Management override of controls 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. 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. The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.	In response to this risk we have: • 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; • tested 'top-side' journals between the general ledger and the financial statements 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; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We have noted in during our testing that the s151 Officer has posted various journals around the year end. We tested all journals posted by s151 officer to ensure no management override of control issue. The s151 officer did not authorise any journals and posted a small number of journals in April. However this is not good practice and should not happen. We have made a recommendation on this in Appendix A. To date, no other material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 6. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The valuation of land and building is a key accounting estimate which is sensitive to changes in assumptions and market conditions. Your revalue your land and buildings on a 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. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested, on a sample basis, revaluations of the Council’s operational properties and investment properties during the year to ensure they have been input correctly into the Council’s asset register and financial statements; • evaluated the assumptions made by management for any assets not revalued at 31 March 2020, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value. At the time of writing our audit procedures in this area remain underway. The Council’s valuer has prepared their valuations as at 31 March 2020. In their reports, the valuer confirmed that as a result of the Covid-19 pandemic and the subsequent restrictions and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. The valuations are reported on the basis of ‘material valuation uncertainty’. The Council has reflected this uncertainty in the financial statements, and updated the wording in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. This does not constitute a qualification of the opinion. During the year, the Council purchased Fleet Walk Shopping Centre in Torquay for £15 million as part of plans to regenerate Torbay’s town centres and help boost the local economy. The asset was purchased in November 2019 and was not revalued at 31 March 2020. We challenged management and the valuer on whether the revaluation need to be performed for this asset due to the retail sector being extremely volatile as a result of Covid 19. The valuer responded that market valuation uncertainty has been adopted throughout their valuations this year to reflect the uncertainty in the market place brought about by the extreme world events. By adopting this term, they are effectively highlighting to the Council that there may be a decrease in values in the future, but as it stands there is no certainty. As this asset is categorised as other land and buildings it will form part of the 5 year rolling programme. Given the complexities associated with the valuation method for this asset including the volatility in the retail sector, we recommend management consider re-valuing this asset annually. This asset is held as operational as part of the regeneration scheme. As the scheme develops there is potential for changes to be made that will impact on the accounting treatment of the asset. We recommend management obtains formal legal and financial reporting advice before taking on any new financial arrangement for developing this asset as part of regeneration scheme. Subject to the satisfactory of outstanding matters set out on page 6, no other material issues have been identified from our work to date. Should any further issues arise that require reporting, we will do so before issuing our auditor’s opinion

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimates in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuations of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • 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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided 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; and • completed 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 that report. As discussed under 'Covid-19' above, the fund managers for the Pension Fund's property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. This material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. The Council has included disclosures in Note 4 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding valuation of pension funds. The wording may have to be updated to reflect the auditor report issued by Devon County Pension Fund auditor. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 6. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Management response
TDA Pension pass through Torbay Economic Development Company Ltd (Trading name "TDA") is a Shared Service, company owned by the Council (100% voting, 100% control and distribution). When the former Torbay Council employees transferred to TDA at various stages in 2011, 2014 and 2015, the existing deficits on the Pension scheme in relation to those employees transferred to TDA with them. Although this transfer was agreed by all parties (Devon County Pension Fund, Torbay Council and TDA) at the time through ***tripartite Admission Agreement***, this liability is significant and is impacting upon the operations of TDA. In order to address the operational deficiency, the Council entered into a ***Pass-through agreement*** with TDA. In 2019/20 the Council recognised, under the pass through arrangement, a financial guarantee for the pension liability for the TDA that would require the Council to pay the TDA employer pension payments to the Devon County Pension Fund if the TDA defaulted on the payments. The TDA will continue to recognise a pension liability under IAS19 and also recognises an asset to the value of that IAS19 Liability. The Council's liability is therefore the value of the TDA IAS19 pension liability £4.9 million. Torbay Council will apply the statutory reversal as within the Commissioning Agreement, the Council has the obligation to pay the annual employer contributions in the event that the TDA do not.	In some TUPE arrangements, a tripartite arrangement has been set up between the local authority, new employer and the local government pension scheme, attempting to limit the new employer's obligations to the scheme to defined contributions. This Pass-through agreement is *intended to be read alongside the tripartite Admission Agreement. For the further avoidance of doubt, where the clauses of the two contracts are contradictory, this Pass-through Agreement shall take precedence.* In such situations it is critical that the Council first satisfy itself that such an arrangement is permissible under the terms of the Local Government Pension Scheme Regulations 2013. This is a matter of legal interpretation and is not an accounting matter. At the time of writing the report, we have not received the Council's response on the legal advice that be taken to support the arrangement is permissible. The proposal for the TDA pass through arrangement was approved by Members on 20 September 2018 with the s151 Officer given delegated authority for notifying the Devon LGPS Pension Fund Administrators of the changes. The communication to the Pension Fund administrators was made on 30 October 2020 and the Pension Administrator's have acknowledged the communication. Having entered into this agreement the Council has in effect made a guarantee which needs to be reflected on the balance sheet. The value of a guarantee of the pension obligation of another party will depend on the credit risk of the other party and the size of the pension deficit or surplus. The factors within the assessment of the value of the guarantee includes financial and non-financial risks. Management has provided a note of their judgement that the value of the guarantee is the IAS19 liability provided by the actuaries for TDA.	TBC

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor’s view
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	In our review of the Council’s accounting policies we identified that the disclosure in relation to IFRS 16 is appropriated.	In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.
Dedicated Schools Grant The Council The Council had a cumulative overspend of £3.8m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”	In October 2019 the DfE launched a consultation on changing the conditions of grant and regulations applying to the DSG. In summary, the consultation proposed changes with the intention of requiring DSG deficits to be carried forward to future years schools’ budgets, with no requirement for deficits to be covered by general reserves. In our response to the consultation we disagreed that changing the conditions of the grant would be sufficient in isolation to achieve the Government’s intention to require overspends to be carried forward and not charged against general reserves, as this would be at odds with the requirements of proper accounting practice and the Code. The DfE published its consultation response on 30 January 2020, indicating that changes to the conditions of DSG will be made, together with provisions being made in the Schools and Early Years Finance (England) Regulations 2020 SI 2020 No 83. The Regulations, effective for the financial year beginning on 1 April 2020, provide LAs with flexibility in dealing with deficits from prior funding periods when determining the individual schools budget. Regulation 8(7) enables local authorities to deduct all (8(7)(a)), some (8(7)(b)) or none (8(7)(c)) of the historic deficit in determining its schools’ budget. DfE’s consultation response indicates that CIPFA, MHCLG and DfE are working on issuing guidance about the changes.	Where overspends arise against Dedicated Schools Grant and are to be carried forward as a call against the schools budget in future years, these should form part of the un-earmarked general fund as: • The expenditure is required to be recognised in the year in which it is incurred and forms part of the ‘Surplus / Deficit on Provision of Services’ within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. • The Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a ‘statutory override’ creating an unusable reserve) in 2019/20. The Council has provided additional disclosure to explain the DSG funding position and the impact of any deficit balance 'carried forward' within the general fund balance.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £199.9m	Other land and buildings comprises specialised assets such as schools and leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the valuers employed by its subsidiary TEDC limited to complete the valuation of properties as at 01 April 2020 on a five yearly cyclical basis. 30.4% of total assets (including shared PFI asset) were revalued during 2019/20. In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4. The valuation of properties valued by the valuer has resulted in a net decrease of £7.2m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.	• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues. • Our work in this area remains in progress	● Green (*subject to completion*)

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment property - £208.7m	The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March. The Council has engaged the valuers employed by its subsidiary TEDC limited. The year end valuation of the Council's investment property was £208.7m, a net increase of £60m from 2018/19 (£148.7m), which consists of £66.8m purchase in year and £6.8m downward movement in value. Management and their valuer have taken into account available market data at 31 March 2020. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's investment properties as at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4 following audit challenge.	• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues. • Our work in this area remains in progress.	🟢 Green (*subject to completion*)

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £168.1m

The Council's net pension liability at 31 March 2020 is £168.1m (PY £178.6m) . The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £1.3m net actuarial gain during 2019/20.

The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund at 31 March 2020 as a result of Covid-19. The actuarial report the Council has received indicates that asset fund performance has been volatile over the period to 31 March. This is particularly in the later months of 2019/20 as a result of the COVID-19 crisis, and thus market valuations may be subject to change, affecting in turn, the net pension liability. The Council has included disclosures on this issue in Note 4..

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Torbay Council Pension Fund valuation

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	🟢
Pension increase rate	1.90%	1.85% - 1.95%	🟢
Salary growth	2.90%	Long term assumption of 1% above CPI	🟢
Life expectancy – Males currently aged 45 / 65	24.3/22.9	22.8 – 24.7 21.4 – 23.3	🟢
Life expectancy – Females currently aged 45 / 65	25.5/24.1	25.2 – 26.2 23.7 – 24.7	🟢

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.

🟢

Green

(*subject to completion*)

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £4.6m	The Council actions successful appeals on rateable value assessments. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The Council is liable for 49% of the cost of any revaluation appeals. The value of this liability for back dated appeals will be the result of any appeals awarded by the Valuation Office.	• We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. • We have considered the approach taken by the Council's experts to determine the provision, and it is in line with that used by other bodies in the sector. • Disclosure of the estimate in the financial statements is considered adequate. • There has been a change in the calculation method this year, due to the introduction of the use of an expert. We have considered the new approach, and the calculation performed by the expert, and have not identified any issues.	🟢 Green
Other accruals and estimates	The Council continues to apply estimates and judgements in a number of areas, such as: • accruals of income and expenditure; • recognition of school assets; and • the preparation of group accounts.	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances.	🟢 Green

Assessment

🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

🟢 We consider management's process and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's response	Auditor commentary	Assessment
Restitution for McCloud In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protection given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.	Torbay Council participate in the Devon County Council Pension Fund. The Pension fund had an initial discussion with Barnett Waddingham, Fund actuary, on the potential impact and their advice is that they expect the impact to be on administration rather than a material impact on liabilities at whole fund level. In addition, in production of the IAS19 statement Barnett Waddingham made an allowance for McCloud as a past service cost (as well as the 2019 valuation).	• The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from GAD indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated. • For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. • The Pension fund actuary's estimate was a possible increase in pension liabilities of £2,859k.so any further revision is unlikely to be material. • Our work on this is currently ongoing.	🟢 Green (*subject to completion*)
Other experience item On the Pension Notes and in the IAS 19 report, there's a £2.258m increase described as 'Other experience'. This has increased significantly compared to prior year.	Torbay Council participate in the Devon County Council Pension Fund. The Pension fund advised that the "other membership experience" would normally be expected to be small between valuations. The actuary Barnett Waddingham performed an analysis of experience since the last triennial valuation as part of the triennial funding valuation process. The actuary tolerance for the impact of the roll forward approach is generally 5% of the total liabilities or assets. For Torbay Council, it equates to 1.4% of the total liabilities, which is largely a result of the difference in the roll forward versus the full valuation	• Experience items can arise in any financial year but are expected to be greatest in the first set of financial statements produced following a triennial review. This is because the underlying source data is updated during the triennial review and the process will pick up three years of actual vs expected member movements. For English and Welsh LGPS schemes, experience items are likely to be greater in value in 2019/20 than in 2018/19 because it is the first financial year since the latest triennial review was performed. • We have asked the actuary for a breakdown of the experience item into the key factors and had a 3-way phone call discussion with the Devon County Council Pension Fund management and the actuary, challenging whether the factors identified by the actuary are appropriate to be classed as experience items. • Our auditor actuarial expert is also in the process of reviewing the assumptions. Our work on this is currently ongoing.	🟢 Green (*subject to completion*)

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟢 We consider management's process and key assumptions to be reasonable

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses and the closure of car parks, with additional challenges of reopening services under new government guidelines, staff absences due to illness, and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges but has reported a surplus position for 2019/20. Management has undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. The estimated financial impact in 2021/22 of £7.950m is based on the current COVID 19 position in Torbay. In July 2020 MHCLG announced their intention to allow any Collection Fund deficit in 2020/21 to be spread over three financial years from 2021/22. The impact on 2021/22 and the following two years is therefore £1.7m each year. However, the Council has £4.6m general fund balance plus £34.3m earmarked general fund reserves, so is in a relatively strong financial position to absorb the immediate costs and loss of income caused by the pandemic. As at July 2020/21 the Council wasn’t forecasting that it would need to use any of its general fund reserve or use an earmarked reserve for an alternative purpose.

Going concern commentary	Auditor commentary
Management's assessment process Management does not carry out a formal written going concern assessment but rely on the Medium Term Resource Plan (MTRP) that runs to 20223/24. The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by the Council will cease.	Management has determined that there is no evidence of an intention to cease the provision of services, and have therefore adopted the going concern assumption, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting which states that “*An authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”. The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment.
Work performed	We have reviewed the Council’s financial assessment of the impact of Covid-19, future financial plans and the Council’s level of reserves. We reviewed management’s disclosures, going concern assessment, and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management’s assessment.
Concluding comments	We are satisfied from the work performed that: • the going concern basis of preparation is appropriate for the Council’s financial statements • no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council’s ability to continue as a going concern • the disclosures in the Council’s financial statements relating to going concern are adequate. Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council, the wording of which is provided separately.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation. At the time of writing this report, we are still process the information received.
Disclosures	Our review found no material omissions in the financial statements at the time of writing this report.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The finance team were very cooperative and we would like to thank the whole team for their approach to the 2019/20 audit. As noted in the TDA pension pass through consideration, where unusual transactions are being undertaken we would expect formal legal and accounting considerations to be undertaken. There is scope for improvement in documenting the formal consideration undertaken by management.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. At the time of writing, the group instructions have yet to be issued by the NAO, with these due to be communicated to group. Note that work may not be required as the Council did not exceed the threshold in prior years.
Certification of the closure of the audit	Subject to the completion of the procedures in relation to the Council's WGA consolidation pack, we intend to certify the closure of the 2019/20 audit of Torbay Council in the audit report.

Value for Money

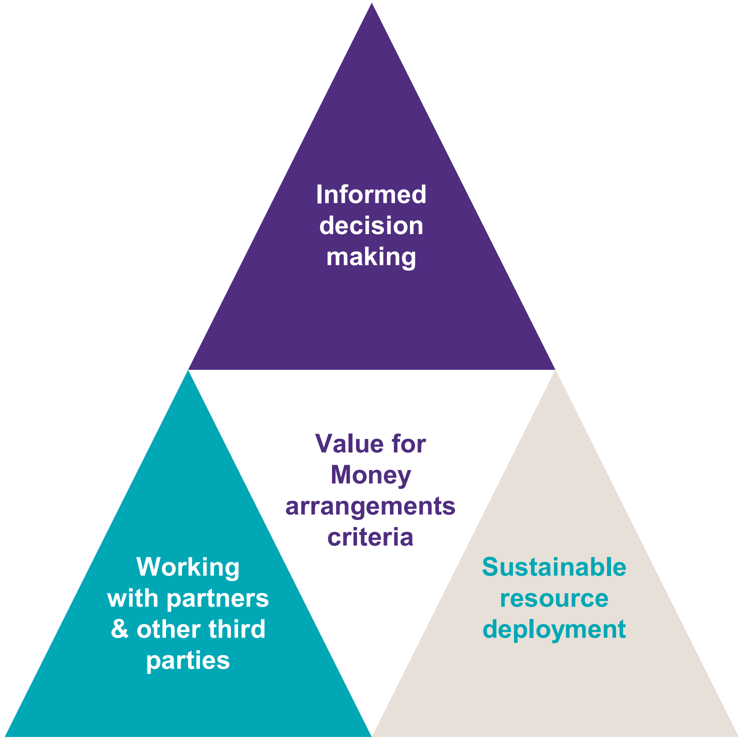
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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.”

This is supported by three sub-criteria, as set out below:



Informed decision making

Value for Money arrangements criteria

Working with partners & other third parties

Sustainable resource deployment

Risk assessment

We carried out an initial risk assessment in July 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated July 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members
- Medium term financial plan for 2020/21-2022/24
- Analysis of reserves position
- OFSTED reports since 2018 inadequate rating
- Legal advice relating to the investment fund obtained from Council’s advisors
- Council Redesign Programme - Transformation Plan
- Discussions with key officers and internal audit

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 24 to 28.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the Ofsted report on Children’s Services, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion. The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

Significant risk (as per audit plan)	Findings and conclusion
Budget delivery and savings The Council forecast an overspend of £2.87m in 2019/20, due to budget pressures in Children's Services. While the budget for 2020/21 was based on a balanced budget, the Council needed to identify savings in the region of £11m for 2020/21 and 2021/22 in order to achieve a balanced budget. We reviewed the Council's latest MTRP and the 2019/20 budget, considering the assumptions that underpin the figures within them. We will also review the 2019/20 savings achieved against those originally planned.	**2019/20 outturn** In February 2019, the Council set a budget for 2019/20 without the use of reserves of £111 million (2018/19: £112 million). This included £8 million of net reductions to allow the Council to set a balance budget for 2019/20. The Council overspent by £3.1 million and despite delivering savings across a range of services and departments were unable to offset the significant overspend of £7 million relating to children's services (an increase on the 2018/19 overspend of £5 million). The Council therefore needed to fund the £3.1 million from earmarked reserves to enable a break even position. From our review of Council papers there is evidence the Council has a robust and well developed budget setting process. This process incorporates an appropriate level of challenge and scrutiny from member committees to ensure budgets are achievable operationally, input from a range of stakeholders to ensure the budget remains relevant and a good level of support from finance to ensure budgets are achievable from a resourcing perspective. Committee papers also demonstrate the Council has been suitably proactive and challenging in how it has monitored ongoing budgets and updated assumptions as new information becomes available to ensure budgets remain appropriate. However the use of earmarked reserves to address in-year service overspends is not sustainable in the long term. However it remains critical to your financial health that you continue to take action to control costs and deliver identified savings. **2020/21 and medium term resource plans** The Council holds general fund reserves of £4.4 million (4.1% of net budget) and other earmarked reserves of £8 million. This is relatively low and the funding gap identified pre COVID-19 over the next three years until March 2024 is £16.1 million. We also note the intention that release £3 million of the earmarked reserve going forward. The impact of Covid-19 on the revenue outturn for 2019/20 was minimal, due to the pandemic only arising within the final few weeks of the financial year. However, the impact on the 2020/21 budget is significant both in respect of increased expenditure and loss of income and may also have a significant impact on the Council's ability to realise planned savings and transformation programmes. The government is providing grants to offset COVID-19 costs and income losses and to date the Council has received £10.4 million however as other local authorities s are finding, there is a gap between central government funding and actual budget shortfalls that cannot be necessarily claimed. As at quarter 2 in 2020/21 the Council was not forecasting that it would need to use any of its general fund reserve or use an earmarked reserve for an alternative purpose due to COVID. Should this change, the Council has a real risk that reserves are insufficient to offset any other additional gaps especially given the significance of the funding gap already identified.

Value for Money

Significant risk (as per audit plan)

Findings and conclusion

Government will likely continue to provide support but the Council is vulnerable should there be a continued rise in demand for children and adult services which are the two areas where it has experienced the greatest difficulty in managing – although we note the children services is currently forecasting an underspend against the rebased 2020/21 budgeted amount).

Linked to VFM risk 3 overleaf, the Council embarked on an investment strategy which to date has seen £235 million invested with the aim of generating income to reinvest in services. These plans have taken place alongside the proposed transformation programme (VFM risk 4 overleaf). The Council may well need to identify new income streams but it should also be wary of the financial risks relating these types of projects as many other Council's have implemented similar strategies resulting in them losing money due to a lack of expertise and capacity.

The pandemic and associated restrictions caused a significant financial pressure and whilst the Council is projecting that it does not need to utilise reserves in 2020/21 it does highlight how vulnerable the Council's financial sustainability is due to its low level of reserves. The Council already has a timetable for revising its MTRP including the actions it will take to close the £16.1 million funding gap. The Council needs to actively monitor these actions and if it becomes apparent that the Council will not close the gap the Council may need to asses the level of services its is providing and whether alternative strategies are required.

Conclusion

On that basis, we have concluded that the level of savings needed represents a significant challenge for you combined with a low level of reserves.

The Council has plans in place to manage cost pressures and to identify and deliver savings however the Council has very little headroom to cope with any further cost pressures or income reduction and should it need to utilise reserves in 2020/21.

Whilst many other councils are in a similar position, action needs to be taken now to address the identified budget gaps in a planned and managed way. Without taking early action the Council will need to rely on further depleting reserve levels to balance its budget. Repeated reliance on reserves without taking action to address the underlying budget gaps will lead to the risk that either reserves levels become unsustainable or rapid service cuts are required to maintain a sustainable position.

Recommendation:

- The Council needs to ensure it continues to take action to address any in-year overspends or slippage in delivery of savings.
- The Council must urgently develop realistic savings plans to meet the identified budget gap going forward together with clear monitoring of delivery of savings to avoid further depletion of reserves.

Value for Money

Significant risk	Findings and conclusion
In year the Director of Children's Services was appointed. This appointment follows her interim role as Director of Children's Services. Previously the post was shared with Plymouth City Council. We will review the progress being made by the Council under its new leaders, considering the actions being taken to address the continuing pressures on this service.	We have reviewed the progress being made by in addressing the recommendations raised by OFSTED in relation to Children's Services. Your Children's Services were rated as inadequate in January 2016 and you then entered a contractual arrangement with Plymouth City Council, with a Joint Director for Children's Services (DCS) for Torbay Council and Plymouth City Council. Ofsted subsequently completed an inspection visit in July 2018, in which the inadequate rating remained in place. The report concluded that overall, the pace of change has been too slow and some recommendations from the previous inspection are not met. It stated fundamental weaknesses remain in management oversight and supervision and in identification of and response to risk, as well as workforce development and capacity. Subsequently there were monitoring visits in January 2019, April 2019, October 2019 and January 2020 The January 2019 report concluded that 'senior leaders have failed to address the significant concerns identified during the re-inspection of Torbay children's services in June 2018' although the April 2019 reported that 'the local authority is starting to make some progress, from an extremely low base, in improving services for its children and young people, but these improvements remain exceedingly fragile'. The October 2019 report concluded that 'the local authority is taking too long to address critical weaknesses. As reported in previous monitoring visits, the quality of help and protection for vulnerable children continues to be very concerning. The local authority has made some progress to implement the necessary improvements, but the pace of change for children in need of help and protection is too slow'. The most recent report and the fourth since the Council was rated inadequate in July 2018 again noted there were positives stating 'the newly appointed interim deputy director has a realistic understanding of the challenges and scale of poor practice and outcomes for vulnerable children in Torbay. Together with managers and social workers, she is taking urgent action to begin to address the long-standing concerns'. However the report concluded that 'it is too soon to evaluate the impact of these changes, but inspectors are encouraged about the scale of the work that has been achieved since their monitoring visit in October 2019'. **Conclusion** The last two visits from Ofsted have indicated a positive direction of travel and we note you have ended the joint arrangement with Plymouth City Council brining the DCS back fully 'in house'. However the most recent conclusions are clear that whilst changes are being made that these are not embedded yet and consequently our conclusion is that as in the prior year there 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

Significant risk	Findings and conclusion
Investment arrangements / commercialisation The Investment Strategy has been approved by Full Council and enables the Council to invest £300 million in opportunities and assets, to generate income to reinvest in its services. The Investment Fund has been financed by PWLB borrowing and large commercial property portfolio may expose the Council's investments to volatility, especially in light of Covid-19. We will review the due diligence and scenario planning undertaken by the Council when considering its commercial property investments. We will also review the legal advice obtained by the Council, and the appropriateness of using PWLB borrowing to fund investment activity, considering the Prudential Code and the Council's statutory powers.	We have followed up on the progress in implementing new investment arrangements having identified this as a significant VFM risk in 2018/19. The Council originally set up an investment fund of £200m and approval was obtained in July 2019 to increase the fund to £300 million. To date, the Council has spent £235 million with an estimated surplus (through growth in value), after borrowing costs and contingency for future years, on these properties of £4.6 million in 2021/22. As part of our work in 2018/19, we suggested the Council should seek legal advice to confirm it was appropriate to purchase properties outside of its geographical area and whether this could be done directly or whether it must be done so via a subsidiary company. The Council proceeded with the purchases and its legal advice suggested this action was lawful as long as the Council's Investment and Regeneration Fund Strategy (the Strategy) was updated with specific wording relating to diversification. The Council updated the Strategy in October 2020 but we are of the view it does not sufficiently cover both of the substantive points raised in the legal advice and thus needs further refinement. Following the conclusion of the March 2020 HM Treasury consultation of the use of PWLB borrowing to fund 'debt for yield' the Council has not invested any further funds. Our review of arrangements in 2018/19 considered the governance regarding the monitoring and management of the investments and we note these remain unchanged in substance apart from the change in reporting lines during the year following the commencement of the Leader and collective Cabinet decision making model of governance. We note from reviews of minutes there is scrutiny of decision making in relation to the investment portfolio which has become increasingly important due to the increased risks arising from the impact of COVID-19 on property investments. The Council has also included a contingency of £0.5 million in the 2021/22 budget for the impact of the economic uncertainty on all Council rental income although at present only one asset has been impacted as a result of COVID-19. **Conclusion** Whilst no issues have been identified that impact on our VFM conclusion we recommend the Council revisits its legal advice to confirm its Strategy has been updated appropriately to comply with relevant legislation. We have not identified any weaknesses in the monitoring or scrutiny of the management of the investment portfolio but the Council should continue to monitor performance against investment parameters set out in the Strategy to ensure the portfolio is delivering the income levels intended and whether there are any changes to circumstances relating to specific assets which might change their risk profile from the assessment made during the original due diligence process. **Recommendation:** • The Council should refine further the wording in the Investment and Regeneration Fund Strategy to ensure it meets the legal advice obtained by the auditor • The Council should continue to monitor performance of investments and consider whether there any changes in circumstances which might change the risk profile and respond appropriately.

Value for Money

Significant risk (as per audit plan)

Transformation

The Council is progressing a number of projects including redesign and commission some of existing services through its Transformation Programme as it seeks alternative methods of service delivery. The need for the Council to consider if it has adequate capacity to support and deliver its transformation programme was raised in our Audit Findings Report for the past 2 years.

We will review the arrangements being put in place by the Council for these projects, including whether appropriate advice has been taken. This

Findings and conclusion

We have followed up on the delivery of the transformation programme that commenced in 2018/19 and is now known as the ‘Redesign Programme’ (the Programme). The Programme focuses on a number of work streams within three core areas:

- 'Our Communities' – We will reconnect with and enable and empower our communities
- Our Organisation' – We will put our customers at the centre of our organisation
- ‘Our People' – We will be an organisation that our people are proud of

The governance arrangements supporting the Programme have been refined but largely remains unchanged from the previous year. The Council’s Transformation Board (Senior Leadership Team) is ultimately accountable for overseeing the Programme and will act as the escalation route for strategic risks and issues. A Programme Board is in place to provide advice and direction to projects and managing stakeholder engagement. As per the plan approved by Council ‘the Redesign Programme Board will provide assurance of quality and objectives, track overall investment and realisation of benefits and make strategic decisions in relation to scope, investment and risk management. There are three Project Delivery Boards to govern the detailed progress of each project and to manage the resources and monitor risks and issues. Our review of Committee papers indicate these committees are operating as per the their terms of reference with appropriate monitoring and scrutiny.

As part of our work we have considered some of the changes in corporate structure the Council has made during the year:

- The Council established SWISCO (South West Integrated Services Company), a 100% owned company to provide services provided by TOR2 following the expiry of 10 year contract in July 2020.
- The Council’s Torbay Economic Development Company Ltd (TDA) created two wholly owned subsidiaries to contract and rent affordable housing, called Torvista Homes and TEDC Developments.

As the Council is in the initial stages or developing it affordable housing plans the subsidiaries operations are relatively low risk and we can see there are procedures in place for ensuring the Council’s has ultimate approval for decision making. However as other local authorities have found, the establishment of these types of arrangements can be risky from both a finance and governance perspective especially if there is poor or insufficient monitoring and scrutiny. The Council therefore needs to ensure it does not lose sight of the importance of ensuring these subsidiaries are operating in line with the objectives of the Council.

Conclusion

The Council’s approach to transformation has continued into 2019/20 albeit with a re-set and publication of a revised ‘Redesign Programme’. We have concluded there remain adequate arrangements in place for managing and monitoring your transformation programme but we recommend there is a particular focus on the changes made in relation to the affordable housing project.

Recommendation:

- As their affordable housing plans develop, the Council should ensure that the finance and governance is robust and that the subsidiary operates in line with the Council’s objectives.

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 Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and 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 following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Benefit Grant	13,250*	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,250* in comparison to the total fee for the audit of £103,081 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. *This fee is the 2019/20 core price, which should only be used indicatively for the upcoming 19/20 fees. It does not include the cost of any additional '40+' work.
Certification of Teachers Pension Return	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £103,081and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Harbour authority audit	1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £103,081 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee None of the services provided are subject to contingent fees.

Action plan

We have identified 3 of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**s151 Officer has the access to post journals** During our journal testing we identified that the s151 Officer has posted various journals around the year end. We have tested all journals posted by s151 officer and have not identified any issues with the specific journals posted by the s151 officer. The s151 officer did not authorise any journals and posted the journals due to staffing pressures in April however this is not good practice and should not happen.	Senior financial reporting personnel should not have the ability to post journal entries, due to increased risk of management override of control **Management response** Accepted - This was a short term arrangement linked to staffing issues around the impact of Covid-19
● Medium	**In-year budget delivery and savings** The Council has experienced in year service overspends in recent years which have been met from reserves. Total general fund and earmarked reserves is relatively low. The current in year forecast does not plan to use reserves however with pressures relating to the pandemic there is risk that service overspends will continue and reserves will be further depleted.	The Council must ensure it continues to take action to address any in-year overspends or slippage in delivery of savings. **Management response** Accepted – the Council will continue to monitor and report on the current year position
● High	**Savings identification** The Council's MTRP has a gap of £16.2 million over the 2021/22 - 2023/24 period. This represents a considerable challenge for the Council and with relatively low levels of reserves there is a risk that slippage in delivery of savings will reduce the reserves to an unsustainable level.	The Council must urgently develop realistic savings plans to meet the identified budget gap going forward together with clear monitoring of delivery of savings and income. **Management response** Accepted – the Council has, and will continue to, forecast its future year financial position and will work on options to mitigate that position to enable a balanced budget to be set.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan

We have identified 3 of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Investment and Regeneration Fund Strategy** The Council took external legal advice on how the Council is applying the statutory guidance in relation to borrowing to purchase investment properties. As auditors we took our own legal advice and identified wording changes needed to fully comply with the guidance. Whilst some wording changes have been made, we consider further refinement is needed to meet the specific points.	The Council should refine further the wording in the Investment and Regeneration Fund Strategy to ensure it meets the legal advice obtained by the auditor **Management response** Accepted – the Council will review the wording in the Investment Fund Strategy
● Medium	**Investment monitoring** The Council has a number of investment properties and the volatility in the economic environment has the potential to impact on the returns expected from the investment properties. The Council has put arrangements in place to monitor performance of its investments. With £235 million invested it is vital that the Council's risk assessment remains dynamic.	The Council should continue to monitor performance of investments and consider whether there any changes in circumstances which might change the risk profile and respond appropriately. **Management response** Accepted – the Council has an officer group that monitors the investment property performance but will request a review to ensure its effectiveness.
● Medium	**Housing development company** As part of the transformation programme the Council is in the early stages of developing its affordable housing plans through subsidiaries. Other local authorities have found that these type of arrangements can be risky from a finance and governance perspective.	The Council should ensure that the finance and governance of its affordable housing plans are robust and that the subsidiary operates in line with the Council's objectives. **Management response** Accepted – the Council will review its subsidiaries undertaking housing activity to ensure appropriate governance and financial oversight

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Torbay Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council's MTRP has a gap of £18.3 million over the 2020/21 - 2022/23 period. This represents a considerable challenge for the Council given the savings it has already had to make in recent years.	A balanced budget was set for 2020/21. The Medium Term Resource Plan identifies budget gaps in 2021/22 to 2023/24, which have been considered as part of our VFM work.
✓	The LGA Financial Peer Challenge has identified some key recommendations for the Council coming out of its review in November 2018.	The progress with the LGA Financial Peer Challenge action plan must be regularly monitored and reported to ensure that momentum on these critical recommendations is maintained. Where relevant proposals from the LGA review are included in both budget proposals and the council's transformation programme

Assessment

✓	Action completed
X	Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

At the time of writing the report, we have not identified any adjusted misstatements.

Misclassification and 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.

Detail	Auditor recommendations	Adjusted?
The Council included its deficit against the Dedicated School Grant as a negative £3.8 million within earmarked reserve. The CIPFA LAAP bulletin 19 does not allow for a voluntary earmarked balance to be presented in a deficit position. We remain of the view that where overspends arise against DSG these should be carried forward as a call against the schools' budgets in future years as part of the un-earmarked general fund.	Management has agreed to update the financial statements in respect of this disclosure.	✓
We proposed a number of minor changes and narrative amendments to improve the presentation in the accounts	Management has agreed the disclosure notes will be amended on the final version of the financial statements .	✓

Audit adjustments

Impact of unadjusted misstatements

At the time of writing the report, we have not identified any unadjusted misstatements.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Fees

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

Audit fees	**Proposed fee**	**Final fee**
Council Audit	103,081	TBC

Non-audit fees for other services	**Proposed fee**	**Final fee**
Certification of 2019/20 Housing benefits grant	13,250*	TBC
Certification of 2019/20 Teacher's Pension	5,000	5,000
Harbour authority audit	1,500	1,500
Total non- audit fees (excluding VAT)	**£19,750**	**TBC**

The fees agrees to the financial statements.

*This fee is the 2019/20 core price, which should only be used indicatively for the upcoming 19/20 fees. It does not include the cost of any additional '40+' work.

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