The Annual Audit Letter for Torbay Council

Year ended 31 March 2020

8 January 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Torbay Council (the Council) and its subsidiaries, joint ventures and associates (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 23 November 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £5,720,000, which is about 2**%** of the group's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 30 November 2020. **/We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties, and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.**
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for in relation to understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management in children's services and for planning, organising and developing the workforce effectively to deliver strategic priorities. We therefore qualified our value for money conclusion in our audit report to the Council on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Torbay Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

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

The impact on the core finance team has been more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business. 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.

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

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the group financial statements to be £5,720,000, which is about 2% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be : £5,634,000, which is about 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration at £100,00 due to particular public interest

We set a lower threshold of £281,7000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach was based on a thorough understanding of the group's business and is risk based.

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	Our audit work did not identify any significant issues in relation to Covid 19.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	As part of our audit work 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	Our audit work did not identify any significant issues in relation to the valuation of land and buildings.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension 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.	As part of our audit work 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.	Our audit work did not identify any significant issues in relation to the valuation of pension liabilities

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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.	As part of our audit work we completed; • 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; • 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. However this is not good practice and increases the risk of management override of controls. We recommend that senior financial reporting personnel should not have the ability to post journal entries, due to increased risk of management override of control. The management has accepted our recommendation.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 30 November 2020.

Preparation of the financial statements

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit Committee on 30 November 2020.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

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

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Torbay Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

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

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

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

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	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. 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. The Council holds general fund reserves of £4.4m (4.1% of net budget) and other earmarked reserves of £8m. This is relatively low and the funding gap identified pre COVID-19 over the next three years until March 2024 is £16.1m. We also note the recommendation that this reserve is to be reduced to £3m 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 £10.4m however as others are finding, there is a gap between central government funding and actual budget shortfalls that cannot be necessarily claimed.	On that basis, we have concluded that the level of savings needed represents a significant challenge for you when the Council's level of reserves are considered but at the present time the risk is sufficiently mitigated. 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. 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 the low level of reserves it can fall back on. The Council already has a timetable for revising its MTRP including the actions it will take to close the £16.1m funding gap. Should it become apparent these actions will not close the gap the Council may need to asses the level of services its is providing and whether alternative strategies are required.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
OFSTED inspection of children's services Ofsted report issued in August 2018 rated Children's Services in Torbay as inadequate. There were some signs of improvement following the April 2019 visit but these were described as fragile. The monitoring visit in January 2020 concluded that very recent changes and actions are starting to create a culture of high expectation and an environment in which understanding the child's world is central to all activity and practice. 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 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 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'.	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 services 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 conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 reviewed 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. 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 £0.5m 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.	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.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 reviewed the arrangements being put in place by the Council for these projects, including whether appropriate advice has been taken. This will include new initiatives such as the Housing Company as well as the work being done by the Council on the TOR2 Ltd, as well as SWISCo, a private limited company wholly owned by, and delivering services on behalf of, Torbay Council, which was launched on 1st July 2020 following the end of TOR2 contract. We also considered whether the restructure and recruitment actions proposed by the Council in response to our 2018/19 recommendation were successful in creating additional capacity. to support the transformation programme.	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. 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 Council's 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.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	29 July 2020
Audit Findings Report	30 November 2020
Annual Audit Letter	8 January 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	103,081	103,081	78,581
Additional fee - Covid-19		15,500	9.000
Total fees	**103,081**	**118,581**	**87,581**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £103,081 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Revisiting planning	We have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.	4,000
Management's assumptions and estimates	There is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.	4,000
Financial resilience assessment	we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.	4,000
Remote working	the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.	3,500
Total		15,500

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of 2019/20 Housing benefits grant	£13,250*
- Teacher's Pension	£5,000
Non-Audit related services	1,500
- Harbour authority audit	

*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.

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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