



Informing the audit risk assessment for Torbay Council 2020/21



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Torbay Council's external auditors and Torbay Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Torbay Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Impact of COVID and COVID funding Business Grants (as agent) SWISCo go live from July 2020
2. Have you considered the appropriateness of the accounting policies adopted by Torbay Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, no significant changes required
3. Is there any use of financial instruments, including derivatives?	No derivatives or similar used
4. Are you aware of any significant transaction outside the normal course of business?	Business Grants (as agent)

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Only from any valuations on Investment Properties
6. Are you aware of any guarantee contracts?	None other than those disclosed in accounts
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	no
8. Other than in house solicitors, can you provide details of those solicitors utilised by Torbay Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Council uses a range of legal advice to supplement its own in house team

General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	no
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Not consulted any advisors as part of the financial reporting process outside of those already disclosed, (such as PPE valuers, Pension Actuary)

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Torbay Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Torbay Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Torbay Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Yes</p> <p>S151 has access to a fraud and error team and an internal audit function</p> <p>Significant risks reflected in MTRP and risk register</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Financial transactions</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Torbay Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Allegations are reported to the Council's finance, ethics and probity group.</p> <p>Risk Register, Internal Audit reports and Fraud updates</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Torbay Council where fraud is more likely to occur?</p>	<p>In 20/21 Business Grants were identified as a significant risk</p> <p>As above</p> <p>In 20/21 Business Grants</p>
<p>5. What processes do Torbay Council have in place to identify and respond to risks of fraud?</p>	<p>Fraud and Error Team, Internal Audit and finance, ethics and probity group.</p> <p>Audit Committee</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Torbay Council, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>As s151 officer I'm satisfied that there is an adequate "system of internal control".</p> <p>Annual Governance Statement</p> <p>Internal Audit Reports</p> <p>n/a</p> <p>Fraud and Error Team, Internal Audit and finance, ethics and probity group.</p> <p>Not aware of any.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not aware of any</p>

Fraud risk assessment

Question	Management response
<p>8. How do Torbay Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<p>Mandatory I learn courses. All staff updates Standard contract terms</p> <p>Access to internal audit, fraud team and whistleblowing</p> <p>The Whistle Blowing Policy is not confined to fraud and irregularities but is aimed at encouraging freedom of speech in respect of general poor practice or areas of inefficiency.</p> <p>Any issues would be reported to Finance, ethics and probity group</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any post that does not have appropriate segregation of duties</p> <p>Appropriate segregation of duties and control over authorisations</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None that I'm aware of</p> <p>Declarations of interest and financial regulations</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit reporting and Fraud updates</p> <p>As above plus regular meetings of S151 officer with Chair of Audit Committee</p> <p>Lower than usual reporting as fraud and error team have spent the majority of their time in 2020/21 on assurance around the payments of business grants.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>All such allegations are to finance, ethics and probity group</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>Not than I'm aware of</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Torbay Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Torbay Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Responsibility of statutory officers</p> <p>Employment of statutory officers and suitably qualified officers</p> <p>no</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>No reporting specifically to Audit Committee on this issue</p> <p>Accounts produced in line with Code of Practice</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>None that I'm aware of</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None that I'm aware of</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Torbay Council have in place to identify, evaluate and account for litigation or claims?	Monitoring Officer supported by a legal team
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

Torbay Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Torbay Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Torbay Council's 2019/20 (SHOULD BE 20/21??) financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Torbay Council whether Torbay Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>SWISCo go live from July 2020 and Torvista became operational.</p> <p>Both companies with Council as ultimate parent</p> <p>Council purchases services from SWISCo and has lent funds to Torvista</p> <p>To pay for services in SWISCo and to fund the purchase of houses by Torvista</p>
<p>2. What controls does Torbay Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Financial transactions recorded on Council finance system</p> <p>Disclosures of interests by members and officers</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Financial regulations apply. Agreed budgets and commissioning agreements</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Financial regulations apply</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Any transaction that requires an estimate which is usually around valuation of assets and liabilities. Significant would be pension, non current assets and impairment.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Note in accounts on significant estimates
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use "experts" as appropriate e.g. actuary for pension estimate, RICS qualified valuer for non current assets.
4. How do management review the outcomes of previous accounting estimates?	Previous year estimates updated as at end of current year.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Revised impairment estimate in the light of COVID impact on debt.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Use experts as required for significant items.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>Pension actuary employed by Pension Fund and the Fund is subject to separate external audit</p> <p>RICS qualified valuer employed to provide non current asset valuations. If an asset is specialist an external valuation will be used.</p>
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As 7. above
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Instructions provided to RICS qualified valuer.</p> <p>Pension Fund subject to separate external audit</p> <p>S151 authorises accounts as a true and fair view</p> <p>S151 will set impairment limits</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Please populate the grid in Appendix A. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	yes
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	S151 authorisation of the accounts No issues raised by external auditor

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Per Code of Practice	Rolling Valuations for all non current assets	RICS qualified valuer	Estimated Asset value	no
Investment property valuations	Per Code of Practice	Annual Valuations for all investment property	RICS qualified valuer	Estimated Asset value	no
PFI Liabilities	Based on PFI model at inception of contract	n/a	n/a	n/a	no
Valuation of defined benefit net pension fund liabilities	Per Code of Practice	Annual valuation in line with IAS19	Pension actuary employed by pension Fund	Estimated asset and liability values	no

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Per Code of Practice	Accounting policy	RICS qualified valuer	Asset life and valuation of asset	no
Bad Debt Provision	Per Code of Practice	Accounting policy plus s151 guidance	no	Percentage of debt deemed irrecoverable	no
Individually material accruals (e.g. unpaid leave accrual or GRNI)	Per Code of Practice	Accounting policy	no	Calendar of holidays for teachers Services provided with year guidance on GRN at year end.	no
MRP Provision	Per Code of Practice and statutory guidance	MRP policy approved by Council as part of TMS	no	Asset life	no



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