



Informing the audit risk assessment for Torbay Council 2021/22



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,
- Going Concern, 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 2021/22?	Ongoing impacts of Covid and Covid Funding
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? If so, what are they?	Yes, no significant changes required.
3. Is there any use of financial instruments, including derivatives? If so, please explain	No derivatives or similar instruments used.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No.

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? If so, what are they?	Only from any valuations on investment properties.
6. Are you aware of any guarantee contracts? If so, please provide further details	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? If so, please provide further details	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?	The Council uses a range of legal advice to supplement its own in-house team. We use external lawyers for capacity on particular projects – e.g. Purchase of building/leases etc. Not aware that external solicitors are working on any litigation in 21/22. The compulsory purchase order of Crossways shopping centre is ongoing.

General Enquiries of Management

Question	Management response
9. Have any of the Torbay Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	PPE valuers – Valuations Pension Actuary – Liability estimation Devon County Council Pension Fund – Pension Advice Gallagher Insurance Advisors – Broker Arlingclose – Treasury Management
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	We will review loans at year end for evidence of any issues.

Fraud

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. Has 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 officer has access to a Fraud and Error team and the Internal Audit Function.</p> <p>Significant risks are reflected in the 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>
<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 2021? If so, please provide details</p>	<p>Any allegations are referred to the Financial, Ethics and Probity board.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk Register, Internal Audit Reports and Fraud Updates.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</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>Business Grants were again identified as a risk.</p> <p>As above.</p> <p>Business Grants</p>
<p>6. 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>7. 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)? If so, please provide details</p>	<p>As the S151 officer, I'm satisfied that there is an adequate "systems of 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>We are not aware of any.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>We are not aware of any.</p>

Fraud risk assessment

Question	Management response
<p>9. How does 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? If so, please provide details</p>	<p>Mandatory learning courses, All Staff updates and Standard Contract Terms.</p> <p>Access to internal audit, fraud team and whistleblowing.</p> <p>The Whistleblowing Policy is not confined to fraud and irregularities but is aimed at encouraging freedom of speech in respect to general poor practice or areas of inefficiency. Any issues would be reported to the Finance, Ethics and Probity group.</p>
<p>10. 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>1) Any post that does not have appropriate segregation of duties. 2) Any post that is involved in the process of authorising large payments- e.g. Treasury Management, Payroll, Housing Benefits, Accounts Payable.</p> <p>1) Appropriate segregation of duties is in place over the majority of processes. Internal audit have highlighted some areas where best practice is not followed. This is due to not having teams of sufficient size and is a risk that management accept. 2) Annual audits of keys systems (e.g. Payroll, HB) are made</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</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>Declaration of interest and financial regulations</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit reporting, Fraud updates, Whistleblowing policy and Finance, Ethics and Probity Group. Torbay belongs to the NFI Fraud Initiative. The Fraud Team contains three posts. There are internal audits of key systems.</p> <p>Audit Committee receive annual audit updates, review internal audit plan, regular internal audit reports, mid-year review and external audit report.</p> <p>Nothing material has been flagged in year from audit report or the work of the fraud team who has focused on Covid Business Grant assurance. The Finance, Ethics and Probity Board meet regularly to consider whistleblowing and no significant issues have been raised in the year.</p>
<p>13. 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 the Finance, Ethics and Probity Group.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>Not that I'm aware of.</p>

Law and regulations

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 body is in compliance with laws and regulations. Where we become aware 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?</p> <p>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 are 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 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>None that I'm aware of.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</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 reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No.

Related Parties

Matters in relation to Related Parties

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

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Torbay Council;
- associates;
- joint ventures;
- a body 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 body 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 2020/21 financial statements? 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>Company structure is as March 21.</p> <p>Torbay Education Limited started trading November 2021.</p> <p>No new companies have been set up or purchased.</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 are recorded on the Council's finance system.</p> <p>Disclosure of interest 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. Controls include Agreed budgets and commissioning agreement.</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>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Torbay Council will no longer continue?</p>	<p>Council will continue to consider any changes in legislation that will impact on the number and level of services provided.</p>
<p>2. Are management aware of any factors which may mean for Torbay Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Not aware of any factors</p>
<p>3. With regard to the statutory services currently provided by Torbay Council, does Torbay Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Torbay Council to cease to exist?</p>	<p>There is no forthcoming legislation to disband Torbay Council.</p>
<p>4. Are management satisfied that the financial reporting framework permits Torbay Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes – words on going concern assumption are included in the annual accounts. Torbay Council is a statutory body and will continue to exist unless legislation changes.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 require an estimate – usually around valuation of assets and liabilities. The significant valuation would include pensions, non-current assets and impairment.
2. How does the Council’s risk management process identify and address risks relating to accounting estimates?	Note in accounts on the significant estimates.
3. How does 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 estimates, RICS qualified valuer for NCA.
4. How do management review the outcomes of previous accounting estimates?	Previous year estimates are updated as at end of current year.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	Impairment estimates in the light of Covid impact on debt will continue to be reviewed.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>Use of specialised skills – e.g. use of an appointed PPE valuer is mandated or is good practice.</p> <p>Use of specialised skills may apply when the council identifies a knowledge/skills deficit within their own staff – e.g. Airlingclose for fair value calculations, Devon County Council for energy from waste calculation, external “sector” advice on valuations</p>
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>Where judged to be appropriate the Council uses professional advice and designs control activities around the expert’s processes, e.g.:</p> <ul style="list-style-type: none"> • Valuers for the valuation of Land and Buildings, • Pensions Actuary used for valuation of Pension Liability <p>Other estimated are determined internally and have control activities which have been applied based on best practice:</p> <ul style="list-style-type: none"> • Accrual estimates come from services who use information available to them (e.g. invoices. Valuation certificates). • Bad debt provisions estimates made by finance team with input from valuers in some cases. • Appeals provisions on business rates also done by finance team.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>Sense checks are applied on estimates produced by third parties – e.g. challenging any significant or unusual movements with the PPE valuer and seeking explanations or corrections as applicable.</p> <p>Consideration of expectation (per budget) compared to actual would flat any estimates made outside of expectations and signal that control activities are not carried out as designed.</p>
9. What is the nature and extent of oversight and governance over management’s financial reporting process relevant to accounting estimates, including: - Management’s process for making significant accounting estimates	<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>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any 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)? If so, what are they?</p> <p>Please populate the grid in Appendix A</p>	<p>No.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Yes – basis for preparing estimates will remain as per previous years (which had been audited by GT).</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>S151 authorisation of the accounts.</p> <p>No issues raised by external auditors.</p>

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	E.g. annual leave accrual: calendar of holidays for teachers	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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