

The Audit Findings for Torbay Council

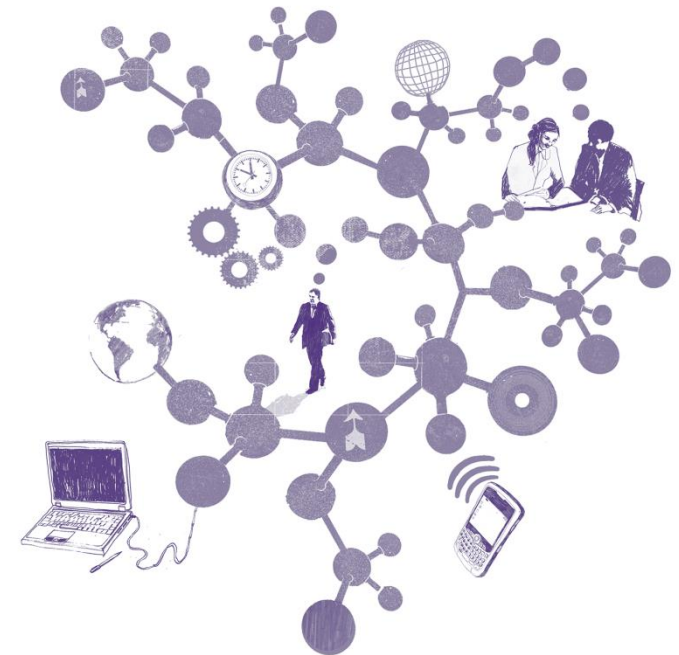
Year ended 31 March 2014

16 September 2014

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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 primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Torbay Council's (the Council) financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 25 June 2014.

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

- completion of work on housing benefits
- review of the final financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

We will provide an update for the Audit Committee on outstanding work.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. This is a credit to the Finance team as the timetable agreed was much earlier than in previous years. We also had a number of helpful discussions with the team at an early stage regarding de-cluttering the accounts and the pensions liability to Devon County Council following local government reorganisation.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified one adjustment affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of £136.7m and total surplus in Comprehensive Income and Expenditure Statement (CIES) of £12.9m; the audited financial statements show net expenditure of £135.1m. and total surplus in the CIES of £9.5m. This change relates to a movement on revaluation arising from an error caused when moving assets on to the new asset register. This error was identified by the Council's finance team during the course of the audit. We have also identified a number of adjustments to improve the clarity and presentation of the financial statements and ensure compliance with the Code.

Further details are set out in section 2 of this report.

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

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

Value for Money conclusion

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

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

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

Controls

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

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

- our payroll testing found that the application of the Council's document retention policy had resulted in missing documentation for employees who have been in post for over six years
- our review of the Council's IT environment identified some deficiencies around password management controls, and automatic screen locks on financially critical systems.

Further details are provided within section 2 of this report.

The way forward

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

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

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 25 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 25 June 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Review of system documentation and walkthrough of transaction • Substantive testing of a sample of operating expenses • Substantive testing of a sample of expense transactions in month 12 and year end adjustments/reconciliations. • Review and testing of creditors/liability balances of unusual and large amounts. • Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> • Review of system documentation and walkthrough of transaction • Substantive testing of a sample of remuneration transactions 	Our audit work identified that where employees commenced employment over seven years ago, there was no evidence held on file to confirm their employment. We have made a recommendation that essential evidence should be retained on file.

Audit findings against other risks - continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	Property, plant and equipment activity not valid Revaluation measurement not correct Property, plant and equipment improperly expensed	<ul style="list-style-type: none"> Review of system documentation and walkthrough of a transaction Substantive testing of the accounting treatment for the valuation to ensure it has been correctly applied Reconcile valuer's report to fixed asset register Substantive testing of a sample of fixed asset additions. 	Early in the audit process we were notified of an error in the calculation of revaluations. The total value of the error was £3.3m and it has been amended in the financial statements. Our audit work has not identified any other significant issues in relation to the risk identified.
Welfare expenditure (housing benefit)	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction Verifying system parameters Review the reconciliation of the housing benefit system to the general ledger Agree the Housing Benefit claim to the accounts Substantive testing of welfare expenditure for the whole year to gain assurance over the welfare expenditure figures. 	Our work in this area is currently in progress. We will update the Audit Committee with the results of our work.
Business Rate Retention Scheme	New approach to the treatment of business rates, including the need to provide for appeals.	<ul style="list-style-type: none"> We have reviewed the Council's accounting treatment for business rates and the assumptions used in the provision for appeals. 	Our audit work has not identified any significant issues in relation to the risk identified.
Pensions liability to Devon County Council following local government reorganisation	The Council had not previously recognised a material long-term liability in respect of the pensions liabilities from when it became a unitary authority.	<ul style="list-style-type: none"> We reviewed the revised accounting treatment for the long term liability in the 2013/14 accounts. 	We are satisfied that the revised accounting treatment by the Council is in accordance with the Code.
Waste PFI	The Council is in partnership with Devon CC and Plymouth CC for a PFI scheme with a private operator to dispose of waste. The impact on the revenue budget will be in 2014/15.	<ul style="list-style-type: none"> We have liaised with officers over the proposed accounting treatment for the scheme. 	We will continue to liaise with officers over the accounting treatment for the 2014/15 year and beyond.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>The main sources of revenue for the Council are:</p> <ul style="list-style-type: none"> - Government grants and contributions - Council tax income - Business rate (NNDR) income - Fees and charges 	<p>We have reviewed the Council's recognition of revenue and found that additional disclosure was required for material income sources such as council tax, NNDR, and grant income. This has been included in the revised financial statements and we are satisfied that :</p> <ul style="list-style-type: none"> - Appropriate policies have been used - Accounting policies have been adequately disclosed - Revenue had been appropriately recognised 	 Amber
Judgements and estimates	<p>Key estimates and judgements include</p> <ul style="list-style-type: none"> - useful life of capital equipment - pension fund valuations and settlements - revaluations - depreciation - impairments - provisions - accruals 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> - Appropriate policies have been used - Accounting policies have been adequately disclosed - Areas where judgement had been used were supported by the work of an expert or a third party 	 Green

Assessment



 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient



 Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates - PPE</p>	<ul style="list-style-type: none"> Page 109 of the accounts sets out the Council's rolling programme of revaluations. This shows that the date of valuations vary between 1 April 2009 and 1 April 2013. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> - the revaluation of the class of assets is completed within a 'short period' - the revaluations are kept up to date. 	<ul style="list-style-type: none"> In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year as is the case with Torbay. 	<p style="text-align: center;"> Amber</p>
<p>Other accounting policies</p>	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	<p style="text-align: center;"> Green</p>

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net expenditure £m
1 Revaluation errors arising from incorrect transfer of asset values onto new asset register.			
Cost of service expenditure	(1.6)		
Surplus on revaluation of non current assets	(1.6)		
Total deficit in Comprehensive Income and Expenditure			3.2
Property, Plant and Equipment		3.2	
Revaluation Reserve		(1.5)	
Capital Adjustment Account		(1.7)	
Overall impact	£(3.2)	£0	£3.2

Misclassifications & disclosure changes

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

	Adjustment type	Issue identified	Impact on the financial statements
1	Disclosure	Core statements are restated and this is disclosed but it is not clear what has changed and why.	Statements amended, disclosure only. Restated accounts have been amended to include cross references to note 1 where further explanation is included.
2	Disclosure	It is not clear what the impact of the prior period adjustment is in Note 1.	Statements amended, disclosure only. Note 1 has been expanded to include table showing original and amended figures.
3	Disclosure	Where a prior period adjustment is disclosed within the balance sheet a third balance sheet is required. This was not included in the draft accounts.	Statements amended, disclosure only. Third balance sheet has been added for 2011/12.
4	Disclosure	Note 13 Financial instruments – Debtors included prepayments of expenditure which do not give rise to a financial liability and are therefore not a financial instrument.	Statements amended, disclosure only. The accounts have been amended to remove prepayments from the disclosure of financial instruments.
5	Disclosure	Note 39 Pension disclosures have been amended since 2012/13 due to implementation of IAS19. There are a number of items within the note which have not been amended to reflect the new terminology.	Statements amended, disclosure only. The accounts have been amended to reflect the new IAS19 terminology.
6	Disclosure	There is no accounting policy for revenue recognition of material income sources such as Council Tax and NNDR.	Statements amended, disclosure only. The accounts have been amended to include a policy for the recognition of Council Tax and NNDR income.

Unadjusted misstatements





There are no unadjusted misstatements

Internal controls



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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	Application of the Council's document retention policy within payroll have resulted in missing documentation relating to employees who have been in post for more than 6 years.	<ul style="list-style-type: none"> Ensure guidance to staff is clear on the application of the document retention policy and copies of all essential documentation are retained.
2.	 Amber	No review of information security logs created by financial applications or Active Directory	<ul style="list-style-type: none"> The logs relating to information security events on each system and the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.
3.	 Amber	The Northgate Payroll and ABS Fims systems have weak password management controls. This was first identified in our 2012/13 review and our recommendations at that time have not been implemented to date.	<ul style="list-style-type: none"> Passwords should be a minimum of 8 characters, complex and set to renew between 30 - 60 days to ensure a robust protection against unauthorised access. The new payroll system being delivered should have robust password management embedded at implementation.
4.	 Amber	Login sessions on the network and therefore over the financially critical systems are not automatically disconnected after a period of inactivity.	<ul style="list-style-type: none"> The active directory screensaver policy should be enabled to automatically lock the user screens after a period of inactivity after a maximum period of 15 minutes.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. No specific representations have been included in the letter.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for money conclusion

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

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

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

These criteria are:

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

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

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that arrangements to secure financial resilience are adequate. The table on page 21 summarises our findings.

Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has effective arrangement in place. Our findings are summarised on page 22.

We also reviewed the progress made by the Council in respect of the Better Care Fund (BCF). The Council has worked with South Devon and Torbay CCG and Devon CC to develop the local BCF Plan. The Council has achieved the timescales and assurance requirements set by NHS England to date. The overall assessment from the Local Area Team review of the Final BCF Plan submitted in April 2014 was that there was confidence that will deliver the national conditions and the Health and Well Being Board has the structure in place to ensure it is delivered. A revised Plan is currently being resubmitted in line with further national guidance.

Overall VFM conclusion

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

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

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

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

Theme	Summary findings	RAG rating
Key indicators of performance	The Council is performing well against Key Indicators of Performance. Our review of indicators of borrowing, usable reserves balance and schools balances all rated the Council as green. The Council continues to perform well in the liquidity indicator having the highest ratio when compared to the Audit Commission nearest neighbour benchmark as at 31 March 2013. As we highlighted last year, this position will come under pressure in the next few years as the Council's short term investments reduce due to the funds being utilised on capital schemes.	Green
Strategic financial planning	The Council has got good financial planning processes in place. A four year Medium Term Resource Plan (MRTP) is in place covering 2014/15 to 2017/18. This is regularly reviewed and updated annually. The MRTP reflects the impact of the reductions in government grant and estimates that the Council will have a budget gap of approximately £26m by 2017/18. Business planning and the budget setting process is embedded throughout the Council with good member involvement.	Green
Financial governance	The Council has effective governance arrangements in place. The business planning and budget setting process ensures that the Council understands its financial environment at all level, including members, who are actively engaged in the process. Financial reporting is clear and comprehensive and the Council has a track record of delivering performance in line with budgets.	Green
Financial control	<p>There is a robust budget setting process in place, which takes the views of stakeholders into account and includes rigorous member review. The Council has experienced, well qualified finance and accountancy staff responsible for the production of management information and the financial accounts and an effective Internal Audit function. The Council has a good track record of managing and achieving its budget, although this was only possible in 2013/14 through the application of reserves, uncommitted budgets and strict financial control by management. The Council has identified £12m of savings in 2014/15 and require a further £14m in 2015/16. Proposals have been out to consultation but detailed plans have yet to be developed.</p> <p>The risk management arrangements (introduced in 2012/13) are monitoring strategic risks but have yet to be embedded at an operational risk management level.</p>	Amber

Theme	Summary findings	RAG rating
Prioritising resources	Members and officers have a good understanding of the financial environment and there is robust challenge and effective leadership. The Council works closely with stakeholders when consider the main risks in the MTRP and when challenging service delivery method and alternative options. senior members and officers receive complete, accurate, reliable and timely financial information to enable effective decision making. The impact on service delivery of decisions is considered throughout the process.	Green
Improving efficiency & productivity	<p>The Council has a good understanding of its costs and benchmarks its costs with similar organisations, making use of the Audit Commission VFM profiles as part of this process.</p> <p>Savings plans when agreed become part of the relevant department's budget, meaning that there is no process in place to monitor and report on in-year progress against savings plans. Any slippage against these plans would be identified through an overspend in the department but this could be offset by another budget saving, meaning that the Council may not be aware that the original saving was not being achieved.</p>	Green

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

Residual risk identified	Summary findings	RAG rating
Savings plans	The Council needs to ensure that detailed savings plans are developed to support the required savings going forward. As part of this, a robust process for monitoring savings plans should be developed and action taken where slippage occurs.	Amber
Risk management	The Council needs to work on embedding the new risk management process at the operational risk management level.	Amber

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	135,000	135,000
Additional fee – Business rates*	-	1,070
Grant certification **	10,605	10,605
Total audit fees	145,605	146,675

Fees for other services

Service	Fees £
None	Nil

* There is additional fee of £1,070 in respect of work on material business rates balances. this additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for unitary councils and is subject to agreement by the Audit Commission.

** This work is on-going and the final fee will be notified in the Annual Certification Report later this year.

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure guidance to staff is clear on the application of the document retention policy and copies of all essential documentation are retained.	Deficiency	Personnel Files are in accordance with the Council's Information Governance Retention Schedule. This is six years for non social care roles and twenty five years for social care roles.	Already in place Service Manager HR & Payroll
2	The logs relating to information security events on each system and the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Deficiency	With the resources available, it is not possible to proactively examine logs for security events and to investigate any potential issues, particularly given the level of expertise required to make a valid risk assessment of each event. A protective monitoring system fully compliant with CESG's Good Practice Guide 13 has been considered but the impact of diverting limited resources away from other administration activity is seen as creating the greater risk.	Not agreed Executive Head - Information Services
3	Passwords should be a minimum of 8 characters, complex and set to renew between 30 - 60 days to ensure a robust protection against unauthorised access. The new payroll system being delivered should have robust password management embedded at implementation.	Deficiency	Payroll - We are going to re-visit the existing solution security controls especially in the light of the introduction of self service. It is anticipated that the upgrade for self service will improve security controls. ABS - We are pursuing two avenues here - a) the introduction of SSL and b) the introduction of single sign-on (active directory tie-in).	31 March 2014 Executive Head - Information Services

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The active directory screensaver policy should be enabled to automatically lock the user screens after a period of inactivity after a maximum period of 15 minutes.	Deficiency	This is something we could implement to strengthen our security however most staff (to comply with IT security policy) should be locking their active session when they leave their office for meetings etc. The issue with locking the session automatically after 15 minutes of inactivity can be annoying to our users if they are actually still at their desks working but not accessing their PCs. In this scenario we see no reason why the PC should be locked. Officers will ask PC support to look into this further and come up with a final recommendation.	Not agreed Executive Head - Information Services
5	The Council needs to ensure that detailed savings plans are developed to support the required savings going forward. As part of this, a robust process for monitoring savings plans should be developed and action taken where slippage occurs.	Deficiency	The Mayor has released his final budget proposals and these will be debated at Council on 25 September 2014. As part of the Council's approach to prepare for the implementation of savings from April 2015, the Mayor has made his proposals three months earlier than in previous years. Officers and Members will continue ensure detailed proposals are finalised for the 2015/16 budget. All savings proposals will be monitored throughout the year and will form part of the regular quarterly budget monitoring process.	On-going Executive Head – Finance

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	The Council needs to work on embedding the new risk management process at the operational risk management level.	Deficiency	The next step in developing the new risk management process, is to make it an intrinsic part of planning and decision making, this will be done by incorporating risk issues into the Senior Leadership Teams (SLT) regular meetings and their associated work teams, the operational elements of the risk management process involves a wider group of employees as part of their day to day roles in maintaining the key controls that help mitigate risk to the Council. The intention therefore is to link the these day to day activities and bring more attention to addressing risks that require the attention of SLT.	Executive Head – Business Services

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORBAY COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Torbay Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Respective responsibilities of the Chief Finance Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Torbay Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if,

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Torbay Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

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

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

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