

The Audit Findings for Torbay Council

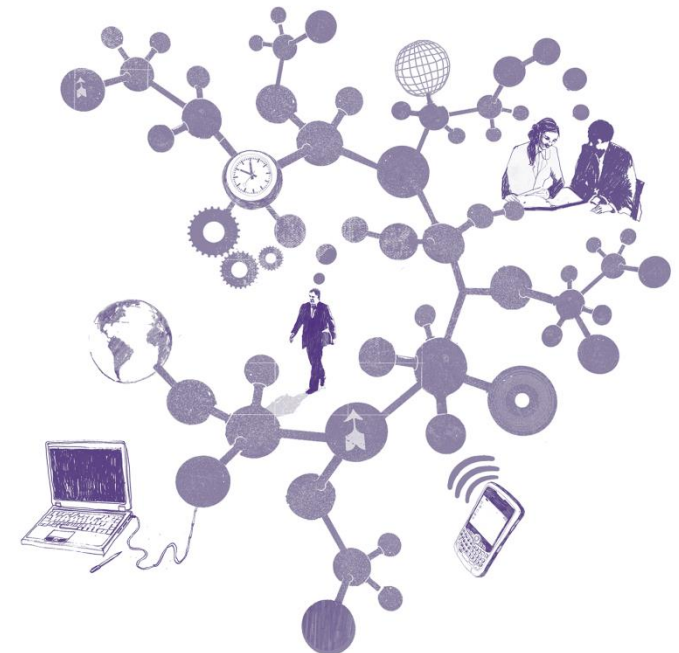
Year ended 31 March 2016

27 July 2016

Alex Walling
Engagement Lead
T 0117 305 7804
E alex.j.walling@uk.gt.com

Mark Bartlett
Manager
T 0117 305 7896
E mark.bartlett@uk.gt.com

Ed Mills
Associate
T 0117 305 7688
E edward.k.mills@uk.gt.com



Torbay Council
Town Hall
Castle Circus
Torquay
TQ1 3DR

27 July 2016

Dear Members of the Audit Committee

Audit Findings for Torbay Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Torbay Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Alex Walling
Engagement lead

Chartered Accountants

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Contents

| Section | Page |
|--|-------------|
| 1. Executive summary | 5 |
| 2. Audit findings | 9 |
| 3. Value for Money | 23 |
| 4. Fees, non-audit services and independence | 29 |
| 5. Communication of audit matters | 31 |
| Appendices | |
| A Action plan | 33 |
| B Audit opinion | 35 |

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Torbay Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

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

- third party confirmation of the Council's investments – confirmation of the balances with Goldman Sachs at the 31/3/16 is outstanding
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. This is a credit to the Finance team as the timetable was a week earlier than in 2014/15 enabling an early audit start date of 6 June 2016 with reporting to the Audit Committee at the end of July. As with last year's audit we also had a number of helpful early discussions with the Finance team around key technical issues. This enabled the early resolution of issues that would have been difficult to resolve promptly once the audit was in progress.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position. We have recommended a small number of adjustments to improve the presentation of the financial statements.

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

- the draft accounts were again produced to a good standard
- the audit has been facilitated by good supporting working papers and excellent assistance from the finance team.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements and meets the disclosure requirements.

Controls

Roles and responsibilities

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.

Findings

We draw your attention to control issues identified from our review of the Council's IT environment which identified some deficiencies around password management controls, review of security logs and automatic screen locks on financially critical systems.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified VFM conclusion.

We concluded that the matters reported in the Ofsted report on the Council's Childrens Services issued in January 2016 were weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee in January 2017.

The way forward

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

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

Acknowledgement

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
July 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £5,575k (being 1.95% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and the reduced level of gross revenue expenditure led us to revise our overall materiality to £5,524k (being 1.95% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £276k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

| Balance/transaction/disclosure | Explanation | Materiality level |
|---|--|-------------------|
| Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £5k |

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 (UK&I) 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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Torbay Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable. | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|---|---|---|
| 3. | <p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| 4. | <p>One-off/unusual transactions New PFI scheme - The Council is in partnership with Devon County Council and Plymouth City Council in an Energy from Waste (EfW) PFI scheme.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We gained an understanding of the transaction including a review of supporting documentation • We carried out a detailed assessment of whether the proposed accounting treatment for the scheme was in accordance with the accounting standards and was based on reasonable judgements by management, supported by the contract documentation • We reviewed whether the PFI operator's financial model was producing reliable figures by entering the figures into the model used by Grant Thornton and comparing the results. • We carried out testing of the transactions in the financial statements to ensure they were consistent with our understanding • We reviewed the accounting entries to ensure they complied with the requirements of the CIPFA Code of Practice.. | <p>Our audit work concluded that:</p> <ul style="list-style-type: none"> • the accounting treatment for the scheme was reasonable • the figures produced by the PFI operator's financial model were materially accurate • The transactions in the financial statements were consistent with the financial model and our understanding, and • The accounting entries were compliant with the Code. |

Audit findings against significant risks (continued)

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|--|---|---|
| 6. | <p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</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 (Operating expenses understated) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Substantive testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period. Cut off testing of expenditure, including a review of payments made after the year end to identify unrecorded liabilities. Review of estimates, judgements and decisions made by management for unusual and large accruals. | Our audit work has not identified any significant issues in relation to the risk identified. |
| Employee remuneration | Employee remuneration accruals understated (Remuneration expenses not correct) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Review of monthly trend analysis of employee costs for the year to identify any unusual or irregular movements. substantive testing of a sample of employees for accuracy of payment and the agreement of employee remuneration disclosures to supporting documentation. Review of the year end payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. | Our audit work has not identified any significant issues in relation to the risk identified. |

Accounting policies, estimates and 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 | <ul style="list-style-type: none"> • Activity is accounted for in the year that it takes place, not simply when cash payments are made or received • Revenue from the sale of goods is recognised when the Council can measure reliably the percentage of completion and it is probable that the economic benefits or service potential will flow to the Council. • Revenue relating to council tax, general rates etc are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates. | <p>We have reviewed the Council's recognition of revenue policies and 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 |  Green |
| Judgements and estimates | <ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions | <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

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|---|---|---|
| Going concern | The Chief Finance Officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. |  Green |
| Other accounting policies | We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. |  Green |

Assessment

● Marginal accounting policy

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

| | Issue | 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 other issues have been identified during the course of our audit procedures |
| 2. | Matters in relation to related parties | <ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed |
| 3. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bankers and institutions where the Council has funds invested. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, however the response from Goldman Sachs is outstanding. |
| 6. | Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements |

Other communication requirements (continued)

| | Issue | Commentary |
|----|--|---|
| 7. | Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. <p>We have not identified any issues.</p> |
| 8. | Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Our work in this area is outstanding as the consolidation pack has only recently been issued by the NAO.</p> |



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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.


The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|----|---|---|--|
| 1. |  Deficiency | <p>Logs of information security activity, for example, unauthorised access attempts on the network or within the financial applications are not being formally, proactively, and routinely reviewed. This is particularly important in ABS FIMs and Northgate payroll system, where management have multiple roles and appropriate segregation of duties between financial management and system management cannot be enforced due staff numbers and administrative requirements.</p> <p>Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity may not identified and/or addressed in a timely manner.</p> | <p>The Council should consider implementing a review of security 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.</p> <p>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.</p> |
| 2. |  Deficiency | <p>The Northgate Payroll systems has some weak management controls. Although the system has gone through a major upgrade in year and improvements in security have been noted i.e. longer, complex passwords have been introduced, the following should be addressed:</p> <ul style="list-style-type: none"> • System administration is conducted by senior management • we have no evidence that passwords are required to be changed <p>There is a risk that the password controls would allow unauthorised access to sensitive data and could allow data to be altered to benefit an individual or individuals.</p> | <p>The Council should consider removing administrative access from those responsible for payroll management</p> <p>Passwords should be set to renew between 30 - 60 days to ensure a robust protection against unauthorised access.</p> |



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

Internal controls (continued)

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|----|---|--|---|
| 3. |  Deficiency | <p>Login sessions on the network and therefore over the financially critical systems are not automatically disconnected after a period of inactivity.</p> <p>There is a risk that unattended login sessions may either be misused by other valid users of the system, leading to loss of accountability of actions performed or that unauthorised personnel have access to sensitive data, leading to unauthorised data disclosure or data tampering</p> | <p>The Council should re-consider the introduction of an active directory screensaver policy which should be enabled to automatically lock the user screens after a period of inactivity i.e. a maximum period of 15 minutes. Users should not be relied on to manually lock out screens.</p> |

Assessment

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

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|--|--|------------------------|--------------------------|
| 1 Torquay Marina is included within long term debtors and also in property, plant and equipment. | - | 2,500 | Not material |
| Overall impact | - | 2,500 | |

Misclassifications and disclosure changes

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

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|-----------------|----------------|--|---|
| 1 Disclosure | 600 | Cash flow statement – increase/decrease in creditors/debtors | Adjustment from debtors to creditors made but not reflected in the cash flow statement. Movement in creditors to be -£0.2m. Movement in debtors to be -£5.2m No overall impact on the financial statements |
| 2 Disclosure | N/A | General | A number of amendments have been made to the draft accounts to correct minor disclosure and presentational issues that do not warrant being individually reported to Those Charged with Governance. No overall impact on the financial statements |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated March 2016:

- Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.
- The Council's Medium Term Resource Plan (MTRP) shows that the Council needs to identify further savings in the region of £20m over the next four years. This is after finding £10m of savings in the 2016/17 budget.
- The Corporate Peer Challenge (CPC) by the Local Government Association (LGA) in late 2015 noted that there are a range of progressive and inspiring partnerships, but also that many partners were disillusioned by the lack of common purpose and felt constrained. The Council is working with partners from different organisations and service areas with potentially conflicting priorities.
- The CPC report raised issues around the Council's decision making and recommended that more effective working practices are implemented in respect of transparency and political decision making.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Significant qualitative aspects

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

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

- The progress made by the Council in addressing the issues raised in the January 2016 Ofsted report which rated the Council's Childrens Services as inadequate
- How reasonable were the assumptions made by the Council in its Medium Term Resource Plan
- The progress made by the Council in addressing issues raised the CPC review in respect of partnership working and the decision making process

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 25 to 26.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that except for the matters we identified in respect of the Ofsted report on Childrens Services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Recommendations for improvement

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

1. The Council must formally agree a clear action plan to address the issues in the Ofsted report on Childrens Services. The action plan should be subject to appropriate oversight and scrutiny through the Council's corporate governance arrangements
2. The Council must develop realistic savings plans to bridge the budget gap in 2017/18 to 2019/20.
3. The Council must ensure that it allocates sufficient resources to enable the target dates in the CPC action plan for the Strategic Partnership Forum, and the development of the high level plan and communication and engagement strategy, to be achieved.
4. The Council must allocate a specific timeline for re-establishing clear governance practice and procedures.

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

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

| Significant risk | Work to address | Findings and conclusions |
|---|---|---|
| <p>Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p> | <p>We reviewed the action being taken by the Council in response to the issues in the Ofsted report.</p> | <p>The Council is undertaking a lot of work in this area but a formal action plan to address the issues from the Ofsted report has yet to be approved by Members. A detailed report on the Delivery of the Childrens Services Five Year plan is due to go to Council on 21 July 2016.</p> <p>The Council needs to formally agree a clear action plan to address the issues in the Ofsted report.</p> <p>We concluded that there were weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.</p> |
| <p>Medium term financial planning The Council's Medium Term Resource Plan (MTRP) shows that the Council needs to identify further savings in the region of £20m over the next four years. This is after finding £10m of savings in the 2016/17 budget.</p> | <p>We reviewed the Council's latest MTRP and the 2016/17 budget, considering the assumptions that underpin the figures within them.</p> | <p>The Council has got robust financial planning processes in place. A four year Medium Term Resource Plan (MTRP) is in place covering 2016/17 to 2019/20. This is regularly reviewed and updated. The MTRP reflects the impact of the reductions in government grant and estimates that the Council will have a budget gap of £18.5m by 2019/20. A three year budget to address this gap is being developed.</p> <p>On that basis we concluded that while the level of savings needed represents a significant challenge for the Council, the risk was sufficiently mitigated and the Council has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> |

Key findings - continued

| Significant risk | Work to address | Findings and conclusions |
|--|--|--|
| <p>Partnerships The Corporate Peer Challenge (CPC) by the Local Government Association (LGA) in late 2015 noted that there are a range of progressive and inspiring partnerships, but also that many partners were disillusioned by the lack of common purpose and felt constrained. The Council is working with partners from different organisations and service areas with potentially conflicting priorities.</p> | <p>We reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring its partnerships. We will also review actions being taken by the Council in response to the CPC report.</p> | <p>The Council does not have a central register of its partnerships. The Council has actions in place to set up a Strategic Partnership Forum but this seems to be behind its original timescale of meeting before the end of June 2016. The timescale for developing its High Level Plan and a communication and engagement strategy by the end of August 2016, for a report to Council in September 2016, will be challenging if further progress is not made.</p> <p>The Council's work on this area is in progress and we do not consider that this is an issue that impacts on our VFM conclusion but the Council must ensure that it allocates sufficient resources to enable the target dates in the CPC action plan to be achieved.</p> |
| <p>Informed decision making The CPC report raised issues around the Council's decision making and recommended that more effective working practices are implemented in respect of transparency and political decision making.</p> | <p>We reviewed the Council's response to the CPC report and considered any actions being planned.</p> | <p>The Council have detailed a number of actions which have been linked to the development of the training programme. However, the detailed actions for recommendation 14 refers to re-establishing clear governance practice and procedures with roles and responsibilities mapped out. While linked to the development of the training programme this is a separate piece of work that needs to be urgently addressed and it should be given a specific timeline for completion.</p> <p>There have also been recent instances of motions being brought directly to Council without supporting reports, which could leave the Council open to challenge on the transparency of its decision making process, which emphasises the importance of this review.</p> <p>The Council's work on this area is in progress and we do not consider that this is an issue that impacts on our VFM conclusion but the Council must allocate a specific timeline for re-establishing clear governance practice and procedures.</p> |

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

| | Proposed fee £ | Final fee £ |
|---|-------------------|----------------|
| Council audit | 102,053 | 102,053* |
| Grant certification | 7,954 | 7,954 |
| Total audit fees (excluding VAT) | 110,007 | 117,507 |

* There was additional work required in relation to the Energy from Waster PFI scheme. This additional fee is being discussed with officers before approval is requested from Public Sector Audit Appointments Ltd (PSAA) and the final fee will be confirmed in the Annual Audit Letter.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

| Service | Fees £ |
|--------------------------------|--------------|
| Audit related services: | |
| • Teachers Pension | 3,800 |
| Non-audit services | Nil |

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 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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 | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to 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

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|--|--|
| 1 | The Council must formally agree a clear action plan to address the issues in the Ofsted report on Childrens Services. The action plan should be subject to appropriate oversight and scrutiny through the Council's corporate governance arrangements. | High | <p>A comprehensive improvement plan has been developed in consultation with DfE and our improvement partner, Hampshire County Council.</p> <p>Progress with the improvement plan is overseen by an Improvement Board chaired by the Chief Executive from Hants. The Improvement Board meets on a six weekly basis and there are periodic monitoring visits by Ofsted as a further check on progress.</p> <p>Progress with the improvement plan, including the views of Hampshire as the DfE appointed improvement partner, will be reported to elected members on a regular basis and at least six monthly</p> | 31 December 2016 Andy Dempsey – Director of Children's Services |
| 2 | The Council must develop realistic savings plans to bridge the budget gap in 2017/18 to 2019/20. | High | The Council has established a Transformation Programme to ensure the Council remain financially viable in the medium term. This Programme will help support the Efficiency Plan to be presented to Council in September 2016, which will identify how the Council will achieve savings and additional income over the next few years. The Mayor is expected to present his budget proposals for 2017/18 in November 2016 which will also include, as appropriate, future year savings. | On-going Senior Leadership Team |

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---|--|
| 3 | The Council must ensure that it allocates sufficient resources to enable the target dates in the CPC action plan for the Strategic Partnership Forum, and the development of the high level plan and communication and engagement strategy, to be achieved. | High | Senior Leadership Team are reviewing the action plan on a monthly basis, with officers progressing as far as they realistically can. External factors have impacted upon achieving some of the originally anticipated timescales. | On-going Senior Leadership team |
| 4 | The Council must allocate a specific timeline for re-establishing clear governance practice and procedures. | High | The CPC review was not concerned with the Council's Constitution, its recommendation was in respect of all members understanding of the same. Greater support has been provided to members since the CPC review in this respect and training for all members and SLT by Professor Colin Copus is being arranged for September 2016. | September 2016 Anne-Marie Bond - Assistant Director Corporate and Business Services |
| 5 | The Council should consider implementing a review of security 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. | Medium | Not agreed - staffing levels do not allow for the routine examination of logs. | Bob Clark – Executive Head Customer Services |

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|---|---|
| 6 | The Council should consider removing administrative access from those responsible for payroll management | Medium | Not agreed - Due to the size of the team it is not feasible to remove system administration from the Payroll Manager responsibilities. | Bob Clark – Executive Head Customer Services |
| 7 | Passwords should be set to renew between 30 - 60 days to ensure a robust protection against unauthorised access. | Medium | Not agreed - the system is set up to force a password change after 90 days, disable a user after 21 days of inactivity and time out after 30 minutes (as recommended by supplier due to core running of tasks). | Bob Clark – Executive Head Customer Services |
| 8 | The Council should re-consider the introduction of an active directory screensaver policy which should be enabled to automatically lock the user screens after a period of inactivity i.e. a maximum period of 15 minutes. Users should not be relied on to manually lock out screens. | Medium | Agreed. A 15 minute screensaver policy will be implemented. | 30 September 2016 Bob Clark – Executive Head Customer Services |

Appendix B: Audit opinion

We anticipate we will provide the Council with a modified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORBAY COUNCIL

We have audited the financial statements of Torbay Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 2015/16, which 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 Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report to you if we are not satisfied that the Authority has made proper arrangements. 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter:

In January 2016, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection, children looked after and care leavers. The overall judgement was that children's services were rated as inadequate.

The report concluded that:

- turnover within the senior leadership had adversely affected the speed and effectiveness of improvement in response to previous inspection reports;
- performance information was not reliable and quality assurance processes were not embedded to identify improvements across the service;
- there were weaknesses and inconsistencies in social work practice across the service.

At the date of our opinion, the Authority had yet to formally approve a clear action plan to address the issues highlighted in the report.

These matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matters described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

Grant Thornton
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT



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