

# The Audit Findings for Torbay Council

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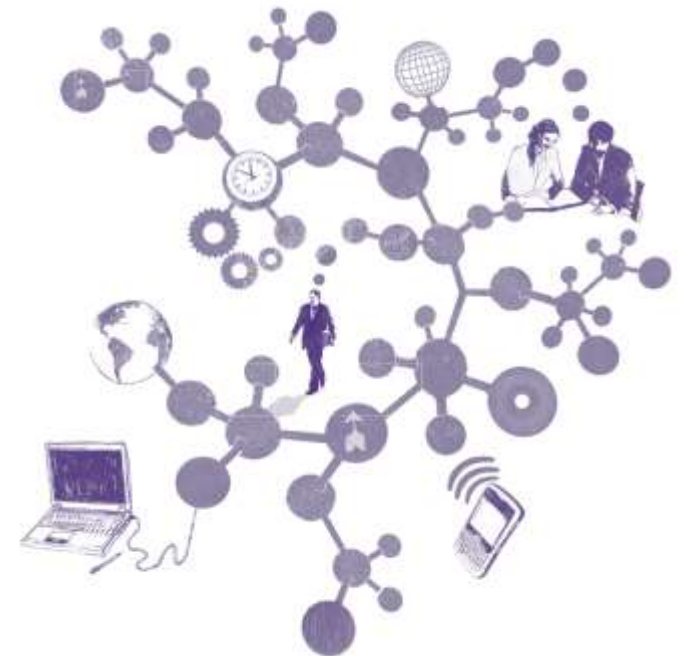
**Year ended 31 March 2017**

July 2017

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26 July 2017

Dear Members of the Audit Committee

**Audit Findings for Torbay Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Torbay Council, the Audit Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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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# 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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 22 March 2017.

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

- 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. As with previous years 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 identified an amendment to the gross expenditure and income in the Comprehensive Income and Expenditure Statement and have also 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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## **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**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

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 Children's 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.

We have received an objection to the 2016/17 accounts and we will not be able to conclude the audit and issue the audit certificate until we have completed our consideration of this. This does not impact on our audit opinion.

## **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 2017. We will report the outcome of this certification work through a separate report to the Audit Committee in January 2018.

## **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 Head of Finance.

We have made a 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 2017

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## 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

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £5,524k (being 1.95% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and the increase in the level of gross expenditure led us to revise our overall materiality to £5,604k (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 £280k. 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

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Summary of work performed:</b></p> <ul style="list-style-type: none"> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# 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
<p><b>The expenditure cycle includes fraudulent transactions</b> Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>We have considered this risk and do not consider it to require additional audit procedures because of the pattern of expenditure (based on the 2015/16 audited financial statements):</p> <ul style="list-style-type: none"> <li>- 22% relates to employee remuneration, which is addressed by our procedure in response to the identified risk in this area</li> <li>- 72% relates to operating expenditure, which is addressed by our procedure in response to the identified risk in this area.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to expenditure recognition.</p>
<p><b>Valuation of property, plant and equipment</b> 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"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• 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.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>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.</li> <li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<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
<b>Operating expenses</b>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period</li> <li>• cut off testing of expenditure, including a review of payments made after the year end to identify unrecorded liabilities</li> <li>• review of estimates, judgements and decisions made by management for unusual and large accruals</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• review of monthly trend analysis of employee costs from April 2015 to March 2017</li> <li>• substantive testing of employees for accuracy of payment and the agreement of employee remuneration to disclosures of supporting documentation</li> <li>• 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</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our review of the restated CIES analysis and the EFA and its supporting notes identified the following issue:</p> <ul style="list-style-type: none"> <li>The Council had as a result of the changes in the Code included internal trading recharges in the gross income and expenditure figures for 2016/17 and the 2015/16 restated position. See pages 15 and 22.</li> </ul>

### Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that they were appropriate.

## Significant matters discussed with management

	Significant matter	Commentary	
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	We identified that the Council's gross expenditure and income figures had increased in the restated 2015/16 Comprehensive Income and Expenditure Statement. This was due to the inclusion of internal trading recharges between different operating segments of the Council, which were also included in the 2016/17 accounts.	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>Internal trading recharges should be shown net in the Council's accounts as they do not meet the definition of income/expenditure in the Code as they do not impact on the level of the Council's reserves.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>We have agreed to amend the accounts, there is no impact on the net reported position.</li> </ul>

# 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
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>• Activity is accounted for in the year that it takes place, not simply when cash payments are made or received</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>We have reviewed the Council's recognition of revenue policies and are satisfied that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies have been used</li> <li>• Accounting policies have been adequately disclosed</li> <li>• Revenue had been appropriately recognised</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> <li>– Other provisions</li> </ul> </li> </ul>	<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"> <li>• Appropriate policies have been used</li> <li>• Accounting policies have been adequately disclosed</li> <li>• Areas where judgement had been used were supported by the work of an expert or a third party</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>



**Assessment**

● 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
<b>Going concern</b>	The Head of Finance 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 2016/17 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	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.	 <b>Green</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included in the Audit Committee papers.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>

## Other communication requirements (continued)

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<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"> <li>• 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</li> <li>• If 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.</li> </ul> <p>We have not identified any issues.</p>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are not 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 as the Council is below the £350m threshold</p>

## Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit Committee

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

Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	We recommended that the Council consider implementing a review of security logs relating to information security events on each system and that the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity.	<ul style="list-style-type: none"> <li>The Council have decided not to implement this recommendation as staffing levels do not allow for the routine examination of logs.</li> </ul>
2.	X	We recommended that the Council consider removing administrative access from those responsible for payroll management in line with good practice.	<ul style="list-style-type: none"> <li>The Council have stated that due to the size of the team it is not feasible to remove system administration from the Payroll Manager responsibilities.</li> </ul>
3.	X	We recommended that passwords on the payroll system should be set to renew between 30 - 60 days in line with good practice to ensure a robust protection against unauthorised access.	<ul style="list-style-type: none"> <li>The Council have not agreed this recommendation. They have stated that 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).</li> </ul>
4.	✓	We recommended that the Council introduced 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.	<ul style="list-style-type: none"> <li>A 15 minute screensaver policy has been implemented by the Council.</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
<b>1 Comprehensive Income and Expenditure Statement:</b>  Internal trading recharges were included gross in the cost of services expenditure and income totals. The Code requires these to be accounted for net. Dr Gross expenditure 6,700 Cr Gross income 6,700			
<b>Overall impact</b>	<b>£Nil</b>	<b>£Nil</b>	<b>£Nil</b>

## 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 Heritage assets are understated, due to a revaluation not being recognised in year.	-	645	Not material
<b>Overall impact</b>	-	<b>645</b>	

## 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 Misclassification	2,500	Note 16 Financial Instruments – Short Term Investments Loans and Receivables	Short term investments available for sale misclassified as short term investments loans and receivables. Movement in loans and receivables -£2,500k. Movement in investments available for sale to be +£2,500k.  <b>No overall impact on the financial statements</b>
2 Disclosure	300	Note 16 Financial Instruments – Short Term Cash in Hand and Bank	Short term cash in hand and bank incorrectly includes short term loans and receivables cash equivalents. Movement in short term cash in hand and bank - £300k.  <b>No overall impact on the financial statements</b>
3 Disclosure	500	Note 23 Borrowing– Carrying Amount of Long Term Borrowing	Long term borrowings' carrying amount as at 31 March 2017 has been overstated. Movement in carrying amount of long term borrowing - £500k.  <b>No overall impact on the financial statements.</b>
4 Disclosure	4,100	Note 23 Borrowing – Fair Value of Borrowing	Fair value of borrowing as at 31 March 2017 has been overstated. Movement in fair value of borrowing - £4,100k.  <b>No overall impact on the financial statements.</b>
5 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.  <b>No overall impact on the financial statements.</b>



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## 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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

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 January 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

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 ongoing 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 further progress made by the Council in addressing the issues raised in the January 2016 Ofsted report which rated the Council's Children's Services as inadequate
- How reasonable the assumptions made by the Council were in its latest Medium Term Resource Plan
- The progress made by the Council in addressing the action plan in response to the original CPC report and the actions agreed in response to the follow up report
- What options were being considered by the Council in the light of the Integrated Care Organisation's (ICO) decision to withdraw from the risk share agreement and the potential impact of these on the Council
- The arrangements being put in place by the Council for the new transformation projects, including whether appropriate advice has been taken.

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 28 to 32.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the Ofsted report on Children's 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 develop realistic savings plans to bridge the budget gap in 2018/19 to 2020/21
2. The Council must continue its work to implement the changes to its decision making and prioritisation process in line with the Local Government Associations (LGA) Corporate Peer Challenges recommendations, and embed these changes by ensuring that Members clearly understand the decision making process.
3. The Council must urgently agree a financial position with the other parties in the ICO that will give it financial certainty while supporting the integrated care model.
4. The Council must ensure that it monitors and reviews its transformation projects carefully to ensure that they deliver the service improvements and savings anticipated.

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><b>Ofsted inspection of children's services</b></p> <p>Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate' and the Council is currently subject to follow up review. 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>We have reviewed the progress made by the Council since 2015/16, where we reported that there was not a formal action plan in place to address the issues identified in the OFSTED report. In July 2016 the Council appointed a new Interim Director of Children's Services, who was tasked with reviewing the existing 5 year Financial Strategy for Children's Services to determine whether the targets were realistic and achievable in the light of continuing overspends in the area. His review concluded that the savings envisaged in the original report were not achievable for a range of factors set out in the report to Council in February 2017. The report also presented a revised Children's Services Medium Term Financial Strategy (MTFS) for 2017-2021. The plan aims to align activity to reduce costs with improvement activity, bringing social care staffing and support costs more in line with statistical comparators. The MTFS includes an action plan with a range of actions, the pace and scale of which have been aligned with a measured journey towards the performance of statistical comparators.</p> <p>The MTFS takes into account that the service remains in intervention and is likely to transfer to an alternative delivery model in the next 12-18 months and savings of £1.55m have been identified for 2017/18.</p> <p>The Council appears to be making more positive progress towards addressing the issues raised in the OFSTED report, with an revised MTFS for the service and an agreed action plan that has been approved by members.</p> <p>However, we concluded that there remain 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>

## 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><b>Medium Term Financial Planning</b> The Council's Efficiency Plan shows that the Council needs to identify further savings £21.5m over the 2017/18-2019/20 period. This includes £9.8m of savings in the 2017/18 budget. The Chief Financial Officer gave a qualified opinion on whether the 2017/18 budget was based on robust budget estimates due to the significant risks the Council faces in respect of adult social care expenditure due to the ICO risk share agreement and the withdrawal of the ICO from the agreement on 31/12/17.</p>	<p>We reviewed the Council's latest MTRP, Efficiency Plan and the 2017/18 budget, considering the assumptions that underpin the figures within them. We also reviewed the 2016/17 savings achieved against those originally planned.</p>	<p>The Efficiency Plan published in September 2016 showed the savings gap in 2017/18 to 2019/20, including £9.8m for 2017/18. When the 2017/18 budget was set in February 2017 it included £7.6m of reductions to achieve a balanced budget, which reflected 2017/18 updated forecast information. The qualified opinion from the Chief Finance Officer on the robustness of budget estimates related to the two pressures areas of Adult Social Care and the Risk Share Agreement (RSA) with the ICO (both the exposure of the Council to its share of the ICO overspend (9%) and the ICO's notice to withdraw from the RSA, leaving the Council without a contract or a cost for the service for the final quarter of 2017/18). In between the Efficiency Plan being published and the Budget being set there were two reviews carried out on the Council's finances in November 2016. The LGA carried out a Finance Review and CIPFA reported the results of its Financial Resilience Review. The LGA raised particular concerns about the Council's exposure in the ICO RSA, a message repeated in the CIPFA report.</p> <p>The Council's latest update to the Medium Term Resource Plan was in April 2017. This shows the budget gap in 2018/19 to 2020/21 to be £17.4m. The reported gap in 18/19 and 19/20 in the Efficiency Plan was £11.6m, this has now increased to £15.7m. There are a number of reasons for this, part of it being an estimate of additional costs for Adult Social Care post the risk share agreement of £1.2m. The MTRP is a public document and is updated regularly to reflect changes as they are known. It is a comprehensive document with robust assumptions that clearly sets out the financial challenges facing Torbay over the next three years. The Council are working on the development of the 2018/19 and 2019/20 budget over the summer 2017 to Dec 2017 period, with proposals for the 2018/19 budget due in October 2017.</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

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><b>Informed decision making</b> The Local Government Association Corporate Peer Challenge (CPC) report in 2015/16 made recommendations around more effective working practices are implemented in respect of transparency and political decision making. The follow up report concludes that there remains work to be done in this area.</p>	<p>We reviewed the Council's progress with the action plan in response to the original CPC report and the actions agreed in response to the follow up report.</p>	<p>The original LGA Corporate Peer Challenge (CPC) report in December 2015 recommended that the Council undertook a review of its decision making process considering eight specific points. The follow-up report dated September 2016 comments that, despite good work being undertaken since the original visit, some members remain unclear as to the role of the Policy Framework and the difference between Council and Executive decision making. It goes on to comment that the speed and nature of decision making is not helping the Council tackle the issues it faces. The Council has produced a position statement against the original recommendations which has then been superseded by the new Strategic Action Plan which collates the original actions plus new actions arising from the Follow up report and the separate LGA Financial Review and the CIPFA Financial Resilience Review. The updated action plan shows that the new process for the Speedier decision making and Prioritisation Process has been approved by Senior Leadership Team and the revised process and guidance has been rolled out.</p> <p>The Council has made progress in this area and we do not consider that this is a significant issue that impacts on our VFM conclusion. The Council must continue its work to embed the revised streamlined decision making and prioritisation process.</p>

## 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><b>Integrated Care Organisation</b> The Council is exposed to a 9% share of any ICO deficit under the risk sharing agreement in place. The financial position of the ICO currently shows an increasing deficit with planned savings not being delivered. The ICO gave notice on 31/12/16 that it is withdrawing from the current risk sharing agreement, meaning that the Council does not have a contract in place for the last three months of the 2017/18 financial year. The CIPFA financial resilience review raised concerns about the risk share agreement.</p>	<p>We reviewed the arrangements in place for the ICO and in particular the options being considered by the Council in the light of the ICO's decision to withdraw from the risk share agreement and the potential impact of these on the Council.</p>	<p>The Risk Share Agreement (RSA) for the Integrated Care Organisation makes the Council liable for 9% of any deficit that the ICO may incur. The financial position of the ICO has been deteriorating significantly with planned CIP savings not being achieved. CIPFA's Financial Resilience review of the Council raised particular concerns over the RSA stating that it means that the Council are subject to the overall financial pressures from the NHS in the whole of the Torbay and South Devon area with no ability to control or influence them. Torbay and South Devon FT gave notice on 31/12/16 that it was withdrawing from the current RSA, meaning that the Council has no contract in place for the final quarter of 2017/18. The Council also did not have a clear picture of what the potential costs would be for January to March 2018.</p> <p>The Annual Strategic Agreement (ASA) for the 9 months to 31 December 2017 was approved by Council in February 2017. An Adult Services and Public Health Monitoring working party was set up to monitor and consider all of the issues, including understanding the key priorities for Adult Services and Public Health, be fully briefed on the changes in this area and to understand the financial position. The Council put staff into the ICO to understand what the cost of adult social are so that they can estimate the potential impact of potential post December 2017 scenarios.</p> <p>The Council is working with its partners in the ICO to negotiate solution from January 2018 and have developed proposals for a way forward which are not yet in the public domain. These have been considered by each of the partners in July 2017.</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 urgently agree a financial position with the other parties in the ICO that will give it financial certainty while supporting the integrated care model.</p>

## 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><b>Transformation Projects</b> The Council is progressing a number of transformation projects as it seeks alternative methods of delivery and increased rates of return on investment. It has established an Investment Fund, and has recently completed the purchase of Wren Park retail park of approximately £20m. It is also developing plans to create a Housing Company to generate income through housing. The CIPFA financial resilience review has raised issues about some of the proposed projects and the Council's capacity to deliver them.</p>	<p>We reviewed the arrangements being put in place by the Council for these new initiatives, including whether appropriate advice has been taken.</p>	<p>The Council has a number of transformation projects in progress as it seeks to aid its financial position with alternative methods of service delivery and achieving increased rates of return on investment. It established an Investment Fund of £50m in 2016/17 and purchased Wren Park retail park in Torquay, with a further similar purchase planned in 2017/18. The Council have also entered into shared service arrangements with other councils for Building Control and Trading Standards.</p> <p>The Council is also looking to set up a housing company. There are two elements being considered:</p> <ul style="list-style-type: none"> <li>• The company develops properties on land acquired with the properties developed being sold to third parties</li> <li>• The company retains and rents properties.</li> </ul> <p>The Council has engaged external advisors for the housing company project and has also appointed a Transformation Director and Finance Manager. This follows concerns raised by the LGA peer review team on the Council's capacity to manage and deliver the range of transformation projects that are in progress and planned.</p> <p>The Council is entering into a number of significant new areas as part of the their transformation programme and has taken action in response to concerns raised over their capacity to deliver, although the projects remain challenging. The Council is taking appropriate external advice, in particular for the Housing Company, and we do not consider that this is an issue that impacts on our VFM conclusion. The Council will need to keep all of these projects under careful review to ensure that they deliver the service improvements and savings anticipated.</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.

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## Section 4: 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	9,630	9,630*
<b>Total audit fees (excluding VAT)</b>	<b>111,683</b>	<b>111,683</b>

\* Indicative fee as work is still in progress

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

### Grant certification

Our fees for grant certification above 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'.

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

### Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Teachers Pension	<b>3,800</b>
<b>Non-audit services</b>	<b>Nil</b>

## Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
<b>Audit related services</b>				
Teachers Pension	Torbay Council	£3,800	Yes	Level of fee is not a significant threat in comparison to the overall fee of £102,053. There is no contingent element to the fee.
	<b>TOTAL</b>	£3,800		

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

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## Section 5: 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

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

- A. Action Plan
- B. Audit Opinion

# A. Action plan

## Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Council must develop realistic savings plans to bridge the budget gap in 2018/19 to 2020/21.	High	The Council approved its Efficiency Plan in 2016 which covers this period. Since that time the Council has focussed upon delivery of the plan and the Transformation Programme. Officers are currently supporting the Executive in developing robust budget proposals for 2018/19, which will be published for consultation in October 2018.	Immediate and on-going – Senior Leadership Team and the Executive
2	The Council must continue its work to embed its revised streamlined decision making and prioritisation process.	Medium	A streamlined decision making process has been implemented and Governance Support will continue to embed.	On-going – Governance Support
3	The Council must urgently agree a financial position with the other parties in the ICO that will give it financial certainty while supporting the integrated care model.	High	All parties have agreed the basis of a revised risk share, which now needs to be formalised.	Immediate – Director of Adult Services & Transformation
4	The Council must ensure that it monitors and reviews its transformations projects carefully to ensure that they deliver the service improvements and savings anticipated.	High	The Transformation Board monitors delivery against Transformation Projects so as to ensure progress is carefully monitored, and any remedial action can be put in place as necessary.	On-going – Director of Adult Services and Transformation Programme Manager



# 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2016/17.

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 Authority's 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 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

#### Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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. 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 for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that 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 2017.

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 has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Basis for qualified conclusion**

In considering the Authority's arrangements for securing economy, efficiency 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.

A revised Children's Services Improvement Plan was reported to Members in October 2016 and in February 2017 the Council approved a Children's Services revised medium term financial plan. The reporting and monitoring of the actions taken during 2016/17 to address the issues raised in the Ofsted report were an improvement on previous Member reporting, but at the date of our opinion the Authority the Improvement Plan is still in operation and a number of the actions are still being progressed.

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 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

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