



The Annual Audit Letter for Torbay Council

Year ended 31 March 2017

September 2017

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

Jonathan Stancombe
In charge Auditor
T 0117 305 7733
E jonathan.p.Stancombe@uk.gt.com



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Torbay Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 26 July 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017 except for the matter we identified in respect of the Ofsted report on Children's Services.

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. 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.

We therefore qualified our value for money conclusion in our audit opinion on 27 July 2017.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts. We have received an objection from an elector requesting that we consider issuing a Public Interest Report due to the Council not passing on the Council Tax Benefit Support Grant to Brixham Town Council since 2014/15. We are in the process of gathering all of the relevant information from the Council and the elector in order to form a provisional view on the objection.

Certificate

We are currently unable to certify that we have completed the audit of the accounts of Torbay Council as we have not yet completed work in respect of the objection received as referred to above.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed

We provided your teams with training on financial accounts. We also held separate workshops on Income Generation and Faster Close, and a seminar on Joint Ventures.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit –delivery of the accounts audit two months before the deadline
- VFM - we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our sector insight via our National Reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £5.6 million, which is 1.95% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and exit packages.

We set a lower threshold of £280,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</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>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified 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. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gained 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. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issues to report.</p>
<p>Valuation of property plant and equipment</p> <p>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>As part of our audit work we have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. Tested revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year to assess how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, well in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

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

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.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 26 July 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have received an objection from an elector requesting that we consider issuing a Public Interest Report due to the Council not passing on the Council Tax Benefit Support Grant to Brixham Town Council since 2014/15. We are in the process of gathering all of the relevant information from the Council and the elector in order to form a provisional view on the objection.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2017, we agreed recommendations to address our findings:

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.

Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

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. 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.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Ofsted inspection of children's services</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>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium Term Financial Planning 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).</p> <p>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>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Informed decision making 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>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Integrated Care Organisation 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>

Appendix A: Reports issued and fees

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 £	Actual fees £	2015/16 fees £
Statutory audit of Council	102,053	102,053	107,019
Housing Benefit Grant Certification	9,630	9,630*	8,125
Total fees (excluding VAT)	111,683	111,683	115,144

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

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

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	July 2017
Annual Audit Letter	September 2017

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">Teachers' Pension	3,800
Non-audit services	Nil

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- 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, as reported in our Audit Findings Report.

Reports issued and fees continued

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 have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services				
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.
	TOTAL	£3,800		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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