

Audit Progress Report and Sector Update

Torbay Council
Year ending 31 March 2019

26 March 2019



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 13 March 2019

Financial Statements Audit

We carried out our interim audit in February 2019. This included:

- Updated review of the Council's control environment
- Updated understanding of your financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit are summarised on the pages 6 and 7.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council' has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We carried out our initial risk assessment to determine our approach in December 2018 and the results of this are included in our Audit Plan, which is a separate item on the agenda of this meeting.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We will be certifying the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by 30 November 2019.

We will also be auditing the Council's Teacher's Pension return for 2018/19 in accordance with the procedures agreed with Teachers Pensions by the deadline of 30 November 2019.

Certification work is not part of the PSAA contract and this work is subject to separate engagement letters.

Meetings

We met with finance officers in February as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also met with your Monitoring Officer in February to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our latest events were our local government accounts workshops which took place in February 2019. The Council's finance staff attended the workshop in Plymouth.

Progress at 13 March 2019 (continued)

PSAA Contract Monitoring

Torbay Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values; • Commitment to competence; • Participation by those charged with governance; • Management's philosophy and operating style; • Organisational structure; • Assignment of authority and responsibility; and • Human resource policies and practices. 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Understanding business processes	<p>We have obtained and documented an understanding of the Council's business processes where we have considered that the class of transaction is significant to the financial statements.</p> <p>This has been completed for:</p> <ul style="list-style-type: none"> • Cash • Collection Fund • Creditors/ Purchases • Debtors/ Fees and Charges • Grant Income • Investments • Payroll • Pensions • Provisions • Plant, Property and Equipment • Welfare Benefits 	<p>Our work identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Results of interim audit work (continued)

	Work performed	Conclusions and recommendations
Journal entry controls	We have Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach. At year end we will undertake detailed testing on journal transactions recorded, by extracting 'unusual' entries for further review.
Early substantive testing	<p>We have performed early substantive testing in the following areas:</p> <p>Review of opening ledger balances roll forward</p> <p>Employee Remuneration</p> <ul style="list-style-type: none"> Substantive testing of a sample of overtime expenditure to period 10 Substantive analytical review of payroll expenditure to period 8 <p>Operating Expenses</p> <ul style="list-style-type: none"> Substantive testing of a sample of non-payroll expenditure transactions to period 10 Updated our understanding of the accruals process <p>Other Income</p> <ul style="list-style-type: none"> Substantive testing of a sample of fees and charges income to period 10 <p>Property, Plant and Equipment</p> <ul style="list-style-type: none"> Substantive testing of a sample of capital additions to period 10 <p>Welfare Benefits</p> <ul style="list-style-type: none"> Substantive testing of a sample of welfare benefits to period 10 	Our audit work has not identified any significant issues within the testing undertaken.
Walkthrough testing	<p>We performed a walkthrough for Journals, however, as revaluations and pensions are completed at the year end, it is not possible to perform a walkthrough until later in the year.</p> <p>Our work has not identified any issues which we wish to bring to your attention.</p> <p>No weaknesses were identified thus far in the design of controls relating to journals, pensions and revaluations.</p>	Our work has not identified any weaknesses which impact on our audit approach.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	January 2018	Complete
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

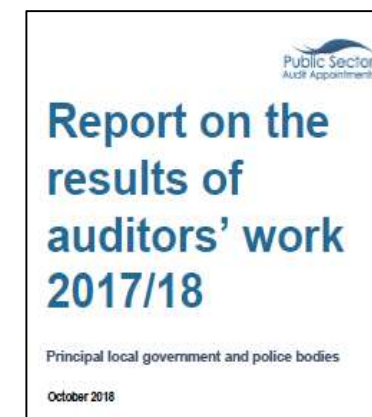
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

• Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures

• Limited usefulness of auditors reports: 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'

• Other powers and duties: implementing public interest reports in addition to VFM

• Restricted role of questions and objections: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.

• Audit qualification not always acted on by those charged with governance: 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'

• Audit committees not consistently effective: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.

• Decreased audit fees: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

• Impact of audit independence rules: new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role

• Other stakeholders expectations not aligned with audit standards

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

ICAEW

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>



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