

# The Audit Findings for Torbay Council

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**Year ended 31 March 2019**

**17 September 2019**



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Torbay Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the [group and] Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Following discussions with officers during May 2019, we revised our onsite visit from June to August 2019 due to resourcing constraints within Grant Thornton for which we apologise. Torbay Council met the requirement to publish your accounts by 31 July 2019 with an explanation setting out that the audit was ongoing. Our audit work was completed on site during August. We anticipate being able to give our audit opinion before the statutory audit deadline of 30 September 2019. For 2019/20 we are working to resolve the challenges on resource constraints with the aim of enabling you to publish audited accounts by 31 July 2020.</p> <p>Our findings are summarised on pages 5 to 14. We have not identified any amendments to the financial statements that have resulted in an adjustment to your Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- final clearance of officer responses on grants income, related parties and EFA</li><li>- completion of our internal quality review processes;</li><li>- receipt of management representation letter; and</li><li>- review of the final set of financial statements.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
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## Headlines (continued)

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### Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of your value for money arrangements. We have concluded that Torbay Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to 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 anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 20.

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### Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

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### Acknowledgements

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.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of your business and is risk based, and in particular included:

- An evaluation of your internal controls environment, including its IT systems and controls;

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of your gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for the Property, Plant and Equipment balances of the Torbay Economic Development Company was required, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 26 March 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 September 2019, as detailed in Appendix E. These outstanding items include:

- completion of our internal quality review processes;
- receipt of management representation letter; and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Torbay Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,208k	5,748k	Based on 2% for your gross expenditure for the year
Performance materiality	4,656k	4,311k	Using 75% of materiality to reflect our assessment of risk
Trivial matters	310k	287k	5% of materiality
Materiality for senior officer remuneration	20k	20k	Potential public interest in these figures

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Torbay Council.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in relation to management override of controls.

## Significant findings – audit risks

### Risks identified in our Audit Plan

### Commentary

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#### Valuation of land and buildings

You revalue your land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£297m) and the sensitivity of this estimate to changes in key assumptions. Additionally, where a rolling programme is used, management needs to ensure the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

#### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into your asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our audit work has not identified any significant issues in relation to the valuation of land and buildings.

## Significant findings – audit risks

### Risks identified in our Audit Plan

### Commentary

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#### Valuation of pension fund net liability

Your pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£186m) in your balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

#### Auditor commentary

We have undertaken the following work in relation to this risk:

- updated our understanding of the processes and controls put in place by management to ensure that your pension fund net liability is not materially misstated and evaluate the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation
- assessed the accuracy and completeness of the information provided by you to your actuary to estimate the liability
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
- obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements
- considered your arrangements in respect of the McCloud judgement and undertaken procedures to confirm the reasonableness of the actuary's estimate of the potential impact on the Council.

Our work concluded that the actuary's estimate of £2,859k for the McCloud judgement should be adjusted for in the accounts. See page 8 for further details on this matter .




# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the LGPS and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>It is our view this relates to a past event with an obligation and so should be reflected within the pension liability in the accounts.</p> <p>You requested an estimate from your actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £2,859k.</p> <p>Management's view is that the impact of the ruling is not material for Torbay Council, and will be considered for within future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We have included this as an unadjusted misstatement within Appendix C.</p>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £200 million</b>	<p>Other land and buildings comprises £123 million of specialised assets where there is no active market, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£77 million) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. You engaged the TDA to complete the valuation of properties as at 1 April on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net increase/decrease of £5.5 million.</p> <p>Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 1 April 2018 using the valuer's knowledge of your asset base. Management's assessment of assets not revalued has identified no material change to the properties values.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• assessment of management's expert;</li> <li>• assessment of completeness and accuracy of the underlying information used to determine the estimate;</li> <li>• assessment of impact of any changes to valuation method;</li> <li>• consistency of estimate against national and regional indices as per Gerald Eve report, and assessment of reasonableness of decrease in estimate; and</li> <li>• assessment of adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our audit work to date has not identified any issues in respect of the estimation technique for valuation of land and buildings.</p>	 <b>Green</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £179m</b></p>	<p>Your net pension liability at 31 March 2019 is £178.6 million (PY £185.9 million)</p> <p>You use Barnett Waddingham to provide actuarial valuations of your assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• Assessment of management's expert</li> <li>• Assessment of actuary's approach taken, with detailed work undertaken to confirm reasonableness of approach, including comparison of actuarial assumptions to accepted ranges (below):</li> </ul> <table border="1" data-bbox="739 502 1892 901"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35 - 2.45%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.40%</td> <td>2.40 – 2.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.9%</td> <td>3.10 – 4.35%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45</td> <td>22.4</td> <td>20.6 – 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45</td> <td>24.4</td> <td>23.2 – 24.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>• Completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Impact of any changes to valuation method</li> <li>• Reasonableness of your share of LGPS pension assets.</li> <li>• Reasonableness of increase/decrease in estimate</li> <li>• Adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Our work did not identify any issues in respect of the main pension fund liability, however we concluded that the actuary's estimate of £2,859k for the McCloud judgement should be adjusted for in the accounts. Management opted not to include this in the accounts as it is not material.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.40%	2.35 - 2.45%	●	Pension increase rate	2.40%	2.40 – 2.45%	●	Salary growth	3.9%	3.10 – 4.35%	●	Life expectancy – Males currently aged 45	22.4	20.6 – 23.4	●	Life expectancy – Females currently aged 45	24.4	23.2 – 24.8	●	<p style="text-align: center;">●</p> <p style="text-align: center; color: green; font-size: 24px;"><b>Green</b></p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.40%	2.35 - 2.45%	●																								
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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

## Our responsibility

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) 570).

## Going concern commentary

### Management's assessment process

Management does not carry out a formal written going concern assessment relying on your Medium Term Resource Plan (MTRP) that runs to 2022/23.

The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by you will cease.

### Auditor commentary

Management has determined that there is no evidence of an intention to cease the provision of services, and have therefore adopted the going concern assumption.

### Work performed

We have:

- held regular discussions with officers about your financial standing;
- reviewed management's assessment of going concern assumptions and supporting information, including the Budget 2019/20 and Medium Term Resource Plan; and
- reviewed the completeness and accuracy of going concern disclosures in the financial statements.

### Auditor commentary

- Management has a reasonable expectation that the services provided by you will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.
- We have considered your MTRP as part of our work on the Value for Money Conclusion, and have concluded that the assumptions included within this plan appear to be reasonable.
- No material uncertainty was identified in relation to the going concern assumption.

### Concluding comments

### Auditor commentary

We are satisfied that the going concern assumption is appropriate for your financial statements and is in line with accounting standards and the CIPFA Code.

# 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>We are not aware of any related parties or 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 letter of representation has been requested from you, including specific representations in respect of the Group, 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 for bank and investment balances. This permission was granted and the requests were sent. All of the requests were returned with positive confirmation.</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the confirmation from the pension fund auditor and no issues were arising.</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>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Statement), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers 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 other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as you do not exceed the threshold.</li> </ul>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Torbay Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

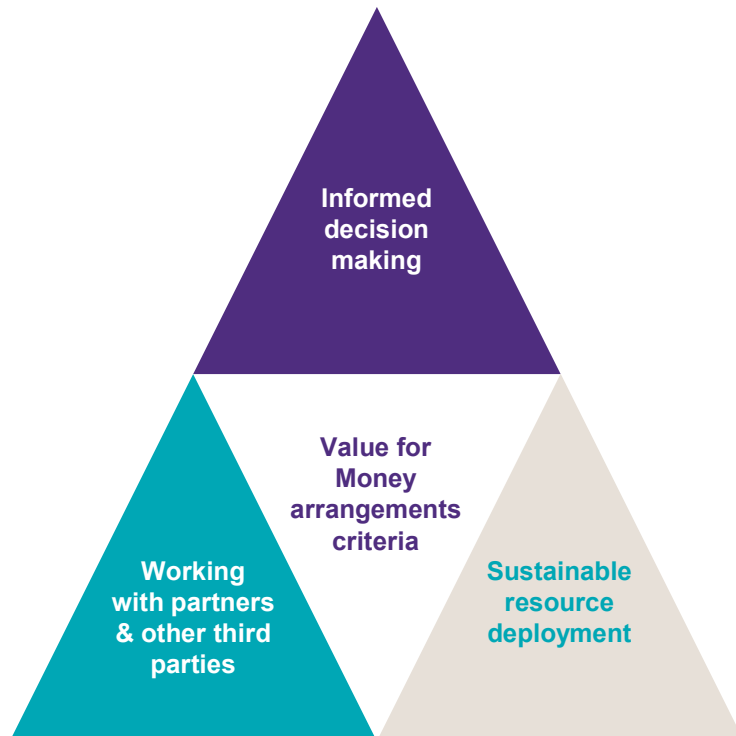
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2019 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 5 February 2019.

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.

# Value for Money

## Our work

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

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

- The progress made by you in addressing the issues raised in the August 2018 Ofsted re-inspection report which rated your Children's Services as inadequate again
- How reasonable the assumptions made by you were in your latest Medium Term Resource Plan
- The arrangements in place to support your Investment Fund activity and your Transformation Programme.

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 16 to 19.

## 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 for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

The text of our proposed report can be found at Appendix E.

## Recommendations for improvement

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

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## 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.



## 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	Findings	Conclusion
<p><b>I Budget delivery and savings</b></p> <p>You are forecasting an overspend of £2.4 million in 2018/19, due to budget pressures in Children's Services. While the budget consultation for 2019/20 is based on a balanced budget, you need to identify savings in the region of £11 million for 2020/21 and 2021/22 in order to achieve a balanced budget.</p>	<p>We reviewed your latest MTRP and the 2019/20 budget, considering the assumptions that underpin the figures within them. We also reviewed the 2018/19 savings achieved against those originally planned.</p> <p>The revenue outturn for 2018/19 showed an surplus of £0.5 million however this was after the application of one-off funding of £2.6 million to counter the overspend in Children's' Services of £5 million in the year, offset by savings elsewhere. You monitor the savings being achieved against those planned throughout the year with a Savings tracker going to Senior Leadership Team (SLT) on a monthly basis.</p> <p>A balanced budget was set for 2019/20, which included savings of £6 million. Your latest update to the Medium Term Resource Plan was in April 2019. This shows the budget gap in 2020/21 to 2022/23 to be £18.3m, with savings of £10.5 million required in 2020/21. The MTRP is a public document and is updated regularly to reflect changes as they are known. It is a comprehensive document that clearly sets out the financial challenges facing Torbay over the next three years. The MTRP contains reasonable assumptions about the figures over the next four years. 2020/21 is a key challenge for you with the predicted budget gap of £10.5m and the Risk Share Agreement with the Integrated Care Organisation (ICO) running out in March 2020. Negotiations on a new RSA remain in progress at the time of audit.</p> <p>You are currently working on the development of the 2020/21 budget, with the consultation on the 2020/21 budget scheduled for October 2019.</p> <p>The LGA Finance Peer Challenge identified a number of key recommendations for you. An action plan has been agreed to take these forward.</p>	<p>Your MTRP has a gap of £18.3m over the 2020/21 - 2022/23 period. This represents a considerable challenge for you given the savings it has already had to make in recent years. You must urgently develop realistic savings plans to bridge the budget gap while carefully monitoring the achievement of planned savings in 2019/20.</p> <p>The agreement of a new Risk Share Agreement with the ICO is crucial for you with Adult Social Care being your largest area of spend.</p> <p><b>On that basis we concluded that while the level of savings needed represents a significant challenge for you, the risk was sufficiently mitigated and you have 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.</b></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	Findings	Conclusion
2	<p><b>OFSTED inspection of children’s services</b></p> <p>Ofsted report issued in August 2018 rated Children’s Services in Torbay as inadequate, following a previous inadequate rating in January 2016. As of 1 April 2018 Torbay’s Children’s Services have been managed by a single Director of Children’s Services who is also the Director of Children’s Services for Plymouth City Council.</p>	<p>We reviewed the progress being made by you under your new arrangements with Plymouth City Council, considering the actions being taken to address the continuing pressures on this service.</p> <p>Your Children’s Services were rated as inadequate back in January 2016 and now have a contractual arrangement with Plymouth City Council, with a Joint Director for Children’s Services (DCS) for Torbay Council and Plymouth City Council.</p> <p>Ofsted subsequently issued a follow-up report in August 2018 based on their July 2018 inspection visit, in which the inadequate rating remained in place. The report concluded that overall, the pace of change has been too slow and some recommendations from the previous inspection are not met. It stated that fundamental weaknesses remain in management oversight and supervision and in identification of and response to risk, as well as workforce development and capacity.</p> <p>Since the report was issued there have been two monitoring visits.</p> <p>The first of these was in January 2019. This concluded that “Senior leaders have failed to address the significant concerns identified during the re-inspection of Torbay children’s services in June 2018.”</p> <p>The most recent monitoring visit was in April 2019, with the letter being issued on 8 May 2019. This comments that “The local authority is starting to make some progress, from an extremely low base, in improving services for its children and young people, but these improvements remain exceedingly fragile.”</p>	<p>Despite the re-inspection rating of inadequate and the revised structure under the joint DCS with Plymouth City Council, the monitoring visit in January 2019 concluded that the significant concerns identified in the re-inspection has not been addressed. There were some signs of improvement following the April 2019 visit but these were described as fragile.</p> <p><b>This is 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.</b></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	Findings	Conclusion
<p><b>3 Investment arrangements / commercialisation</b></p> <p>You have an Investment Fund of £200m was set up to maximise income generation, which has been financed by PWLB borrowing. A large commercial property portfolio may expose the Council's investments to volatility.</p>	<p>The Council has an investment fund of £200m, which was one of the areas identified as a way of bringing in additional income to offset reductions in central grant funding. The investment fund is financed by borrowing from PWLB, taking advantage of the low interest rates compared to the rental yields that are available from the investment property portfolio, which led to income of £2.9m in 2018/19.</p> <p>You have an Investment and Regeneration Fund Strategy (the Strategy) which sets out the objectives and scope of the strategy, part of which is to support your Economic Strategy by delivering economic growth, tackling inequality and creating change for the benefit of residents. However, the Strategy also emphasises the importance of a balanced portfolio of investments to spread risk and notes that investment of the fund solely in Torbay would not achieve diversification of risk due to the small geographical location.</p> <p>Decisions to spend monies from this fund are not Executive decisions and Full Council have delegated this to the Investment and Regeneration Committee who can approve individual investments up to £25m. Proposals are considered under two categories:</p> <ul style="list-style-type: none"> <li>Investment opportunities that meet criteria set out in section 4 of the Strategy and deliver both a financial return to you and a benefit, improvement or development of the area</li> <li>regeneration investment opportunities that meet criteria set out in section 5 of the Strategy and deliver significant regeneration benefits to the area, including Town Centre proposals.</li> </ul> <p>You have further extend their area for the purchase of investment properties with a strategy statement that concluded that the Local Enterprise Partnership FEMA (Functional Economic Market Area) would be considered to be your area for investment purchases. This covers Devon, Cornwall, Somerset, Avon and Dorset. The Strategy updated in September 2018 also sets out that "opportunities in any geographic location will be considered if it can be objectively demonstrated that there are multiple benefits, including the improvement or development of Torbay, if supported by the Monitoring Officer and the Head of Finance."</p> <p>Appendix 1 of the Strategy sets out the framework for the due diligence process that you undertake. This takes into accounts numerous factors and risks depending on the type of investment, and has led to you withdrawing from several purchases.</p> <p>You have an Investments dashboard, which shows your portfolio. All properties are reviewed by nominated officers (Monitoring Officer, Chief Finance Officer and the lead Council officer for Asset Management) on a quarterly basis to review each property for potential disposal or investment depending on both current and future asset values and rental streams. It is not clear if this process extends to detailed scenario planning for your portfolio as a whole rather than considering individual properties in isolation.</p>	<p>You must ensure that scenario planning is carried out as part of your quarterly investment portfolio review that consider the entire portfolio as well as individual properties. As you look to extend both the size of the investment fund value, and the geographic area, you must ensure you takes appropriate advice to cover yourself in this fast moving developing area for local government.</p> <p><b>No issues identified that impact on our VFM conclusion.</b></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	Findings	Conclusion
4	<p><b>Transformation</b></p> <p>You are progressing a number of projects through its Transformation Programme as it seeks alternative methods of service delivery. The need for you to consider if you have adequate capacity to support and deliver its transformation programme was raised in our 2017/18 Audit Findings Report.</p>	<p>We reviewed the arrangements being put in place by you for these projects, including whether appropriate advice has been taken. This included new initiatives such as the Housing Company as well as the work being done by you on the TOR2 contract. We also considered whether the restructure and recruitment actions proposed by you in response to our 2017/18 recommendation were successful in creating additional capacity to support the transformation programme.</p> <p>Your Transformation Programme Manager reports to the Chief Executive, who is responsible for the Transformation Programme overall and chairs the Transformation Board.</p> <p>The Transformation Board consists of the members of Senior Leadership Team (SLT), with members being kept informed via Programme Manager reports and updates to the Executive Group and all member communications. The Board meets monthly and considers new projects in the pipeline as well as monitoring the progress on existing projects. The reporting includes a dashboard of progress on all projects, with RAG rating of the savings being achieved against those planned. “Hot topics” updates concentrate on the progress on current schemes, with the future for TOR2 being a live topic in the year.</p> <p>You have sought external advice previously, such as the development of the Housing Companies.</p> <p>You have previously attempted to recruit a Director of Transformation to increase your capacity in this crucial area but were unsuccessful in attracting suitable candidates. As a result there was an SLT restructure to bring in some additional capacity, which in turn brought some additional capacity to the Transformation Programme. The restructure means that individual members of SLT are now responsible for individual projects in the Programme. Additional Project Officer support was recruited to the Transformation Team in order to support SLT in ensuring delivery of the projects and the programme.</p>	<p><b>The Transformation Programme is critically important for you if you are going to deliver the changes and savings required in the medium term. We concluded that you have adequate arrangements in place for managing and monitoring your transformation programme but you must ensure that you continue to seek external advice, legal or otherwise, as you move into new areas.</b></p>

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and 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 following non-audit services were identified.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing benefits grant	10,407	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,407 in comparison to the total fee for the audit of £78,581 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is an indicative fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teacher's Pension	3,900	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,900 in comparison to the total fee for the audit of £78,581 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
Harbour authority audit	950	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £950 in comparison to the total fee for the audit of £78,581 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.




These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified some recommendations for you as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	 The Council's MTRP has a gap of £18.3 million over the 2020/21 - 2022/23 period. This represents a considerable challenge for the Council given the savings it has already had to make in recent years.	<p>The Council must urgently develop realistic savings plans to bridge the budget gap while carefully monitoring the achievement of planned savings in 2019/20.</p> <p><b>Management response</b></p> <p>The Council has an ongoing plan for the balancing of future year budgets to meet the forecast gap. 20/21 budget proposals have been developed over the past few months and the Council expects to issue budget proposals, in line with its budget timetable in October 2019</p>
2	 The LGA Financial Peer Challenge has identified some key recommendations for the Council coming out of its review in November 2018.	<p>The progress with the LGA Financial Peer Challenge action plan must be regularly monitored and reported to ensure that momentum on these critical recommendations is maintained.</p> <p><b>Management response</b></p> <p>Where relevant proposals from the LGA review are included in both budget proposals and the council's transformation programme</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Torbay Council's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Your MTRP has a gap of £14.7m over the 2019/20 - 2021/22 period. This represents a considerable challenge for you given the savings it has had to make in recent years, with £7.1m required for 2018/19. You must develop realistic savings plans to bridge the budget gap in 2018/19 to 2020/21.	A balanced budget was set for 2019/20. The Medium Term Resource Plan identifies budget gaps in 2020/21 to 2022/23, which have been considered as part of our VFM work.
2	✓	In the light of being unable to recruit a Director of Transformation, you need to consider whether it has adequate capacity to support and deliver its Transformation Programme.	A restructure of the Senior Leadership Team (SLT) was carried out to bring in some additional capacity, which in turn brought some additional capacity to the Transformation Programme. The restructure means that individual members of SLT are now responsible for individual projects in the Programme. Additional Project Officer support was recruited to the Transformation Team in order to support SLT in ensuring delivery of the projects and the programme.

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 An investment property Assets under construction (AUC) balance of £1.4m was included in the main Property, Plant and Equipment AUC in 2017/18, this has been corrected in 2018/19.	-	1,400 (1,400)	-
2 An investment property in AUC has been revalued in year in error. Assets under Construction should not be revalued.	-	300 (300)	-
<b>Overall impact</b>	-	<b>Nil</b>	-

## Misclassification 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.

Detail	Adjusted?
The disclosure of the rolling revaluation programme within Note 13 incorrectly included the revaluation of the Energy from Waste (EfW) asset, in the 2018 rather than 2019. Your share of this asset is £33.8m.	✓
Our testing of revaluation of assets to the FAR identified two assets where the adjustments to the Gross Book Value and Accumulated Depreciation went to the Revaluation Reserve and the Consolidated Income and Expenditure Statement respectively, when they should be the same place. This has led to a disclosure error of £516k.	✓
The note disclosing staff being paid over £50k included three individuals who did not earn over £50k and should have been excluded from the note..	✓
A number of presentational, grammatical and numerical adjustments were made to the financial statements to improve readability and disclosures and ensuring that they are in line with the current International Financial Reporting Standards	✓



# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 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	Reason for not adjusting
<p><b>1 Potential impact of the McCloud judgement</b></p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>You requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £2,859k.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on your liability.</p>	<ul style="list-style-type: none"> <li>The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</li> </ul>

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p><b>1</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.</p> <p>Dr Gross expenditure</p> <p>Cr Gross income</p>	506	-	-	Not material
<p><b>2</b> Plant, property and equipment is overstated, due to two assets not being included within disposals when they have been transferred to academies.</p>	517	-517	517	Not material
<b>Overall impact</b>	<b>517</b>	<b>-517</b>	<b>517</b>	

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

	2017/18 Fee £	Planned 2018/19 fee £	Final proposed 2018/19 fee £
Council Audit	102,053	78,581	87,581

The above final proposed fee includes proposed fee variations as set out below,. Management has not agreed these fees and these will therefore be subject to resolution with PSAA in line with the Terms of Appointment.

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	July – August 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	August 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	August 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000

## Non Audit Fees

Fees for other services	Fees £
<b>Audit related services</b>	
Housing benefits work under Module X 2017/17	5,000
Certification of 2018/19 Housing benefits grant	10,407
Teacher's Pension	3,900
<b>Non-audit services:</b>	
Harbour authority audit	950
<b>Total</b>	<b>20,257</b>

- The fees reconcile to the financial statements.
  - £79k fees per financial statements
  - £79k total planned fees per above

# Audit opinion

We anticipate we will provide you with a modified audit report

## Independent auditor's report to the members of Torbay Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Torbay Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Summary Account, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Financial Reports and Accounts, other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# Audit opinion

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Reports and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

## Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources 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.

Ofsted subsequently issued a follow-up report in August 2018 based on their July 2018 inspection visit, in which the inadequate rating remained in place. The report concluded that overall, the pace of change has been too slow and some recommendations from the previous inspection are not met. It states that fundamental weaknesses remain in management oversight and supervision and in identification of and response to risk, as well as workforce development and capacity.

Since issuing its report, Ofsted has published the outcome of monitoring visits carried out, with the most recent being in April 2019. This most recent visit notes that the Authority is starting to make some progress, from an extremely low base, in improving services for its children and young people, but these improvements remain exceedingly fragile.

Having considered the findings and conclusions of the above inspections, together with the results of our audit work, we have concluded that this matter is 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.

# Audit opinion

## **Responsibilities of the Authority**

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.

## **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Torbay Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Sarah Ironmonger, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol



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