This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
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The Audit Findings for Torbay Council

Year ended 31 March 2021

November 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

1. 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 2021 for those charged with governance.

Financial Statements

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 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
- 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during September - December. Our findings are summarised on pages 5 to 16. 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.

Our work is ongoing but there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Resolution of Property, Plant and Equipment (including Investment Properties) valuations and related Group Accounts
- Completion of Grants Test of detail
- Resolution of Debtors/Creditors testing including completeness testing
- Testing of some presentational notes to the financial statements
- Receipt of management representation letter; and
- Review of the final set of financial statements.

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.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not yet identified any risks of significant weakness at this stage.

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 and complete our value for money work.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 will be discussed with management and the Audit Committee.

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 the Council's business and is risk based, and in particular included:

- An evaluation of the Council's 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 the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.**
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have made significant progress towards the completion of 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 06 Dec 2021. These outstanding items include those noted on page 3 and:

- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

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

2. 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 levels 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	£5,922,000	£5,808,000	This is based on 2% of your PY gross expenditure.
Performance materiality	£4,441,500	£4,356,000	This is based on 75% of the materiality benchmark.
Trivial matters	£296,100	£290,400	This based on 5% of materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be 'trivial' for this purpose.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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.	As part of our work we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness To date, no material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 3. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (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.	The initial assessment in our audit plan remains appropriate. Having considered the risk factors set out in ISA240 and nature of the revenue streams at Torbay Council and the group, we determined that the risk of fraud arising from revenue recognition would 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. We have however: • Evaluated the Council's accounting policy for recognition of revenues for appropriateness; • Performed substantive testing on material revenue streams; and • Reviewed any significant and unusual transactions. Our audit work has not identified any issues in respect of improper revenue recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and investment properties) The Council revalues its land and buildings on a rolling five-yearly basis. The Council revalues its Investment Properties on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. These valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (Land and buildings - £207.6m, Investment properties - £203.1m) and the sensitivity of these estimates to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer to confirm the basis on which the valuation was carried out; • Used an auditor's expert to assess the valuation approach applied by the council's valuers; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into your asset register; and • 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 in this area is not fully complete however to date our work has yet identified any issues in respect of valuation of land and buildings and investment properties.
Completeness of non-pay operating expenditure and associated short-term creditors including fraud risk around non-pay operating expenditure. Non-pay expenditure on goods and services represents a significant percentage of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention. We also identified a risk of fraud in non-pay expenditure.	As part of our audit work we: • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls. • Obtained and tested listings of non-pay payments made and of invoices received in April and May 2021 to ensure that expenditure had been charged to the appropriate year. • Tested a listing of manual accruals for existence and accuracy • Tested operating expenditure for occurrence and accuracy Our audit work has not identified any issues in respect of completeness of non-pay operating expenditure and associated short-term creditors

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's 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 (£211.4m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work, we: • updated our understanding of the processes and controls put in place by management to ensure that the Council's 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 the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • confirmed that the actuarial methods and assumptions employed by management's expert were consistent with those which PWC (auditor's expert) had reviewed and concluded were reasonable • 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; • undertook 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; and • obtained assurances from the auditor of Devon County Council 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. • Reviewed pension guarantee that has been issued for SWISCo and considered the correct accounting treatment Our audit work has not identified any issues in respect of valuation of the pension fund liability.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building Other – £214.9m	Other land and buildings comprises specialised assets such as schools and leisure centres, 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 are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged TEDC to complete the valuation of properties as at 01/04/20 on a five yearly cyclical basis, with individual assets revalued more regularly if the need is identified. 30% of total assets were revalued during 2020/21. Management recognise the estimation uncertainty over the Property, Plant and Equipment valuation and the need for these values to be re-assessed regularly. They therefore have used the council's subsidiary TDA Estate Team to assist in the completion of this work. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 01/04/20. Management's valuer's at TEDC have undertaken a detailed review of each class of asset and considered the potential for significant movements since the previous valuation date. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £207.6m, a net increase/decrease of £7.3m from 2019/20 (£214.9m).	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided in the Gerald Eve report for 20-21. • Disclosure of the estimate in the financial statements is considered adequate. • We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues. • Our auditor's expert, Wilks Head & Eve has completed their review of the valuation approach used by the valuer, with no significant issues arising from this review. At the time of writing this report, our work is still in progress, subject to the testing of source data and assumptions used in determining the year end valuations, our audit work to date has not identified any issues.	

Assessment

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

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property - £203.1m	The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March. The Council has engaged the valuers employed by its subsidiary TEDC limited. The year end valuation of the Council's investment property was £203.1m, a net decrease of £5.6m from 2019/20 (£208.7m), which consists of £0.3m disposal in year and (5.3) downward movement in value. Management and their valuer have taken into account available market data at 31 March 2021.	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided in the Gerald Eve report for 20-21. • Disclosure of the estimate in the financial statements is considered adequate. • We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues. • Our auditor's expert, Wilks Head & Eve has completed their review of the valuation approach used by the Council's valuer, with no significant issues arising from this review. At the time of writing this report, our work is still in progress, subject to the testing of source data and assumptions used in determining the year end valuations, our audit work to date has not identified any issues.	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability – £211.4m

The Council's net pension liability at 31 March 2021 is £211.4m (PY £168.1m). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £29.4m net actuarial loss during 2020/21.

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the council;
- We have used the work of PWC, as our auditor's expert, to assess the actuary and assumptions made by the actuary. See below for our consideration of the key assumptions made in the Torbay Council Pension Fund Valuation.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.05%	1.95% - 2.05%	
Pension increase rate	2.8%	2.80% - 2.85%	
Salary growth	3.8%	Long term assumption of 1% above CPI	
Life expectancy – Males currently aged 45 / 65	24.0 22.6	21.9 – 24.4 20.5 – 23.1	
Life expectancy – Females currently aged 45 / 65	25.4 23.9	24.8 – 26.4 23.3 – 25.0	

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £7.2m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The council's policy is generally in line with the guidance from DCLG, except for in respect of capital loans, where it is recommended that MRP is Charged with a maximum UEL of 20 years. The council's policy charges £nil MRP on these loans. The year end MRP charge was £7.2m, a net increase/decrease of £1.9m from 2019/20 (£5.3m).	• The MRP has been calculated in line with the council's policy • The Council's policy on MRP does not fully comply with the statutory guidance, due to the £nil MRP charge recognised for capital loans. • The authority's policy on MRP for 20-21 has been discussed and agreed with those charged with governance and has been approved by full council • The increase in MRP charge is reasonable. • On a whole we consider the council's approach to MRP to be sufficiently prudent, and the benchmark's of MRP as a % of CFR and Debt to CFR ratio to be moving in the right direction. • The impact of not providing MRP for capital loans has been calculated as an understatement of £0.76m in this years MRP charge.	Blue
Other accruals and estimate	The Council continues to apply estimates and judgements in a number of areas, such as: • accruals of income and expenditure; • recognition of school assets; and • the preparation of group accounts.	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances	Light Purple

Assessment

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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to financial institutions with whom the Council holds cash and investment balances. This permission was granted and the requests were sent. All of the confirmation requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

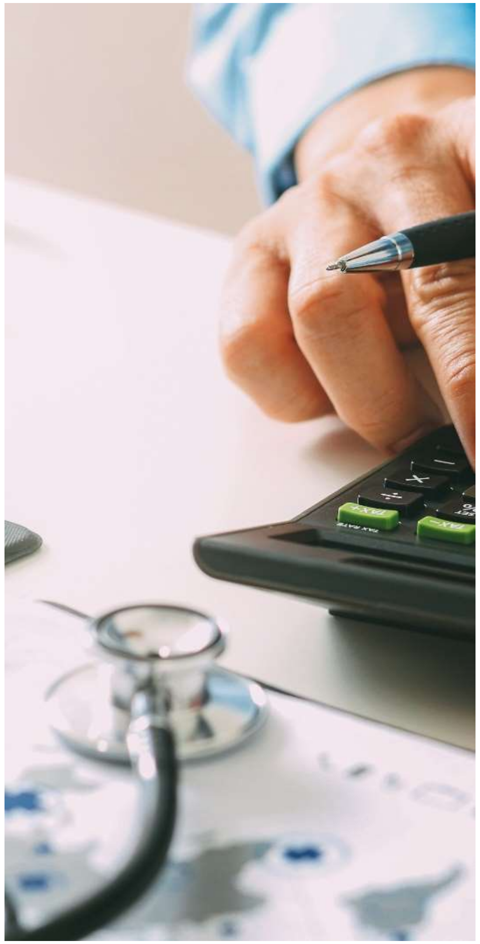
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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 Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Torbay Council in the audit report due to incomplete VFM work.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness at this stage.

4. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit receipts grant	£tbc	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the recurring fee for this work was £13,250 with proposed additional fees in 2019/20 of £7,000. The total is not significant in comparison to the total fee for the audit of £138,581 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. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Teacher's Pension	£5,000	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 £5,000 in comparison to the total fee for the audit of £138,581 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.
Harbour audit	£1,500	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 £1,500 in comparison to the total fee for the audit of £138,581 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council 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 2021/22 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
	As the Council's subsidiaries grow in size and in the scale of their operations, more consideration needs to be taken when constructing the group accounts as more areas become material and thereby require inclusion.	Management response Noted. Council will review the notes whilst compiling with the guidance on "streamlining the accounts".
	Current pension disclosures do not adequately communicate to the reader where the pension liabilities of the council's subsidiaries sits. For SWISCo, the pension liability has been guaranteed but does not sit on the Council's balance sheet. We recommend this situation needs to be more clearly disclosed.	Management response Noted. Council will consider the best place in the accounts to disclose this information.
	As part of our income completeness testing, we have identified income that should have been accrued for in 20/21 but was not. This was due to uncertainty that existed at year end around whether Torbay would issue a charge for the work they had performed or not. We recommend that Accrual processes should be improved to ensure that accruals are made even when such uncertainty exists.	Management response Noted. As context this was one transaction relating to a specific capital project where the accrual to 2020/21 was an oversight by the officer concerned. The invoice was raised in April 2021.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements continued

Assessment	Issue and risk	Recommendations
● Medium	While work is still ongoing on our nil NBV Plant and Equipment Testing, it seems likely that many assets are not cleared off the balance sheet at the end of their useful life. We recommend that management give consideration to removing any assets which have reached the end of their useful as part of their review of the FAR at the year end.	Management response Noted – Council will consider the removal of these assets in 2021/22 from the asset register in consultation with the Council's appointed valuer.
● Medium	During the course of our work , our journal inquiries, it was brought to our attention by the council that one entry with a value of £40,084.75, was incorrectly posted. This should have been entered as a month 13 AC08 accrual journal but was entered as a month 13 AC01 journal by mistake. This wasn't picked up by the authoriser of the journal either and had therefore gone through incorrectly. The journal number was 4165509 and it relates to Car Parking income. However, the amount is below trivial, and the error was subsequently picked up by other control activities (budget reviews & Balance Sheet Housekeeping exercises which identified this error) and corrected by the client. We recommend that further controls are established during the journal authorisation process to prevent these errors from occurring in the future.	Management response Noted.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Torbay Council's 2019/20 financial statements, which resulted in eight recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	s151 Officer had the access to post journals During our journal testing we identified that the s151 Officer has posted various journals around the year end. We have tested all journals posted by s151 officer and have not identified any issues with the specific journals posted by the s151 officer. The s151 officer did not authorise any journals and posted the journals due to staffing pressures in April however this is not good practice and should not happen. Recommendation: Senior financial reporting personnel should not have the ability to post journal entries, due to increased risk of management override of control	Our journals testing has revealed that the S151 Officer has not posted any journals since our recommendation last year and no longer has the ability to do so. Thus, the risk of management override of controls is reduced.
✓	In-year budget delivery and savings –The Council has experienced in year service overspends in recent years which have been met from reserves. Total general fund and earmarked reserves is relatively low. The current in year forecast does not plan to use reserves however with pressures relating to the pandemic there is risk that service overspends will continue and reserves will be further depleted. Recommendation: The Council must ensure it continues to take action to address any in-year overspends or slippage in delivery of savings.	Whilst the Council has overspent its budget in prior years in particular in relation to the demand and cost of childrens social care it did have a significant underspend in 20/21. The Council will continue to report on a regular basis on its financial position and will take corrective action as appropriative.
✓	Saving identification The Council's MTRP has a gap of £16.2 million over the 2021/22 - 2023/24 period. This represents a considerable challenge for the Council and with relatively low levels of reserves there is a risk that slippage in delivery of savings will reduce the reserves to an unsustainable level. Recommendation: The Council must urgently develop realistic savings plans to meet the identified budget gap going forward together with clear monitoring of delivery of savings and income.	Noted. The Council is actively working on balancing its budget over the next three years. The Council intends to issue proposals for a balanced budget for 2022/23 in January 2022.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Investment and Regeneration Fund Strategy The Council took external legal advice on how the Council is applying the statutory guidance in relation to borrowing to purchase investment properties. As auditors we took our own legal advice and identified wording changes needed to fully comply with the guidance. Whilst some wording changes have been made, we consider further refinement is needed to meet the specific points. Recommendation: The Council should refine further the wording in the Investment and Regeneration Fund Strategy to ensure it meets the legal advice obtained by the auditor.	Council did update wording. Subsequently , linked to changes in PWLB borrowing "rules" and related guidance the Council approved a new strategy that focuses on regeneration rather than investment properties.
✓	Investment monitoring The Council has a number of investment properties and the volatility in the economic environment has the potential to impact on the returns expected from the investment properties. The Council has put arrangements in place to monitor performance of its investments. With £235 million invested it is vital that the Council's risk assessment remains dynamic. Recommendation: The Council should continue to monitor performance of investments and consider whether there any changes in circumstances which might change the risk profile and respond appropriately.	Noted. The Council has an officer Management of Investment Assets project board that meets on a regular basis. In addition treasury management reporting including details on the Council's Non Treasury Investments.
✓	Housing development company As part of the transformation programme the Council is in the early stages of developing its affordable housing plans through subsidiaries. Other local authorities have found that these type of arrangements can be risky from a finance and governance perspective. Recommendation: The Council should ensure that the finance and governance of its affordable housing plans are robust and that the subsidiary operates in line with the Council's objectives.	Noted. Work is ongoing in this regard to ensure the Council's housing objectives are delivered.

Assessment

✓ Action completed

X Not yet addressed

C. 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

Group CIES - The £34m gross expenditure has material cross over with other service lines and therefor council to update workings to apportion subsidiary income and expenditure to the appropriate line item in the Group CIES. Work is still progressing on group consolidation procedures.

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.

Disclosure omission	Auditor recommendations	Adjusted?
Group disclosures	Group disclosure changes including addition of group pensions, long term debtors and other long term liabilities notes	✓
MIRS	Deferred capital receipts reserve in MIRS reclassified from usable reserve to unusable reserve.	✓
Notes to the accounts	We proposed a number of minor changes and narrative amendments to improve the presentation in the accounts	✓

Impact of unadjusted misstatements

At the time of writing the report, we have not identified any unadjusted misstatements.

D. Fees

We set out below our fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee
Council Audit	£138,581*

Non-audit fees for other services	Proposed fee
Certification of Housing Benefit receipts grants	£20,250*
Teacher's Pension	£5,000*
Harbour Audit	£1,500*
Total non-audit fees (excluding VAT)	£26,750

* Estimated fees as work has not yet been completed.

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