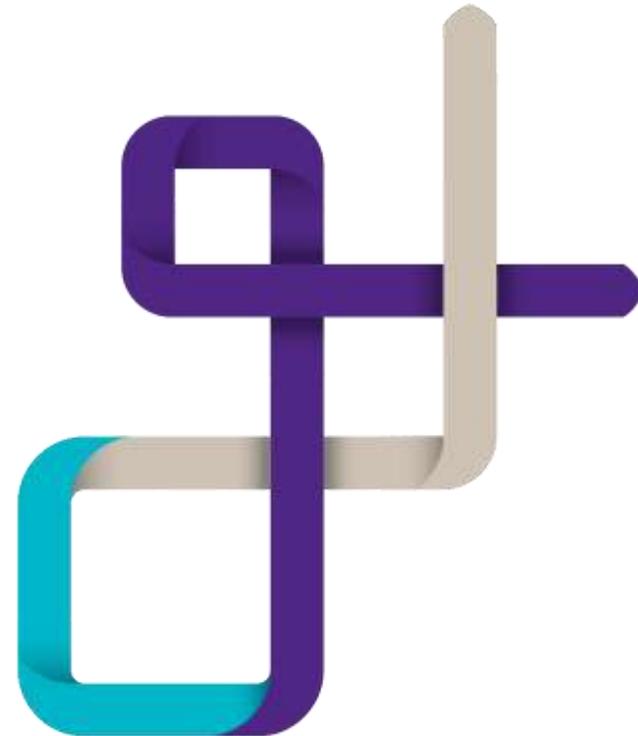


Audit Findings

Year ending 31 March 2018

Torbay Council
25 July 2018



Contents



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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 issues arising from the statutory audit of Torbay Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council's financial statements give a true and fair view of the Council's financial position and expenditure and income for the year, andhave 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, 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.</p>	<p>We received the draft accounts on 31 May 2018. The draft accounts were again produced to a good standard and the audit was facilitated by good supporting working papers.</p> <p>Our audit work was completed on site during May and June. Our findings are summarised on pages 4 to 10. We have not identified any adjustments affecting the Council's reported financial position. 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>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none">- receipt of supporting documentation for one exit package in the year- receipt of management representation letter; and- review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's 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.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 11 to 13.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code. We do not expect to be able to certify the conclusion of the audit yet as an objection to the 2016/17 financial statements has not yet been concluded. Further details are noted on page 10.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings 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), 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; and
- 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 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 July 2018, as detailed in Appendix E. These outstanding items include:

- receipt of supporting documentation for one exit package in the year
- 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 remains the same as reported in our audit plan.

	Amount (£)
Materiality for the financial statements	5,604k
Performance materiality	4,203k
Trivial matters	280k
Materiality for specific transactions, balances or disclosures:	
- Termination benefits	20k
- Officer Remuneration	14.7k

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a 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 the revenue streams at the Council, 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 over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

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

- review of accounting estimates, judgements and decisions made by management
- testing of journal entries
- review of unusual significant transactions

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

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

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

- Review of management's processes and assumptions for the calculation of the estimate.
- Review of the competence, expertise and objectivity of any management experts used.
- Review of the instructions issued to valuation experts and the scope of their work
- Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.
- Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit work has not identified any significant issues in relation to the risk identified.

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

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

- Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.
- Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

Our audit work has not identified any significant issues in relation to the risk identified.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

1

Employee remuneration

Payroll expenditure represents a significant percentage (20%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Auditor commentary

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

- documented our understanding of processes and key controls over the transaction cycle;
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;
- performed a substantive analytical procedure disaggregated by month;
- agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness;
- obtained a year-end payroll reconciliation and ensured amount in accounts can be reconciled to ledger and through to payroll reports.

Our audit work has not identified any significant issues in relation to the risk identified.

2

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (70%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

Auditor commentary

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

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- documented the accruals process and the controls management have put in place. Challenged any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations;
- obtained and reviewed the year-end Accounts Payable (AP) reconciliation, and investigated any significant reconciling items;
- performed testing of non-payroll payments made in April, to ensure they are accounted for in the correct period.

Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Activity is accounted for in the year that it takes place, not simply when cash payments are made or received Revenue from the sale of goods is recognised when the Council can measure reliably the percentage of completion and it is probable that the economic benefits or service potential will flow to the Council. Revenue relating to council tax, general rates etc are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates. 	<p>We have reviewed the Council's recognition of revenue policies and are satisfied that:</p> <ul style="list-style-type: none"> Appropriate policies have been used Accounting policies have been adequately disclosed Revenue had been appropriately recognised 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Valuation of pension fund net liability Provision for NNDR appeals Other provisions 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> Appropriate policies have been used Accounting policies have been adequately disclosed Areas where judgement had been used were supported by the work of an expert or a third party 	 Green
Other critical policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
①	Matters in relation to fraud	<ul style="list-style-type: none"> 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.
②	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council which is included in the Audit Committee papers.
⑤	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to Council's bankers and institutions where the Council has funds invested. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
⑥	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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. <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – which is included at appendix E.</p>
② Matters on which we report by exception	<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"> 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 If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<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"> Note that work is not required as the Council does not exceed the threshold of £500m.
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Torbay Council in our auditor's report, as detailed in Appendix E as there is an objection to the 2016/17 accounts is still in progress. The 2016/17 and 2017/18 audits cannot be closed until this has been concluded.</p>

Value for Money

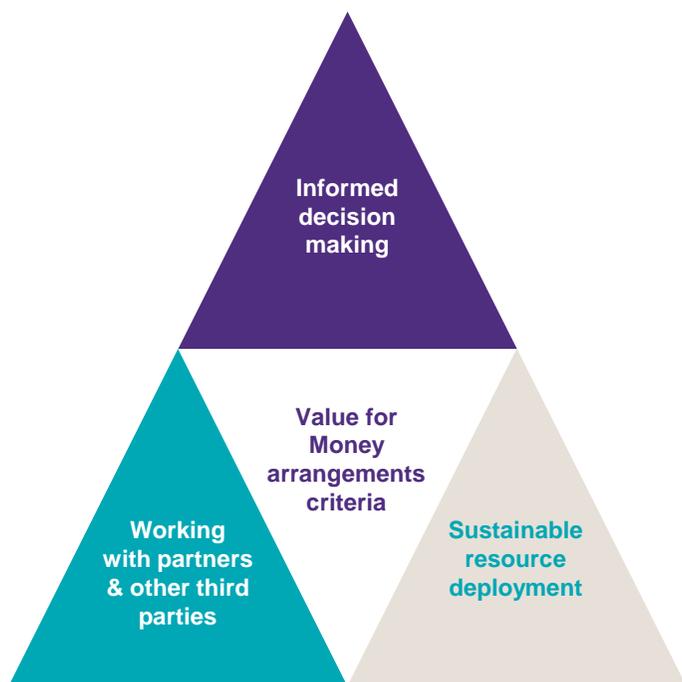
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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 2018 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 28 February 2018.

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 the Council's arrangements for delivering economy, efficiency and effectiveness.

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

- The further progress made by the Council in addressing the issues raised in the January 2016 Ofsted report which rated the Council's Children's Services as inadequate
- How reasonable the assumptions made by the Council were in its latest Medium Term Resource Plan
- The arrangement in place to support the Council's 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 13 to 15.

Overall conclusion

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

- except for the matter we identified in respect of the Ofsted report on Children's Services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

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 (As identified in the Audit Plan in February 2018)	Findings	Conclusion
<p>1 Ofsted inspection of children's services</p> <p>Ofsted issued a report on the Council's children's services in January 2016 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements. Following government direction the Council will be entering a contractual arrangement with Plymouth City Council, who will provide Children's Services on behalf of the Council.</p>	<p>We reviewed the latest position on the arrangements for Plymouth City Council to deliver Children's Services for Torbay from 1/4/18. We also review updated reports from Ofsted as they become available and took these into account in forming our conclusion.</p> <p>The Secretary of State for Education issued a Statutory Direction to the Council in October 2017 directing them to co-operate in the development of a contractual arrangement with Plymouth City Council, who will deliver Children's Services on Torbay's behalf from 2018/19. Arrangements are in place and this has happened with effect from 1/4/18. Alison Botham will be the Joint Director for Children's Services at Torbay Council and Plymouth City Council from 6 July 2018.</p> <p>Ofsted carried out monitoring visits in the year:</p> <ul style="list-style-type: none"> - The July visit reviewed the progress made for care leavers. The letter concluded that "While the pace of change in other areas of the service has been steady and improvements have been implemented and monitored effectively, the quality of service that care leavers receive is not improving swiftly enough." - The February 2018 visit reviewed the progress of children looked after. The letter conclude that "A culture of resistance to challenge within many areas of the workforce remains. This ultimately acts as a barrier to achieving permanent improvement for children across children's services in Torbay. Actions introduced by senior managers to challenge this poor performance have not been effective in the two years since the full inspection". 	<p>Since issuing its report Ofsted has published the outcome of the monitoring inspections carried out, with the most recent being in February 2018. This notes that the Council's progress in improving services for its children and young people remains too slow and that the quality of service that some children looked after receive has declined since it was inspected in October 2015.</p> <p>We concluded that 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.</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 (As identified in the Audit Plan in February 2018)	Findings	Conclusion
<p>2 Medium term financial planning</p> <p>The Chief Finance Officer's Report on the 2018/19 budget indicates shows that the Council needs to identify further savings in the region of £8m over the 2019/20-2020/21 period. The Medium Term Resource Plan (MTRP) is due to be updated by the end of March 2018 to reflect the 2018/19 budget and the updated forecast position on future funding and pressures.</p>	<p>We reviewed the Council's latest MTRP and the 2018/19 budget, considering the assumptions that underpin the figures within them. We also reviewed the 2017/18 savings achieved against those originally planned.</p> <p>The revenue outturn for 2017/18 shows an overspend of £1.7m, which is mainly due to the pressures in Children's Services, offset by savings elsewhere. The Council monitors 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 2018/19, which including savings of £7.1m. The Council's latest update to the Medium Term Resource Plan was in March 2018. This shows the budget gap in 2019/20 to 2021/22 to be £14.7m. 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 but also highlights the uncertainties, with 2020/21 being flagged as a key year due to changes in the funding allocation to councils proposed for that year, noting that the population increase for the Torbay area is slower than the national average and assuming a reduction would be likely as a result.</p> <p>The Council are currently working on the development of the 2019/20 budget over the summer, with the consultation on the 2019/20 budget scheduled for October 2018.</p>	<p>The Council's MTRP has a gap of £14.7m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Council given the savings it has had to make in recent years, with £7.1m required for 2018/19. The Council must urgently develop realistic savings plans to bridge the budget gap while carefully monitoring the achievement of planned savings in 2018/19.</p> <p>On that basis we concluded that while the level of savings needed represents a significant challenge for the Council, the risk was sufficiently mitigated and the Council has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk (As identified in the Audit Plan in February 2018)	Findings	Conclusion
<p>3 Transformation Programme</p> <p>The Council is progressing a number of transformation projects as it seeks alternative methods of delivery and increased rates of return on investment. It has established an Investment Fund to invest in property and the level of funds committed has increased to over £115m. It has also set up a holding company for two Housing Companies although these are not trading in 2017/18. There are various other transformation projects progressing at different stages.</p>	<p>We reviewed the arrangements being put in place by the Council for these new initiatives, including whether appropriate advice has been taken.</p> <p>The Council's Transformation Programme Manager currently 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.</p> <p>The Council has sought external advice on complex schemes, such as the development of the Housing Companies, as this was a new area for the Council.</p> <p>The Council's capacity to deal with the range and volume of transformation projects had been raised as a concern by LGA and CIPFA previously. The Council responded by setting up a Transformation Team. The Team were initially temporary appointments but have now been made permanent. The Council has tried to recruit a Director of Transformation to increase and enhance its capacity in this crucial area but was unsuccessful in attracting suitable candidates.</p>	<p>We concluded that the Council has appropriate arrangements in place for managing and monitoring its transformation programme but there remains concerns over the capacity of the Council to develop, manage and deliver these schemes, on top of delivering the day job. This is something that the Council needs to address in order to give its Transformation Programme the best chance of delivering the changes and savings required.</p>

Independence and ethics

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.

Service	£	Threats	Safeguards
Audit related			
Teachers' Pension	3,800	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 £3,800 in comparison to the total fee for the audit of £102,053 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.
Non-audit related			
None	-	-	-

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Action plan

We have identified 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 2018/19 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	 <ul style="list-style-type: none"> The Council's MTRP has a gap of £14.7m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Council given the savings it has had to make in recent years, with £7.1m required for 2018/19. 	<ul style="list-style-type: none"> The Council must develop realistic savings plans to bridge the budget gap in 2018/19 to 2020/21. <p>Management response</p> <ul style="list-style-type: none"> The Council has prioritised work on the proposals to bridge the budget gap in 2019/20, and proposals in this respect are well advanced. This being the case, significant effort is now shifting to plan for subsequent years, as well as discussions with the LGA and Central Government to explain the financial challenges facing the Council.
2	 <ul style="list-style-type: none"> The Council has been unsuccessful in recruiting a Director of Transformation and there remains concerns over the capacity of the Council to develop, manage and deliver these schemes, on top of delivering the day job. Successful delivery of the changes and savings are key for the Council with the budget gaps it faces in the medium term. 	<ul style="list-style-type: none"> In the light of being unable to recruit a Director of Transformation, the Council needs to consider whether it has adequate capacity to support and deliver its Transformation Programme. <p>Management response</p> <ul style="list-style-type: none"> The Chief Executive is acutely aware of the need to ensure appropriate resources within the Senior Leadership Team as a whole, and specifically in respect of the Transformation Programme. In this respect the Chief Executive is currently consulting upon a SLT restructure to bring in some additional capacity to SLT, which in turn will bring some additional capacity to the Transformation Programme. The restructure will also provide clear leadership of the Programme as a whole, whilst individual members of SLT will be responsible for individual projects therein. Additional Project Officer support is being recruited to within the Transformation Team, in order to support SLT in ensuring delivery of the projects and the programme.

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 2016/17 financial statements, which resulted in four recommendations being reported in our 2016/17 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	✓	<ul style="list-style-type: none"> The Council must develop realistic savings plans to bridge the budget gap in 2018/19 to 2020/21. 	<ul style="list-style-type: none"> A balanced budget was set for 2018/19. The Medium Term Resource Plan identifies a budget gap of £14.7m in 2019/20 to 2021/22, which has been considered as part of our VFM work. The budget process for 2019/20 is in progress at the time of audit.
2	✓	<ul style="list-style-type: none"> The Council must continue its work to embed its revised streamlined decision making and prioritisation process. 	<ul style="list-style-type: none"> The streamlined decision making process was implemented and Governance Support continued to embed it throughout the year.
3	✓	<ul style="list-style-type: none"> The Council must urgently agree a financial position with the other parties in the ICO that will give it financial certainty while supporting the integrated care model. 	<ul style="list-style-type: none"> A revised risk share agreement was agreed and is in place.
4	✓	<ul style="list-style-type: none"> The Council must ensure that it monitors and reviews its transformations projects carefully to ensure that they deliver the service improvements and savings anticipated. 	<ul style="list-style-type: none"> The Transformation Board monitors delivery against Transformation Projects to ensure that remedial action is taken.

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

No adjusted misstatements have been identified.

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.

Adjustment Type	Value £'000	Account Balance	Impact on Financial Statements	Adjusted?
Disclosure	400	Note 13 Property, Plant and Equipment – Surplus Assets	'Other movements in Cost or Valuation' incorrectly includes some assets that should be included in 'Assets reclassified (to)/from Held for Sale'. 'Other movements in Cost or Valuation' should read £0.5m, whilst 'Assets reclassified (to)/from Held for Sale' should read -£0.4m. No overall impact on the financial statements.	✓
Disclosure	900	Note 37 Capital Expenditure and Capital Financing – Investment Property	Investment Property incorrectly includes long term debtors, which has affect the disclosure of Property, Plant and Equipment. Investment property should read £97.8m, whilst Property, Plant and Equipment should read £14.7m. No overall impact on the financial statements.	✓
Disclosure	N/A	Note 29 Officers' Remuneration	The remuneration band disclosure has not included all staff that earn more than £50,000. An additional 5 staff members were required to be included in the disclosure. No overall impact on the financial statements.	✓
Disclosure	N/A	General	A number of amendments have been made to the draft accounts to correct minor disclosure and presentational issues that do not warrant being individually reported to Those Charged with Governance. No overall impact on the financial statements.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
1 Internal trading recharges were included gross in the cost of services expenditure and income totals. The Code requires these to be accounted for net. Dr Gross expenditure Cr Gross income	506 506	- -	- -	Not material
2 Plant, property and equipment is overstated, due to two assets not being included within disposals when they have been transferred to academies.	517	-517	517	Not material
Overall impact	517	-517	517	

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 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
1 Heritage assets are understated, due to a revaluation not being recognised in year.	-	645	-	Not material
Overall impact	-	645	-	

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	102,053	102,053
Grant Certification	8,125	8,125
Total audit fees (excluding VAT)	£110,178	£110,178

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees
Audit related services:	
• Teachers' Pension	£3,800
Non-audit services - None	-
Total	£3,800

Audit opinion

We anticipate we will provide the Council 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') for the year ended 31 March 2018 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 2017/18 and notes to the core financial statements, including a summary of significant accounting policies, and Collection Fund Summary Account. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its 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 2017/18; 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 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.

Who we are reporting to

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.

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 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 & Accounts set out on pages 1 to 138, other than the 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 Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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.

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 & 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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 set out on pages 24 to 25, 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 Financial Reports & 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 2017/18, which 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 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 the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

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. 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, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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.

The report concluded that:

- turnover within the senior leadership had adversely affected the speed and effectiveness of improvement in response to previous inspection reports;
- performance information was not reliable and quality assurance processes were not embedded to identify improvements across the service; and
- there were weaknesses and inconsistencies in social work practice across the service.

Since issuing its report, Ofsted has published the outcome of monitoring inspections carried out, with the most recent being in February 2018. This most recent inspection notes that the Council's progress in improving services for its children and young people remains too slow and that the quality of service that some children looked after receive has declined since the Authority was inspected in October 2015. Ofsted were carrying out a further inspection at the time of our audit in June 2018, but as at 31 March 2018, the overall inadequate rating remained in place.

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.

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 2018.

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 - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

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