

The Audit Findings for Torridge District Council

Year ended 31 March 2017

22 August 2017

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22 August 2017

Dear Members of the Audit and Governance Committee

Audit Findings for Torrige District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Torrige District Council, the Audit and Governance Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely



Germaine Daly

Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

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Purpose of this report

This report highlights the key issues affecting the results of Torridge District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 2 May 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- final review of fieldwork as part of our quality assurance processes
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position. We identified an amendment to the gross expenditure and income in the Comprehensive Income and Expenditure Statement and have also recommended a small number of adjustments to improve the presentation of the financial statements.

We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- There were a significant number of minor issues with the draft accounts provided for audit. This was due to the change in method of preparation and inadequate quality assurance arrangements resulting from staff changes in the finance department.
- However, the supporting working papers provided have been comprehensive and we have had prompt responses to audit queries by the finance staff.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Audit and Governance Committee in April 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Manager (Resources).

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Strategic Manager (Resources) and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
August 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £701k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £35k. This remains the same as reported in our audit plan

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£10k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k, to ensure the correct bandings are used
Audit fees	Due to public interest in these disclosures.	£1k
Members allowances		£5k
Related party transactions		£20k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Torridge District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Torridge District Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have carried out the following work:</p> <ul style="list-style-type: none"> • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>We do not consider that there is a fraud risk in relation to expenditure recognition, however we do recognise that there is a risk around completeness, in particular 'Year end creditors and accruals are understated or not recorded in the correct period' and employee remuneration is understated.</p> <p>We have completed the following work:</p> <ul style="list-style-type: none"> • Review of internal financial controls relating to operating expenses and employee remuneration. • Walkthrough testing to confirm that controls are implemented. 	<p>Our audit work has not identified any significant issues in relation to expenditure recognition.</p>
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has identified the following issues:</p> <ul style="list-style-type: none"> • The revaluation table in Note 20 did not comply with the Code. This has now been corrected. • The significant valuation increase in property plant and equipment suggests improvements could be made to the desktop exercise that is carried out for the assets not revalued in the year.

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the accuracy of the information supplied to the pension fund by the Council • 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. • Carried out additional work to gain assurance over the discount rate used by the actuary which was outside of the range expected by the auditor's expert's review of Barnet Waddingham. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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 • Review of the application of the year end closedown process for capturing creditor accruals. • Undertaken substantive testing of year end creditors including after date payments. • Tested Goods Received not Invoiced listing to confirm appropriate accruals. • Review of control account reconciliations covering the agreement of creditor payments to the ledger. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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 • Reconciled the annual payroll to the ledger and to the segmental analysis note in the accounts. • Carried out a trend analysis of monthly and weekly payroll payments covering 2016/17 and comparing to 2015/16 to determine whether substantive testing is required. • Review of payroll accrual processes and determine whether substantive testing is required. • Substantive testing of the completeness of IAS19 pension liabilities. • Agreement of employee remuneration disclosures in the financial statements to supporting evidence. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work found that the Council has a robust process in place to prepare the required financial information.</p> <p>However, the Council has accounted for support service 'Recharges' in the Expenditure and Funding Analysis. Following the change to the Code, known as 'Telling the Story' there is no longer a need to apportion recharges across services as the CIES should reflect the Council's reporting of financial performance (i.e., Quarterly Business Reports). This was amended for as detailed in the adjusted misstatements section below.</p>


Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that they were appropriate.



Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> • Activity is accounted for in the year it takes place, not simply when cash payments are made or received. • Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction 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

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Strategic Manager (Resources), s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	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.	 Green

Assessment

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 and Governance 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.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any 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 and Governance Committee papers
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the 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 communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • 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 information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	We are not 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 as the Council is below the £350m threshold.

Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> We reported that the a number of inconsistencies had been highlighted in the Fixed Asset Register (FAR), requiring numerous manual adjustments to correct. Whilst we were satisfied that the output was not materially misstated, we challenged the reliability of the data going forward and recommended that the Council review the FAR to assess whether it is fit for purpose. 	<ul style="list-style-type: none"> The Council have carried out a review of the FAR, which resulted in the identification of some historical issues. These included some assets with negative historic cost and some with negative revaluation reserve figures. This was due to the impairment code being used rather than the revaluation code in the FAR when putting through downward valuations. The correct treatment was being applied for the Consolidated Income and Expenditure Statement. The net impact of the journals to correct the errors was £60k. This exercise has given the Council a better understanding of its FAR and they consider that it is fit for purpose.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 The Council has accounted for support service 'Recharges' in the Expenditure and Funding Analysis. Following the change to the Code, known as 'Telling the Story' there is no longer a need to apportion recharges across services as the CIES should reflect the Council's reporting of financial performance (ie, Quarterly Business Reports). As a result, the CIES is misstated by these amounts, however there are no net effects to net cost of services.			0
Joint Head Planning & Development	(339)		
Senior Solicitor	325		
Strategic Manager (Resources)	1,032		
Strategic Manager (Services)	(1,019)		
2 Note 20 - PPE - Revaluations: The revaluations note did not comply with the Code as the total revalued amount was not analysed across each of the preceding financial years of the rolling programme of revaluations.	Nil – disclosure only	Nil – disclosure only	Nil – disclosure only
Overall impact	£0	£0	£0

Misclassifications 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 the financial statements
1 Disclosure	Nil	Various	A number of minor disclosure issues were found, which have been amended for by officers, relating to prior year comparator differences, formatting issues (e.g., consistency of titles), roundings and disclosure note errors.
2 Disclosure	Nil	Narrative Report	The Code para 3.1.5.3(b) was not fully complied with as limited financial and non-financial performance indicators were included in the report (to allow reader's to assess the Council's performance).
3 Disclosure	Nil	Accounting Policies – Note 4.3	Overheads and Support Services: The note did not follow the Code's requirements relating to 'Telling the Story' and was not in line with the Code guidance example note.
4 Disclosure	304 (Capital) 548 (Revenue)	Note 11 – Grant Income	The Capital Grants Receipts in Advance and Revenue Grants Receipts in Advance notes were not consistent with the Balance Sheet. There were balances included within the note covered by other balances and notes (eg, Creditors). As the balances were not material, the notes were removed from the financial statements.
5 Disclosure	Banding changes	Note 13 – Officers' Emoluments	Two employees were disclosed as earning between £60,000-£64,999, however only one employee earns a salary in this banding. Two employees were disclosed as earning between £50,000-£54,999, however only one employee earns a salary in this banding. In both cases the banding had been incorrectly disclosed as an employee left during the year who earned a salary in this banding.

Misclassifications and disclosure changes continued

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 the financial statements
6 Disclosure	Additional narrative	Note 16 – Related Party Transactions	The note was amended to reference to the Collection Fund, as a number of members are also County and Parish Councillors and hence have influence at those bodies. There note was amended to include some large payments to other entities (e.g. Community groups) as those payments may be material to those parties.
7 Disclosure	49	Note 17 – External Audit Costs	The note did not include the fee for the other non-audit services work (Investors in People reaccreditation) , which amounted to £6k.
8 Disclosure	191	Note 30 – Financial Instruments Liquidity Risk	The PWLB 2-5 year and 5-10 year balance had been misstated. The balances were amended from 291 to 482 (2-5 years) and 661 to 470 (5-10 years). There are no net impacts on the balance.
9 Disclosure	1,193	Note 19 – Capital Expenditure and Financing	The Capital Financing Requirement (CFR) was misstated as the £1,193k repayment from the Capital Receipts Reserve was not included in the note, which reduced the CFR by this amount. Note MRP has been calculated correctly as it is based on the opening CFR, not closing CFR.
10 Disclosure	780	Note 29 & 30 – Financial Instruments	Note 29 Fair Value table: The creditors balance of 87k did not agree to the creditors note or financial instruments table balance of £867k. Note 30 Credit risk: The table detailing exposure to credit risk was not updated from the prior year. The table was subsequently updated to reflect the figures included in the relevant working paper.
11 Disclosure	1,031	Collection Fund: Non Domestic Rates	The apportionment of previous year's surplus balance of £1,031k was stated as being allocated to Torridge District Council, but actually related to Central Government.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

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05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment 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 2 May 2017.

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.

Significant qualitative aspects

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:

- How reasonable the assumptions made by the Council were in its latest Medium Term Financial Strategy
- How robust are the arrangements around the Transforming Torridge 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 page 27.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

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

- The Council must ensure that its review of the waste service is complete and implemented for the 2019/20 financial year as the balanced budget forecast currently anticipates the £650k savings from the review.
- Formal financial and progress reporting to members on the Transforming Torridge Programme should be carried out regularly to aid the transparency of the decision making on what is a key project for how the Council will deliver its services in the future.
- The Council needs to ensure that there are adequate governance arrangements in place for its transformation projects. The proposed Programme Board would enhance the Council's current arrangements.

Management's response to these can be found in the Action Plan at Appendix A.

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	Work to address	Findings and conclusions
<p>Medium Term Financial Planning Like all public sector bodies, the Council is facing financial pressures with cuts in central funding and has recently refreshed its Medium Term Financial Strategy (MTFS), taking into accounts recent changes such as the changes in the arrangements for New Homes Bonus. The MTFS is balanced through to 2021/22 partly by use of reserves</p>	<p>We reviewed the Council's latest MTFS and the 2017/18 budget, considering the assumptions that underpin the figures within them.</p>	<p>The Council has got a robust strategic financial planning process in place, which is consulted on and involves members. Planning assumptions are reported as part of the decision making process and the Medium Term Financial Strategy (MTFS) is subject to regular review to reflect changing events. The MTFS is balanced through to 2021/22, although this is partly due to the allocation of resources from the Transition of Government Funding reserve. The balanced position is also reliant on the £650k savings from the review of waste being fully implemented by 31 March 2019.</p> <p>On that basis we concluded that 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>
<p>Transformation Programme The next phase of the Transforming Torridge Programme is underway, which will includes alterations to the Riverbank House Building and the eventual move of all staff out of Bridge Buildings. The project has been delayed by Environment Agency requirements on the proposals for Riverbank House.</p>	<p>We reviewed the arrangements in place around this next phase of the transformation project, which is a significant project for the Council and the way that it will deliver its services. This included the revenue and capital implications of the programme, the monitoring of the project, and the reporting to members to inform decision making.</p>	<p>The Transforming Torridge Programme dates back to initial approval in October 2014. The original strands of the project were:</p> <ul style="list-style-type: none"> • Office Accommodation. The main focus of the office accommodation strand was the relocation of staff from Bridge Buildings into Riverbank House and a site adjacent. This is in progress currently on site. • Customer First - the reception hub. As part of the accommodation changes there will be a significant enhancement of Riverbank House to provide a customer facing reception hub for all services.. • Business Innovation and Locality working. These strands have become known as Digital by Default which is about the Council improving the entire way it words using a digital platform. Some parts of this have been delivered but the larger part will be customer interaction either by a Customer Relationship Management System or self service software. This work has stalled slightly following the departure of the Business Transformation manager and the Council are working with Devon CC partners to progress this as it will need to be in place when the Customer hub is completed. <p>A report to Council on 26 June 2017 gave a full update on progress on the Transforming Torridge project. A detailed report on the proposals for the Riverbank House hub is also included on the agenda of Full Council on 7 August 2017.</p> <p>While the Programme is a standing item on the agenda of Full Council, progress reports have been limited to verbal updates over the last two years until June 2017, with the last formal report prior to that being in June 2015. Plans to create a Programme Board for the project have been deferred pending further information to be provided to members.</p> <p>The Council's work on this area is in progress and we do not consider that this is an issue that impacts on our VFM conclusion. However, the Council must ensure that formal financial and progress reporting to members is carried out regularly to aid the transparency of the decision making on what is a key project for how the Council will deliver its services in the future.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

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06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	41,288	41,288
Grant certification	8,444	8,444*
Total audit fees (excluding VAT)	49,732	49,732

* Indicative fee as work is still in progress

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

Grant certification

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'.

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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• None	Nil
Non-audit services:	
• Investors in People reaccreditation	6,300

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Non-audit services				
Investors in People (IIP) reaccréditation	Torrige District Council	£6,300	<ul style="list-style-type: none"> • Yes 	Level of fee is not a significant threat in comparison to the overall fee of £41,288. There is no contingent element to the fee and the work is carried out by staff not connected with the main audit.
	TOTAL	£6,300		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor

Section 6: Communication of audit matters

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Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	The Council must ensure that its review of the waste service is complete and implemented for the 2019/20 financial year as the balanced budget forecast currently anticipates the £650k savings from the review.	High	The project plan is established and additional resources have been allocated to aid the project progression. Additional experienced project management resource has been sourced via our arrangements with Devon CC to support this and the other major projects in the delivery phase.	Planned implementation June 2018. However, impacts arising as a result of the waste transfer station site being confirmed located at Brynsworthy and the delay in locating a suitable depot site in the District are having an impact and this will be established by 30 September 2017 – Jenny Wallace
2.	Formal financial and progress reporting to members on the Transforming Torridge Programme should be carried out regularly to aid the transparency of the decision making on what is a key project for how the Council will deliver its services in the future.	High	Agreed and it is anticipated that the establishment of a Programme Board will be part of the process enabling this.	18 September 2017 – next Full Council Steve Hearse
3.	The Council needs to ensure that there are adequate governance arrangements in place for its transformation projects. The proposed Programme Board would enhance the Council's current arrangements.	High	A report recommending this course of action has been prepared for the Community & Resources Committee to consider on the 29 August 2017	29 August 2017 - Steve Hearse
4.	The Council should review its arrangements for ensuring that the valuation of its land and buildings is not materially misstated at the balance sheet date. The reasons for the significant valuation increase in 2016/17 should be considered in order for the process to be refined and improved for 2017/18.	High	Agreed – we propose to review the extent to which valuations have increased in specific categories of asset and then discuss with the District Valuer the additional information that would be required to ensure the values are not materially misstated e.g. revenue income from car parks.	31 January 2018 for the 2017-18 Statement of Accounts. Steve Hearse
5.	The Council must implement an improved quality review process for its statement of accounts before they are presented for audit in 2017/18. The timescale is shorter for both the production of the 2017/18 accounts and the completion of the audit and it is imperative that the draft statement of accounts have been subject to rigorous internal review.	High	Agreed – However, it should be noted that for the production of the Statement of Accounts 2016-17 a major exercise was undertaken to review the Fixed Asset Register, which delayed progress and on top of this two members of the team left during the closedown process to take up job opportunities elsewhere.	31 May 2018 – deadline for the Statement of Accounts 2017-18 Steve Hearse

B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORRIDGE DISTRICT COUNCIL

We have audited the financial statements of Torridge District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. 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 2016/17.

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

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of Responsibilities, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: Framework (2016)’ published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Geraldine Daly
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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