

The Annual Audit Letter for Torridge District Council

Year ended 31 March 2017

OCTOBER 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Torridge District Council (the [Council]) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Report on 22 August 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's] arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 August 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 22 August 2017.

Certificate

We certified that we had completed the audit of the accounts of Torridge District Council in accordance with the requirements of the Code on 22 August 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Other work completed

We provided your teams with training on financial accounts. We also held separate workshops on Income Generation and Faster Close, and a seminar on Joint Ventures.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit –delivery of the accounts audit over one month before the deadline
- VFM - we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our sector insight via our National Reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £701k, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set lower levels of specific materiality for cash, senior officer remuneration, audit fees, members allowances and related party transactions.

We set a lower threshold of £35k, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Strategic Manager (Resources) are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gained 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. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the Council's 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 (PWC) review of Barnet Waddingham. 	<p>Our audit work did not identify any issues to report.</p>
<p>Valuation of property plant and equipment</p> <p>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>As part of our audit work we have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. Tested revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year to assess how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work identified the following issues:</p> <ul style="list-style-type: none"> The revaluation table in Note 20 did not comply with the Code. This was corrected in the final statements. The significant valuation increase in property plant and equipment suggested improvements could be made to the desktop exercise that is carried out for the assets not revalued in the year.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 August 2017, over a month in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable. The key messages arising from our audit of the Council's financial statements were:

- 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 were comprehensive and we had prompt responses to audit queries by the finance staff.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 22 August 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in August 2017, we agreed recommendations to address our findings.

- 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.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Value for money risks

Risk identified	Work carried out	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 works 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>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	41,288	41,288	41,288
Housing Benefit Grant Certification	8,444	8,444*	8,220
Total fees (excluding VAT)	49,732	49,732	49,508

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

* This work is on-going and the final fee will be notified in the Certification Letter later this year.

Reports issued

Report	Date issued
Audit Plan	May 2017
Audit Findings Report	August 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• None	Nil
Non-audit services: <ul style="list-style-type: none">• Investors in People reaccreditation	6,300

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 table above summarises all other services which were identified.
- 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, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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