

Audit Findings

Year ending 31 March 2018

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

Torrige District Council
20 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 Torridge District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<p>Financial Statements</p>	<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 of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <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 commenced our post-statements onsite visit on 9 July and as at 20 July 2018 our audit is substantially complete. Our findings are summarised on pages 4 to 13.</p> <p>We have at this date identified no material errors and no adjustments to the financial statements that have resulted in a adjustment to the year end outturn position or balance sheet. We have recommended some adjustments to improve the presentation of the financial statements.</p> <p>The draft financial statements were presented for audit in accordance with the earlier timetable of the end of May 2018. The accounts were supported by good quality working papers and we received prompt responses to our queries.</p> <p>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 work outstanding being completed and queries being resolved, we anticipate issuing an unqualified audit by the 31 July 2018 deadline, as detailed in Appendix E. These outstanding items are set out on page 4.</p> <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>
<p>Value for Money arrangements</p>	<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 Torridge District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 17.</p>
<p>Statutory duties</p>	<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; and certify 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 and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings 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 in advance of the 31 July 2018 deadline, as detailed in Appendix E. These outstanding items include:

- Finalising items on journals, welfare benefits, significant estimates and concluding steps
- final review of the audit work
- receipt of the Devon Pension Fund Assurance Letter
- receipt of management representation letter; and
- review of the final set of financial statements
- Whole of government accounts.

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.

Our assessment of the value of materiality has been adjusted to reflect that total expenditure has increased by 8% compared to our planning estimate. We detail in the table below our assessment of materiality for Torridge District Council.

	Planning materiality (£)	Final materiality (£)
Materiality for the financial statements	683k	739k
Performance materiality	478k	518k
Trivial matters	34k	37k
Materiality for specific transactions, balances or disclosures:		
Senior officer remuneration	5k	5k

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 Torridge District Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Torridge District 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 work in this area is in progress and we will update the Audit and Performance Review Committee meeting with our findings.

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, the instructions issued to valuation experts and the scope of their work. .
- Review of the competence, expertise and objectivity of any management experts used.
- 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 in this area is substantially complete, subject to internal quality control procedures, and we will update the Audit and Governance Committee meeting with our findings.

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.
- Obtained assurances from the Pension Fund auditor at Devon County Council.

Our audit work in this area is substantially complete, subject to internal quality control procedures and receipt of the Devon Pension assurance letter, and we will update the Audit and Governance Committee meeting with our findings.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

7

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 and an interface with a sub-system 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
- Obtained the year-end payroll reconciliation and ensured that the amount in accounts can be reconciled to ledger and through to payroll reports.
- Agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness.

Our audit work has not identified any issues in relation to employee remuneration.

8

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (20%) 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 a listing of non-pay payments made in April and tested a sample to ensure that they have been charged to the appropriate year.
- obtained and reviewed the year-end Accounts Payable (AP) reconciliation, investigating any significant reconciling items.

Our audit work has not identified any issues in relation to operating expenses.

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 5 to page 7.

The matters that we identified during the course of our audit are set out in the table below. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Assessment	Issue and risk	Recommendations
1. ●	<p>Lack of formal reviews of information security policies and procedures</p> <p>A suite of IT Security Policies are provided to the Council's staff through publication on the staff intranet. We have been provided with a number of policies and note that the policies provided, which are available on the intranet, are out of date.</p> <p>We note that staff are not provided with periodic IT security training or are required to acknowledge and agree to abide by the IT security policies on reissue.</p> <p>There is a risk that staff breach organisational, legislative or regulatory requirements by not understanding what their responsibilities are. Also, that staff who do breach security requirements cannot be held accountable through lack of enforceable arrangements to inform them of the responsibilities by Council management.</p>	<ul style="list-style-type: none"> We recommend that senior management review the arrangements to inform staff of IT security requirements within the Council. All IT security policies need to be reviewed, updated, and reissued. A mandatory training programme should be considered to ensure all Council staff are aware of the IT security responsibilities, which should be monitored to ensure compliance and be held on an annual basis. All staff should be required to regularly acknowledge and agree to abide by the policies. Policies should be reviewed at least every three years or when significant changes to the IT environment have occurred and be reissued.
2. ●	<p>Review of security logs</p> <p>There are no formal, proactive processes in place to monitor security logs in eFinancials, Bond Payroll or Academy. The logs can provide information relating to user activity in the systems and can act as a warning for system misuse or problems.</p> <p>Without proactive, routine reviews of security event logs, inappropriate and anomalous security activity (e.g. repeated invalid login attempts, activity violating information security policies) may not be identified and/or addressed in a timely manner.</p>	<ul style="list-style-type: none"> Given the criticality and confidentiality of the data accessible through the IT systems at the Council, oversight of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.

Assessment

- Significant deficiency
- Deficiency – risk of inconsequential misstatement

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 5 to page 7.

The matters that we identified during the course of our audit are set out in the table below. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Assessment	Issue and risk	Recommendations
3. ●	<p>Password Controls</p> <p>We note that the network password has been strengthened to a 12 character password (pass-phrase) renewable every 90 days. However, both Bond HR/Payroll and eFinancial passwords are weak ie non-complex and only six characters. This is supported through the IT Security Guidance, which informs users not to use a password of less than six characters. As both systems contain sensitive personal and financial data, the passwords should be of at least eight characters and complex.</p> <p>There is a risk that sensitive personal and financial data could be breached by unauthorised staff who could easily guess other users' passwords, or be breached by password hacks.</p>	<ul style="list-style-type: none"> We recommend that management consider advising staff to create passwords of no less than eight characters and that, where possible, this is enforced in the systems password parameters.
4. ●	<p>No proactive reviews of user access permissions within active directory</p> <p>It is our experience that access privileges tend to accumulate over time there is a need for management to perform formal periodic reviews of the user accounts and permissions.</p> <p>There is a risk that access to information resources and system functionality may not be restricted on the basis of legitimate business need and enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. This may lead to segregation of duties conflicts and access privileges becoming disproportionate with respect to end users' job duties.</p>	<ul style="list-style-type: none"> We recommend that management consider implementing at least a six monthly process to review user access requirements on the network and IT applications to ensure access privileges are in line with the user's job role for all IT system including the network.

Assessment


- Significant deficiency
- Deficiency – risk of inconsequential misstatement

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 5 to page 7.

The matters that we identified during the course of our audit are set out in the table below. 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.




These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Assessment	Issue and risk	Recommendations
5. 	<p>The number of people with administrator rights is limited appropriately</p> <p>We have been provided with details of system administrator group for Capita Academy and Bond Payroll systems and note that generic accounts are listed in the groups. Use of generic accounts is considered inappropriate and significantly reduces accountability in the system.</p> <p>We understand that each application has a dedicated Administration function, but the applications do not support the restriction in the user settings.</p> <p>There is a risk that control mechanisms could be bypassed through inappropriate use of the system administrator functionality and/or easily guessed passwords, leading to creation of unauthorised accounts or updates to their own account privileges, which provides the opportunity to commit unmonitored fraudulent activity.</p>	<ul style="list-style-type: none"> We recommend management review system administrative functions and access to both Capita Academy and Bond Payroll, to ensure that only named, authorised individuals have access to administrative functionality and this is monitored in line with recommendations in Issues 2 and 4.

Assessment


-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Accounting policies

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 	
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 	
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. 	<p>The accounting policies did not have a policy for investment property and the financial instruments note did not include the policy for financial liabilities.</p>	

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 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"> 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 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 for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.
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 – refer to 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.
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Torridge District Council in the audit opinion, as detailed in Appendix E.</p>
⑤ Going concern	<ul style="list-style-type: none"> We are required to on 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 Council's ability to continue as a going concern <p>We have nothing to report on these matters.</p>

Value for Money

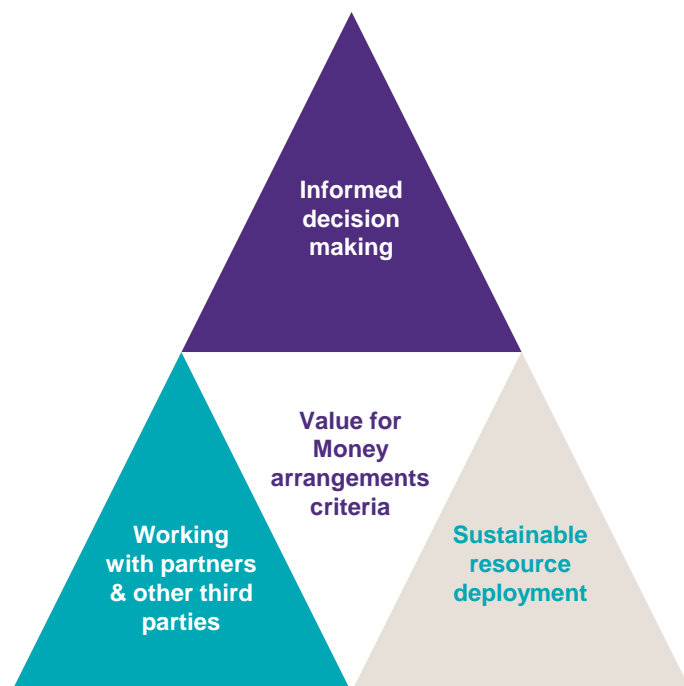
Background to our VFM approach

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 two 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 7 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:

- How reasonable the assumptions made by the Council were in its latest Medium Term Financial Strategy
- How were the revised governance and reporting arrangements for the Transforming Torridge Program working

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 16 to 17.

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 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	Findings	Conclusion
<p>1 Financial sustainability</p> <ul style="list-style-type: none"> The Council has recently refreshed its Medium Term Financial Strategy (MTFS). This shows that the Council will need to draw on its reserves to balance the budget in 2019/20 to 2022/23, with the Transition in Government Funding and Business Rates Reserves projected to have been exhausted by 2022/23 if further savings are not identified 	<p>We reviewed the Council's latest MTFS, including the assumptions and the savings plans reflected within it. We also considered the projected savings from the Transforming Torridge Program, which had been excluded from the latest MTFS due to changes and delays in the program.</p> <p>The latest MTFS was presented to Council and approved in February 2018. 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 assumptions included within the detailed MTFS have been considered and appear reasonable and based on the latest information available to the Council.</p> <p>It shows a balanced budget for 2018/19 but the need to draw on reserves in 2019/20 to 2022/23. The budget report stated that with no remedial action the budget gap in 2022/23 would be £413k with two key reserves having been exhausted.</p> <p>The budget gap in 2019/20 is £388k, with gaps of £514k, £502k and £432k in 2020/21, 2021/22 and 2022/23 respectively. The savings from the Transforming Torridge Program have been temporarily removed from the MTFS due to delays and changes to the program. This will be reviewed in 2018/19 for inclusion in future years.</p> <p>Conclusion: The Council must develop realistic savings plans to bridge the budget gap in the medium term.</p>	<p>The Council's MTFS shows that a balanced budget position can only be achieved by the use of reserves over the next four years. The Council must develop realistic savings plans to bridge the budget gap.</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	Findings	Conclusion
<p>2 Delivery of Transforming Torridge</p> <ul style="list-style-type: none"> The Transforming Torridge Program is a significant project for the Council and is critical to the way it will deliver its services in the medium term. 	<p>We reviewed the progress being made on this key project for the Council, which cuts across the VFM sub-criteria. A Programme Board was recently introduced and we reviewed how the revised governance and reporting arrangements are working. This included the monitoring of the project, and the reporting to members to inform decision making.</p> <p>The Programme Board is now in place and considers updates on specific projects with highlight reports on giving a RAG rating of the project progress against plan.</p> <p>Full written reports are now presented to Full Council, where it is a standing item, rather than verbal updates.</p>	<p>Governance and reporting arrangements around the Transforming Torridge Programme are now much more robust with formal reporting to all members on a regular basis and the introduction of the Programme Board to concentrate specifically on this key area. This will need to be a continuing area of focus for the Council.</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			
None	Nil	-	-
Non-audit related			
Productivity Plan for the Heart of the South West LEP	35,750	Yes	The work was carried out for the Heart of the South West LEP and has been undertaken by a separate team, independent of the audit team. The work was commissioned and billed to Somerset County Council. We are obliged to inform you of this work.

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 Council. 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 6 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.

1	Assessment	Issue and risk	Recommendations
	●	<ul style="list-style-type: none"> The Council's MTFS shows that a balanced budget position can only be achieved by the use of reserves over the next four years. 	<ul style="list-style-type: none"> The Council must continue to develop robust savings plans to bridge the budget gap in the medium term, with regular monitoring and reporting to members. <p>Management response</p> <p>We held a workshop for Members on 19 July to further report some updated financial information in relation to our Medium Term Financial Planning. This included an update on the current year. Members were asked to consider / options areas for looking to achieve financial benefits to manage the budget gap. The options proposed will be further evaluated and reported to Full Council shortly.</p>

Controls

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

Action plan

We have identified 6 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
2	<p>Lack of formal reviews of information security policies and procedures</p> <p>A suite of IT Security Policies are provided to the Council's staff through publication on the staff intranet. We have been provided with a number of policies and note that the policies provided, which are available on the intranet, are out of date.</p> <p>We note that staff are not provided with periodic IT security training or are required to acknowledge and agree to abide by the IT security policies on reissue.</p> <p>There is a risk that staff breach organisational, legislative or regulatory requirements by not understanding what their responsibilities are. Also, that staff who do breach security requirements cannot be held accountable through lack of enforceable arrangements to inform them of the responsibilities by Council management.</p>	<ul style="list-style-type: none"> We recommend that senior management review the arrangements to inform staff of IT security requirements within the Council. All IT security policies need to be reviewed, updated, and reissued. A mandatory training programme should be considered to ensure all Council staff are aware of the IT security responsibilities, which should be monitored to ensure compliance and be held on an annual basis. All staff should be required to regularly acknowledge and agree to abide by the policies. Policies should be reviewed at least every three years or when significant changes to the IT environment have occurred and be reissued. <p>Management response</p> <ul style="list-style-type: none"> All IT security policies have been reviewed and updated. Final documentation is currently with Torridge District Council (TDC) Senior Management Team for sign-off. The documentation will be disseminated to all staff following that. We are currently in the process of selecting and deploying a data security awareness/training application. Our intention is that this application will ensure that end users are aware of our data security obligations, as identified in the updated Information Security Policy and User Guidance. A required function of the application would be to record, and report on, user responses and acknowledgements of information security obligations. TDC Senior Management Team are considering incorporating this into a mandatory induction and refresher training programme. The updated Information Security Policy and User Guidance is scheduled for reviewed no later than in three years' time.

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
3	<p>Review of security logs</p> <p>There are no formal, proactive processes in place to monitor security logs in eFinancials, Bond Payroll or Academy. The logs can provide information relating to user activity in the systems and can act as a warning for system misuse or problems.</p> <p>Without proactive, routine reviews of security event logs, inappropriate and anomalous security activity (e.g. repeated invalid login attempts, activity violating information security policies) may not be identified and/or addressed in a timely manner.</p>	<ul style="list-style-type: none"> Given the criticality and confidentiality of the data accessible through the IT systems at the Council, oversight of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems. <p>Management response</p> <ul style="list-style-type: none"> We are currently investigating options to address this risk.
4	<p>Password Controls</p> <p>We note that the network password has been strengthened to a 12 character password (pass-phrase) renewable every 90 days. However, both Bond HR/Payroll and eFinancial passwords are weak ie non-complex and only six characters. This is supported through the IT Security Guidance, which informs users not to use a password of less than six characters. As both systems contain sensitive personal and financial data, the passwords should be of at least eight characters and complex.</p> <p>There is a risk that sensitive personal and financial data could be breached by unauthorised staff who could easily guess other users' passwords, or be breached by password hacks.</p>	<ul style="list-style-type: none"> We recommend that management consider advising staff to create passwords of no less than eight characters and that, where possible, this is enforced in the systems password parameters. <p>Management response</p> <p>Network accounts now require complex passwords of at least 12 characters, including at least three of the following four character types – upper case, number, special character, lower case.</p> <p>Service specific applications have a variety of password minimum requirements which are beyond the control of TDC IT. Users are advised to follow the above network format on all applications.</p>

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
5	<p>No proactive reviews of user access permissions within active directory</p> <p>It is our experience that access privileges tend to accumulate over time there is a need for management to perform formal periodic reviews of the user accounts and permissions.</p> <p>There is a risk that access to information resources and system functionality may not be restricted on the basis of legitimate business need and enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. This may lead to segregation of duties conflicts and access privileges becoming disproportionate with respect to end users' job duties.</p>	<ul style="list-style-type: none"> We recommend that management consider implementing at least a six monthly process to review user access requirements on the network and IT applications to ensure access privileges are in line with the user's job role for all IT system including the network. <p>Management response</p> <p>Duly noted. TDC IT undertake ad hoc checks and, when these identify an issue, changes are proposed and deployed as appropriate.</p> <p>TDC IT Manager to review viable options to increase the frequency and depth of such checks.</p>
6	<p>The number of people with administrator rights is limited appropriately</p> <p>We have been provided with details of system administrator group for Capita Academy and Bond Payroll systems and note that generic accounts are listed in the groups. Use of generic accounts is considered inappropriate and significantly reduces accountability in the system.</p> <p>We understand that each application has a dedicated Administration function, but the applications do not support the restriction in the user settings.</p> <p>There is a risk that control mechanisms could be bypassed through inappropriate use of the system administrator functionality and/or easily guessed passwords, leading to creation of unauthorised accounts or updates to their own account privileges, which provides the opportunity to commit unmonitored fraudulent activity.</p>	<ul style="list-style-type: none"> We recommend management review system administrative functions and access to both Capita Academy and Bond Payroll, to ensure that only named, authorised individuals have access to administrative functionality and this is monitored in line with recommendations in Issues 2 and 4. <p>Management response</p> <p>Duly noted. As outlined in response above, this is undertaken ad hoc.</p> <p>TDC IT Manager to review viable options to increase the frequency and depth of such checks.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Torridge District Council's 2016/17 financial statements, which resulted in 5 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The review of the waste service has been completed following its refinement and approval and it is reflected in the current Medium Tern Financial Strategy.
2	✓	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Transforming Torridge Programme is a standing item on the Council's agenda and is supported by formal monitoring and reporting to members.
3	✓	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The governance arrangements for transformation projects has been improved by the introduction of the Transformation Board.
4	✓	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Authority's arrangements for ensuring that the valuation of its land and buildings is not materially misstated at the balance sheet date for 2017/18 included details of car park income in the instruction to the valuer, demonstrating that the process has been refined and improved.
5	✓	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The draft 2017/18 statement of accounts contained far fewer issues than in 2016/17, and the majority of these were very minor. While there may be some further room for improvement on minor typos etc, there was evidence that the internal review process had been greatly improved.

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

There are no adjusted misstatements.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Fair value of PWLB debt	<ul style="list-style-type: none"> The Council has used the premature redemption rate report to prepare its PWLB fair value disclosures 	<ul style="list-style-type: none"> The PWLB fair value disclosures should be prepared using the new loan rate (£1,317k) rather than the premature redemption rate (£1,365k). 	✓
Note 9 Grant Income	<ul style="list-style-type: none"> The note does not include s.106 Housing grant of £404k. This amount is correctly included as income in the CIES so the primary statement disclosure is correct. 	<ul style="list-style-type: none"> All grant income should be disclosed within Note 9. 	✓
General Disclosures	<ul style="list-style-type: none"> Other general amendments 	<ul style="list-style-type: none"> Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately reported should be adjusted and included. 	✓

Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements.

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the 2016/17 financial statements.

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	41,288	41,288
Grant Certification	8,220	8,220
Total audit fees (excluding VAT)	£49,508	£49,508

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.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• None	Nil
Non-audit services:	
Productivity Plan for the Heart of the South West LEP - The work was commissioned and billed to Somerset County Council. We are obliged to inform you of this work.	35,750
	£35,750

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Torridge District 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 Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 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 Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 102, 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 Statement of 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 Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 26, 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 Section 151 Officer. 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial 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 Section 151 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 and Governance 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

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, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 - Certificate

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

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

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