

Informing the audit risk assessment for Torridge District Council 2020/21

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Torridge District Council's external auditors and Torridge District Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Torridge District Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The main issue that stands out above all others is the complexity of the Covid-19 payments we have received and the classification thereof and the presentation (exceptional item might be a consideration).
2. Have you considered the appropriateness of the accounting policies adopted by Torridge District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Not yet but the Grants and contributions policy might require additional clarification around the Covid-19 grants. IAS 19 amendments to the code need to be taken into account and applied and appropriately disclosed. Financial instruments changes – we do not foresee that this will affect us but this needs to be reviewed. IFRS 16 leases – notice of the further delay in implementation, initial assessment is that the impact on Torridge will not be significant as it does not have many leased in assets (primarily
3. Is there any use of financial instruments, including derivatives?	No – The Council only has short term treasury deposits for cash flow purposes, however it has a loan of £100k to the Atlantic Racquet Centre in 2020/21.
4. Are you aware of any significant transaction outside the normal course of business?	The Covid-19 Discretionary grants that fall outside of the Collection Fund. Passported grants.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	General market uncertainty around Covid-19. Impact of reduced income on assets using income as a determining valuation factor.
6. Are you aware of any guarantee contracts?	None.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Torridge District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Monitoring Officer has confirmed none. There were no contingencies from prior years.

General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Statements of Accounts – We have a subscription with Ihabod Industries who have provided us with briefing notes and annual update. No queries raised with them through the year. PSTax subscription – We raise questions concerning tax (mostly VAT) through out the year.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Torridge District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Torridge District Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Torridge District Council assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>The Council's internal Audit focusses on internal controls which prevent fraud. For example the audits undertaken will look for separation of duties and other control measures.</p>
<p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p>	<p>We have in place an Anti-fraud, Corruption and Bribery Policy and Strategy – Sections 6.3-6.8 http://intranet.torridge.gov.uk/CHttpHandler.ashx?id=19808&p=0</p>
<p>How do the Torridge District Council's risk management processes link to financial reporting?</p>	
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Our internal controls are robust and we have just had a Main Accounting Systems audit which identified no matters of concern.</p>
	<p>Given the number of grants paid out this year – passported and other support grants, the possibility of fraudulent grant applications had led to a Post Payment Assurance Plan implementing Grant Fraud Checks.</p>

Fraud risk assessment

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Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Torridge District Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>None within Torridge, there have been some attempts to claim Business Support Grants fraudulently.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Torridge District Council where fraud is more likely to occur?</p>	<p>The fraud risks identified</p> <p>Where cash is handled there is increase risk of fraud, the only place where cash is taken by the Council is at</p>
<p>5. What processes do Torridge District Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has a fraud policy section on our staff intranet http://intranet.torridge.gov.uk/3171.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Torridge District Council, including:</p> <ul style="list-style-type: none">• the existence of internal controls, including segregation of duties; and• the process for reviewing the effectiveness of the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Internal audit conducts a Main accounting Systems Audit – no concerns.</p> <p>This is an ongoing consideration.</p> <p>No internal control issues within Finance have been raised during the year.</p> <p>http://intranet.torridge.gov.uk/3171 Fraud Policy, Whistle-blowing Policy, CIPFA – Managing the Risk of fraud, Financial Procedure rules.</p> <p>Any override of controls is governed by a process – e.g. contract waiver</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Estimated accruals and prepayments, impairment of debt workings – there is little scope in our organisation for pressures of this nature and these adjustments are reviewed very carefully for appropriateness. There is no meaningful incentive to misreport financial performance.</p>

Fraud risk assessment

Question	Management response
<p>8. How do Torridge District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about</p>	<p>See code of conduct for employees - http://intranet.torridge.gov.uk/CHttpHandler.ashx?id=9510&p=0</p> <p>See tender template for contractors - Tender template TDC January 2021 v3.docx</p> <p>There is the Whistleblowing policy and the Fraud Policy in place as well as a Code of Conduct for Employees.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Officers with the ability to approve expenditure.</p> <p>Any identified gap in the controls are risk assessed and controls put in place to address the risk appropriately.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None.</p> <p>The Members and Officers OMT and above complete a Register of Interests and the Members have a code of Conduct which will cover the ethics of related party relationship and transactions. At Committee Meetings Members with an interest in a matter being decided recuse themselves formally. At year end a working paper identifies related party transactions and is disclosed in a</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee? How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>Any instances of fraud (or possible fraud / error) are reported to the Leader and the appropriate Lead Member / Committee Chair; and then to A & G (as Part II agenda items).</p> <p>Each year the Audit Manager (DAP) undertakes and reports on a fraud self assessment against CIPFA's code of practice.</p> <p>Any instances of fraud (or possible fraud / error) are reported to the Leader and the appropriate Lead Member / Committee Chair; and then to A & G (as Part II agenda items).</p> <p>Fraud arrangements at Torridge are seen to be effective - there have been no reported frauds (excluding benefits) during 2019/20.</p>
<p>12. Are you aware of any whistleblowing potential or complaints by potential whistleblowers? If so, what has been your response?</p>	<p>None.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that Torridge District Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Torridge District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's</p>	<p>A mix of internal audit reports, Annual Audit opinion and Senior Manager Governance statements. Any non compliance is reported to senior management and A&G Committee along with any necessary mitigating actions.</p> <p>Internal Audit function – key systems are audited annually and the annual internal audit plan is risk assessed to provide assurance across all services that agreed policies and procedures are in place and are being complied with. Also the Whistle-blowing policy, complaints process and questions by the general public to Members at</p> <p>Not aware.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Senior Manager Assurance Statements and an annual review of governance arrangements. All audit reports are circulated to Members of the A&G Committee and time is allocated at Committee to discuss any issues identified.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21</p>	<p>None.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Torrington District Council have in place to identify, evaluate and account for litigation or claims?	As a small district council, any potential legal liability arising from claims against the Council would be picked up at the regular budget monitoring meetings between legal and finance. Furthermore if a legal case is considered a high risk to the Council it would be added to the Council's risk register.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None.

Related Parties

Issue

Matters in relation to Related Parties

Torridge District Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Torridge District Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Torrridge District Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none">• the nature of the relationship between these related parties and Torrridge District Council• whether Torrridge District Council has entered into or plans to enter into any transactions with these related parties• the type and purpose of these transactions	<p>The related party work for the 2020/21 accounts has not been completed.</p>
<p>2. What controls does Torrridge District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and Senior Officers are required to declare the organisations in which they have an interest, and which potentially the Council could contract with.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Any significant transactions would have to be in accordance with the Councils' Finance and Contract procedure rules.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Council has a contract waiver process where significant transactions take place outside of the Financial and Contract procedure rules.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The main of significant estimation within the Council's statement of accounts pertain to the valuation of Fixed Assets (Property) and pension liabilities.
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	The council engages experts to provide estimates for property valuations and pension liabilities.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The assumptions regarding key estimates are reviewed in light of historical performance, sometimes they are arrived after discussions with other local authorities/consultants e.g. calculation of business rate appeal provision etc..
4. How do management review the outcomes of previous accounting estimates?	Various, if for example a year end estimates for Housing Benefit subsidy due to the Council will ultimately be judged against the audit and payment of the Housing Benefit subsidy return.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	None.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The need for specialised skills is determined by the size of the accounting estimates and the knowledge within the Council. With regards to estimates for Pension liabilities this is an area of specialism the Council doesn't have and hence actuaries are engaged. The Council does not have the capacity within its property team to provide valuations of its properties and hence engages the District Valuer to undertake these works.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management	The accountancy team reviews estimates provided by external experts and raising queries (for example large movements on property valuations). The Section 151 officer reviews estimates calculated by members of the accountancy team for reasonableness.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As above.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	All accounting estimates are accompanied by working papers and supporting documentation detailing the basis upon which estimates had been calculated. Estimation methodologies are periodically reviewed to ascertain if they are still reasonable.



Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other	No.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Ultimately, the external audit of statement of accounts reassurance that estimates are adequate.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment Valuations	Expert external valuer used (District Valuer). Valuations on DRC, EUV, MV basis.	valuations have been professionally undertaken to RICS standards	Yes	Estimates reviewed by property manager, and Capital accountant, for reasonableness and variances.	No
Estimated remaining	Expert external valuer used (District Valuer).	As above	Yes	Estimates reviewed by property manager, and Capital accountant, for reasonableness and variances.	No
Depreciation and Amortisation	Based on remaining useful economic life	As above			No
Impairments	Property manager assesses any significant impairments				No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Value carried at amortised cost. or measured at fair value.		No	Credit risk undertaken for investments. Historical default risk	No
Provisions for liabilities	NNDR appeals Housing bond scheme		No	Historical performance	No
Bad Debt Provision	Traditionally the collection rate for Council Tax and Business rate has fluctuated between narrow parameters.		No	Historical performance	No
Accruals	deminimus level of £5,000 is normally applied to any manual accrual adjustments		No		No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimate	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	n/a		n/a		No
Pension Fund (LGPS) Actuarial gains/losses	Experts used to provide Pension liabilities / asset valuations	Data provided to Pension Actuaries' is signed off by Finance Department	Yes		No



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