

The Annual Audit Letter for Torridge District Council

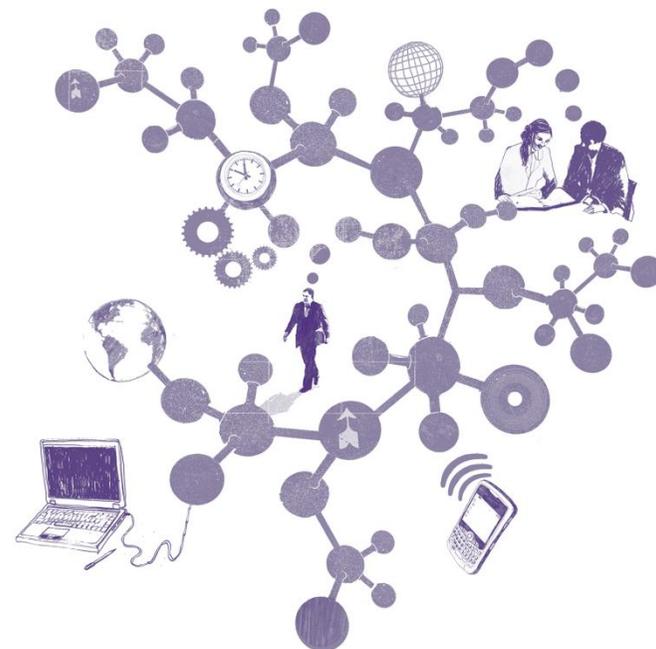
Year ended 31 March 2016

OCTOBER 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Torridge District Council (the Council) for the year ended 31 March 2016.

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

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 23 August 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 25 August 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 25 August 2016.

Certificate

We certified that we had completed the audit of the accounts of Torridge District Council in accordance with the requirements of the Code on 25 August 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Other work completed

We provided your teams with training on financial accounts and annual reporting.

Working with the Council

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

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

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £701,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, members' allowances and auditor's remuneration.

We set a lower threshold of £35,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

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

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>We identified the following issue in relation to this risk:</p> <ul style="list-style-type: none"> • Three assets valued at £626k in total (NBV) were transferred into investment properties in year from surplus assets. These have not been revalued in year to fair value, but are valued at existing use value. We were satisfied that the valuations were materially accurate but these assets had not been formally revalued as required. <p>We recommended that the Council ensure that any new or transferred investment properties are revalued in the year at fair value</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walked through the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Financial statement level risk: Finance team capacity The Finance Manager post has not been filled and has now been vacant for a number of months since the previous Chief Accountant. This post is responsible for closedown and preparing the financial statements. The Council have a plan in place to address this and have restructured the Finance department to ensure suitable capacity is in place for closedown.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• Carried out additional testing on high risk areas.• Reviewed accounting estimates, judgments and decisions made by management.• Tested journal entries.• Reviewed unusual significant transactions. <p>We identified the following issue in relation to this risk:</p> <ul style="list-style-type: none">• The provision for NNDR appeals did not take into account outstanding appeals by purpose built GP surgeries on the 2010 rating list. The impact of this on the collection fund was £640k, the Torridge share of which is £256k. This impacted on the reported financial position in the Consolidated Income and Expenditure Statement and also affected the balance sheet. <p>We recommended to the Council that it review its quality review arrangements around significant estimates such as the NNDR appeals provision to ensure that the latest information is taken into account.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 August 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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

- The Accounts and Audit Regulations 2015 required the Council to set a period of 30 working days for the exercise of public rights by local electors. The period initially set by the Council on the Notice of Audit was only for 25 working days. After consulting with the Monitoring officer, the Council extended the period for the exercise of public rights on a revised Notice to ensure that it covered the required period.
- An error was identified in the NNDR appeals provision, where appeals relating to GP surgeries had not been included. The impact of this error on the collection fund was £640k, of which the Council's share is £256k.

The overall impact of adjusting for the NNDR appeals error was a reduction of £256k in the reported financial position in the Consolidated Income and Expenditure Statement. The reported surplus for 2015/16 of £1,099m from the management accounts was not affected as the change as the adjustments go through the Collection Fund Adjustment Account.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 23 August 2016.

In addition to the key messages reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- That the Council reviews its quality review arrangements around significant estimates such as the NNDR appeals provision to ensure that the latest information is taken into account.
- The Council needs to ensure that its Finance team is adequately resourced and receives the necessary level of training and support

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

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

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings:

- The Council should review its governance arrangements for contract monitoring in the light of the failure of its recycling contractor. A review of the bid evaluation process used should be carried out to ensure that robust arrangements are in place for challenging low bids for any future contracts the Council enter into.
- The Council needs to ensure that its Finance team is adequately resourced and receives the necessary level of training and support.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial planning Like all public sector bodies, the Council is facing financial pressures with cuts in central funding and has recently refreshed its Medium Term Financial Strategy (MTFS).</p>	<p>We reviewed the Council's latest MTFS and the 2016/17 budget, considering the assumptions that underpin the figures within them.</p>	<p>The Council has got a robust strategic financial planning process in place, which is consulted on and involves members. Planning assumptions are reported as part of the decision making process and the Medium Term Financial Strategy (MTFS) is subject to regular review to reflect changing events. The MTFS is balanced through until 2019/20 when there is a budget gap of £372k. 2017/18 includes the next phase of the Torridge Transformation Programme, the timing of which is linked to the progression of the accommodation strategy and will be updated in the next refresh of the MTFS in the next few months.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council did have proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>
<p>Finance Department capacity The Council has been trying to recruit a Finance Manager to replace the former Chief Accountant since October 2015 but was only successful in March 2016. The Council has restructured its Finance department since the issues in 2014/15 and have been using the services of the former South Hams DC Chief Accountant on an interim basis while recruiting for the Finance Manager. However this arrangement has ended and the new Finance Manager does not start in post until 31 May 2016, and therefore will not be involved in the closedown. The Council's finance department will not be at full capacity during the 2015/16 closedown as a result with a key role not filled.</p>	<p>We reviewed the Council's plans to ensure that there is sufficient additional capacity and support in place to deliver the 2015/16 closedown and production of the draft financial statements.</p>	<p>The Council had put additional resources in place to support the finance team and the 2015/16 closedown was achieved with the draft financial statements being approved by the statutory deadline and the supporting working papers provided in advance of the audit commencing on site.</p> <p>The Council's work on this area was in progress and we did not consider that this is an issue that impacted on our VFM conclusion but the Finance Manager is new in post and another experienced member of the Finance team has left the Council recently. The Council needs to ensure that its Finance team is adequately resourced and receives the necessary level of training and support.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Value for Money (continued)

Table 2: Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
<p>Recycling contract The Council's recycling contractor went into administration at the end of June 2015, part way through a seven year contract awarded in 2012. The Council had not been aware that the contractor had financial difficulties until mid-June 2015. Alternative arrangements were put in place at additional cost to the Council of £251k for the remainder of 2015/16 and £370k in 2016/17. The Council are carrying out a review of the service for new arrangements to be introduced in 2017/18.</p>	<p>We considered what the Council has done to establish what lessons can be learned from the failure of its recycling contractor to inform the service review that is in progress.</p>	<p>The Council have not carried out a review of the events leading to the failure of its recycling contractor to establish if there are any lessons that could be learnt.</p> <p>The Council's review of the waste and recycling service is in progress and we do not consider that this is an issue that impacts on our VFM conclusion but the Council should review its governance arrangements for contract monitoring. A review of the bid evaluation process used should be carried out to ensure that robust arrangements are in place for challenging low bids for any future contracts the Council are entering into.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit over a month before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish on schedule releasing your finance team for other important work.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for the Council to review its governance arrangements for contract monitoring in the light of the failure of its recycling contractor.

We provided regular audit and governance committee updates covering emerging issues and developments of relevance to the Council, including those from the National Audit Office (NAO) and CIPFA.

Thought leadership – we have shared our insights via our national publications. Areas we covered included:

- Innovation in public financial management
- Knowing the Ropes – Cross sector Audit Committee Effectiveness Review
- Making devolution work – A practical guide for local leaders
- Reforging local government – Our summary findings from financial health checks and governance reviews
- Advancing closure – sharing the lessons learned from our local government bodies who have advanced their financial reporting processes and closed their accounts early. We are holding a workshop on this topic in October which is being attended by your Strategic Manager (Resources) and your Finance Manager.

We have also shared with you our publication "Better together - building a successful joint venture company" and will continue to support you as you consider greater use of alternative delivery models for your services. Your Strategic Manager (Resources) attended our income generation workshop in October.

Providing training – we provided your teams with training on financial accounts and annual reporting. The joint training with CIPFA was attended by members of your finance team.

Working with the Council

We will also continue to work with you and support you over the next financial year

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit
- Understanding your operational health – we will focus our value for money conclusion work on your progress on the Torridge Transformation programme and the Council's medium term financial planning.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	41,288	41,288	67,140
Housing Benefit Grant Certification	8,220	8,220*	11,259
Total fees (excluding VAT)	49,508	49,508	78,399

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• None	Nil
Non-audit services <ul style="list-style-type: none">• Investors in People (IIP) reaccreditation	4,440

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

Reports issued

Report	Date issued
Audit Plan	April 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016



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