



# The Annual Audit Letter for Torridge District Council

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Year ended 31 March 2019

8 October 2019



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## Your key Grant Thornton team members are:

Alex Walling

Key Audit Partner

T: 0117 305 7804

E: alex.j.walling@uk.gt.com

Mark Bartlett

Audit Manager

T: : 0117 305 7896

E: mark.bartlett@uk.gt.com

Peter Brereton

Executive

T: 0117 305 7888

E: peter.d.brereton@uk.gt.com

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# Executive Summary

### Purpose

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 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 17 September 2019.

### Our work

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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £739k, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 17 September 2019.
<b>Whole of Government Accounts (WGA)</b>	Work was not required on the Council's consolidation return as the Council did not exceed the threshold of £500m specified by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 17 September 2019.
<b>Certification of Grants</b>	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 2019. We will report the results of this work to the Audit and Governance Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Torridge District Council in accordance with the requirements of the Code of Audit Practice on 17 September 2019.

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### Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

## Working with the Council

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

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting
- Supporting development – we participated in a training workshop for the Audit and Governance Committee on 11 June 2019

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 2019

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's financial statements to be £739k, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £5k.

We set a lower threshold of £37k, 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 sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (over £38 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• written to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• tested revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>	<p>Our audit work did not identify any issues in relation to the valuation of land and buildings.</p>

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability and assessing how management have challenged assumptions made by the actuary, including the impact of the Brexit decision on the pension fund investments</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements</li> <li>• considered the Council's arrangements in respect of the McCloud judgement and undertaken procedures to confirm the reasonableness of the actuary's estimate of the potential impact on the Council.</li> </ul>	<p>Our work concluded that the actuary's estimate of £568k for the McCloud judgement should be adjusted for in the accounts. The Council opted not to adjust the accounts as it was not material.</p>

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"><li>• evaluated the design effectiveness of management controls over journals</li><li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li><li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li><li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li><li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</li></ul>	<p>Our audit work did not identify any issues in relation to management override of controls.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 17 September 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, 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.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 17 September 2019.

## **Annual Governance Statement and Narrative Report**

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Torridge District Council in accordance with the requirements of the Code of Audit Practice on 17 September 2019.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in September 2019, we agreed recommendations to address our findings.

## **Overall Value for Money 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 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b> 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. It also highlights that the Transition in Government Funding Reserve will have been exhausted during 2020/21 so other remedial actions are required.</p>	<p>We reviewed the Council's latest MTFS and budget, including the assumptions and the savings plans reflected within them.</p> <p>The latest MTFS was presented to Council and approved in February 2019. 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. 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>The MTFS shows a balanced budget for 2019/20 but the need to draw on reserves in 2020/21 to 2023/24. The budget report highlighted that with no remedial action the budget gap in 2023/24 would be £578k with the Transition in Government Funding Reserve exhausted during 2020/21.</p> <p>The budget gap in 2020/21 is £873k, with gaps of £805k, £697k and £578k in 2021/22, 2022/23 and 2023/24 respectively. The budgets gaps are higher than the same point 12 months ago and reflects the importance of the member events planned for the Autumn where options to bridge the funding gap will be discussed.</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><b>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.</b></p>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Transforming Torridge</b></p> <p>The Transforming Torridge Programme is a significant project for the Council and is critical to the way it will deliver its services in the medium term.</p>	<p>We reviewed the progress being made on this key project for the Council, which cuts across the VFM sub-criteria.</p> <p>The programme continues to develop and now incorporates further transformational projects as they come online. The first major phase of the office accommodation element has now been completed with all staff now occupying the Riverbank House site. The reception hub is now in place at Riverside House as well.</p> <p>The Waste and Recycling Service change has been a significant one over the last 12 months and the post project review has been undertaken and reported to the Programme Board. It has been considered to be a success but there are also learning points taken from the project as the level of demand from customers was much higher than expected and extra resources had to be allocated to deal with the increase in volume of recycling above what was anticipated.</p> <p>Homelessness and temporary accommodation is a particular pressure area for the Council, which was reflected in overspends in the 2018/19 budget and options for mitigating the problem have been considered by the Council, with this project now being reported to the Programme Board.</p> <p>The Programme Board was discontinued at the Council's Annual General Meeting in May 2019 as the original Transforming Torridge Programme has essentially come to an end. A new Property and Major Projects Working Group has been established, which will consider the future projects and savings plans that will be set by the member events and new Council.</p>	<p>The Transforming Torridge Programme is encompassing additional transformational projects, with the Programme Board now well established. Progress is being formally reported to Full Council.</p> <p><b>No issues impacting on our VFM conclusion identified.</b></p>

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	September 2019
Annual Audit Letter	October 2019

### Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	31,792	31,792	41,288
Additional fees		4,500	
<b>Total fees</b>	<b>31,792</b>	<b>36,282</b>	<b>41,288</b>

### Audit fee variation

As outlined in our audit plan, the 2018/19 scale fee published by PSAA of £31,792 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
<b>Total</b>		<b>£4,500</b>

Fee variations are subject to PSAA approval.

# A. Reports issued and fees continued

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

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Housing Benefit Grant Certification	15,301
<b>Non-Audit related services</b>	
- None	

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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



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