

Forde House
Newton Abbot
Telephone No: 01626 215159

Contact Officer Karen Mason
E-mail: comsec@teignbridge.gov.uk

4 September 2017

AUDIT SCRUTINY COMMITTEE

Dear Councillor

You are invited to a meeting of the above Committee which will take place on **Tuesday, 12th September, 2017** in the Council Chamber, Forde House, Brunel Road, Newton Abbot, TQ12 4XX at **10.00 am**

Yours sincerely

NEIL AGGETT
Democratic Services Manager

Distribution:

- (1) The Members of the Audit Scrutiny Committee (subject to confirmation of Executive Members by the Leader)

Councillor Chris Clarence (Chairman)
Councillor Alistair Dewhirst
Councillor Timothy Golder
Councillor Mike Haines
Councillor Ted Hockin (Vice-Chairman)
Councillor Ann Jones
Councillor Graham Price
Councillor Bill Thorne

A link to the agenda on the Council's website is emailed FOR INFORMATION (less reports (if any) containing Exempt Information referred to in Part II of the agenda), to:

- (1) All other Members of the Council
(2) Representatives of the Press
(3) Requesting Town and Parish Councils

If Councillors have any questions relating to predetermination or interests in items on this Agenda, please contact the Monitoring Officer in advance of the meeting

Public Access Statement

- There is an opportunity for members of the public to ask questions at this meeting. Please submit your questions to comsec@teignbridge.gov.uk by **12 Noon** on the Friday before the meeting.
- If you would like this information in another format, please telephone 01626 361101 or e-mail info@teignbridge.gov.uk
- Agendas and reports are normally published on the Council's website <http://www.teignbridge.gov.uk/agendas> 5 working days prior to the meeting. If you would like to receive an e-mail which contains a link to the website for all forthcoming meetings, please email comsec@teignbridge.gov.uk
- Reports in Parts I and III of this agenda are for public information. Any reports in Part II are exempt from publication due to the information included, under the provisions of the Local Government Act 1972.

AGENDA

Part I

1. Apologies for Absence
2. Minutes of the previous meeting
3. Agreement of the agenda between Parts I and II
4. Matters of urgency/matters or report especially brought forward with the permission of the Chairman.
5. Declarations of Interest.
6. Grant Thornton: (Pages 1 - 30)
 - Audit Findings Report.
7. Statement of Accounts 2016/17 (including letter of representation). (Pages 31 - 40)
To review the statement of accounts and recommend to Council for approval.
8. Internal Audit Progress Report. (Pages 41 - 46)
The report provides information on the work undertaken by the Internal Audit Section and the level of assurance gained for each area audited.
9. Annual Governance Statement Amendments. (Pages 47 - 48)
10. Internal Audit Assurance Ratings. (Pages 49 - 56)
This report provides detail of ratings to replace the Poor, Fair, Good and Excellent categories.

11. Work Programme:

- to identify areas of work for future meetings of the Committee;
- to identify any training needs.

Part II (Private)

Items which may be taken in the absence of the Public and Press on the grounds that Exempt Information may be disclosed.

Nil.

This page is intentionally left blank

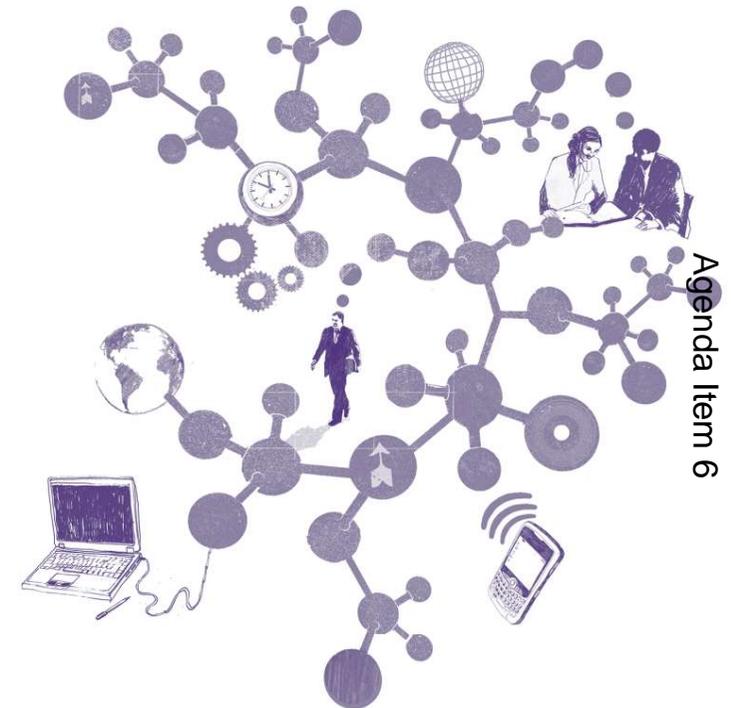
The Audit Findings for Teignbridge District Council

Year ended 31 March 2017

12 September 2017

Geraldine Daly
Engagement Lead
T 0117 305 7741
E geri.n.daly@uk.gt.com

Steve Johnson
Audit Manager
T 0117 305 7868
E steve.p.johnson@uk.gt.com



Agenda Item 6



Private and Confidential

Teignbridge District Council
Forde House,
Brunel Road,
Newton Abbot ,
TQ12 4XX

Grant Thornton UK LLP
Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

www.grant-thornton.co.uk

12 September 2017

Dear Members of the Audit Committee

Audit Findings for Teignbridge District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Teignbridge District Council, the Audit and Scrutiny Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Geraldine Daly".

Geraldine Daly

Engagement lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	22
4. Fees, non-audit services and independence	26
5. Communication of audit matters	27

Appendices

A Action plan

Purpose of this report

This report highlights the key issues affecting the results of Teignbridge District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 14 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- ISA 240 letter responses
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded a deficit on the Total Comprehensive Income and Expenditure of £14,965k, with a reported net Income of a £87k surplus. The following statutory year end adjustments were made:

	£,000s	£,000s
Surplus on provision of services		14,965
Re-measurement of the pension fund liability	20,784	
Surplus on the revaluation of Property, plant & Equipment	-1,865	
Transfers to Earmarked reserves	-3,690	
Adjustments between funding and accounting basis (note 8)	-177	
		<u>15,052</u>
 Increase in General reserve		<u><u>-87</u></u>

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

- The accounts were prepared, as required, by the end of June and the audit commenced on the 18th July. The Financial Statements for 2017/18 are statutorily required by the 31st May 2018 and the audit will need to be completed by 31 July 2018. The earlier timetable will require careful re-scheduling for 2017/18.
- We have not identified any adjustments that affect the Council's reported financial position

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to: Journals and User access to IT systems.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We have made a recommendation around the monitoring and scrutiny of savings plans needed to deliver the medium term financial plan.

Other statutory powers and duties

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

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance, Assets and Resources

Acknowledgement

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.

Grant Thornton UK LLP
September 2017

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,248k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £62k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.



Balance/transaction/disclosure	Explanation	Materiality level
Disclosure of auditors' remuneration in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000 as all misstatements are considered material.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000 as all misstatements are considered material.
Disclosures of members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000 as all misstatements are considered material.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Teignbridge District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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 Teignbridge District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Teignbridge District Council.</p>	<p>We have, however, performed testing on grants income, other revenues, council tax and NNDR and our approach has not identified any issues with these amounts.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • review of entity controls and a walkthrough of how journals are processed • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> <p>We have also set out our findings in respect of the authorisation of journals raised in the audit plan.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>Having considered the risk factors set out in PN10 and the nature of the expenditure streams at Teignbridge District Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • opportunities to manipulate expenditure recognition are very limited • The culture and ethical frameworks of local authorities, including Teignbridge District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Teignbridge District Council as our experience is that expenditure is well controlled and monitored.</p>	<p>Our testing of operating expenses and employee remuneration has not identified any material issues.</p> <p>Our audit work has not identified any issues in respect of expenditure recognition.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> • Identified and walked through the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>The Pension Liability disclosed in the accounts has increased by £22,926k, primarily as a result of the reduction in the discount rate applied by your actuary. We have reviewed all the assumptions applied and are assured this is in line with general application across Local Government pension schemes.</p> <p>We use an audit expert – PWC- to review the methodology and assumptions made by the actuaries across the country. PWC's review highlighted that one of the estimates used by your actuary, Barnett Waddingham, was out of line with other actuaries, specifically the discount rate, which was set higher than the average.</p> <p>However, we review all the assumptions made and have performed a sensitivity analysis of the rates applied. This work concluded that, whilst the expectation is that the liability is higher than other actuaries might forecast, (a point estimate range of between £300k - £444k) it is, nevertheless a reasonable estimation of the potential liability.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<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>Reviewed:</p> <ul style="list-style-type: none"> • management's processes and assumptions for the calculation of the estimate; • the competence, expertise and objectivity of the valuer. • the instructions issued to valuation experts and the scope of their work • and challenge of the reasonableness of the proposed revaluations, including reference to national trends. • the disclosures made by the Council in its financial statements to ensure that they are in accordance with the requirements of the CIPFA Code of Practice and IFRS1 <p>Identified the controls put in place by management to ensure that the carrying values of property' plant and equipment are not materially different from the fair value at the year end, and assessed whether these controls were implemented as expected, and whether they are sufficient to mitigate the risk of mis-statement.</p> <p>Challenged the valuations using indices prepared by our own auditors expert, Gerald Eve.</p> <p>Tested the revaluations made during the year to ensure they were input correctly into the Council's asset register</p> <p>Evaluated the assumptions made by management for those assets not revalued during the year and how officers have satisfied themselves that these are not materially different to current value.</p>	<p>Our work has not identified any issues in this area in respect of the valuation of property, plant and equipment.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p> <p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Employee remuneration accruals understated • Remuneration expenses not correct 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented the processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our understanding • Undertaken a substantive test, on a sample basis, of remuneration transactions throughout the year 	<p>Our work has not identified any issues in this area</p>
<p>Operating expenses</p> <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented the processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our understanding • reviewed estimates, judgements and decisions made by management for unusual and large accruals • Substantively tested of operating expenditure on a sample basis • Testing the cut-off of expenditure including a review of after date payments to ensure all liabilities had been accounted for in the correct period 	<p>Our work has not identified any material issues in the area.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>We did not identify any issues in respect of the reclassification of income and expenditure within the CIES and the associated restatement note or the revised grouping of entries within the MIRS.</p>
<p>Strata Services Solutions limited (SSL)</p> <p>There is a risk that the external data used to consolidate the Council's share in SSL into the Council's accounts is incomplete or inaccurate.</p>	<p>We have obtained assurances from the auditors of SSL, in relation to their independence and the opinion given on the SSL financial statements, and:</p> <ul style="list-style-type: none"> Tested that the accounting entries have been properly made in the Council's accounts; reviewed the consolidation process; obtained the signed audited statements of SSL the list of unadjusted misstatements and the letter of representation; and Concluded that the disclosures under IFRS11 have been correctly made. 	<p>We are satisfied that SSL has been accounted for as a Jointly controlled operation and that proper disclosures have been made in the accounts.</p>

Significant matters discussed with management

	Significant matter	Commentary	
1.	Other than the items in this report no other significant matters were raised with management		

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>The council has policies for Revenue recognition that cover</p> <ul style="list-style-type: none"> • Revenue from the sale of goods • Revenue from the provision of services • Interest receivable • Revenue from council tax and business rates. 	<p>The policies are:</p> <ul style="list-style-type: none"> • appropriate under the Local Authority Accounting code of Practice (the code); • adequately disclosed in the accounting policies; • consistent with the code; and • have been applied appropriately. 	 Green
14	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Useful life of PPE • Revaluations and impairment of PPE • Accruals • Provision for NNDR appeals • Valuation of pension fund net liability 	<p>We have reviewed the Council's Judgements and estimates and concluded that these are reasonable in respect of the financial statements and the disclosure of financial position of the Council. We would comment as follows:</p> <ul style="list-style-type: none"> • We considered the assumptions made by the Council's valuer as reasonable for Teignbridge. • The Council's accruals process at year end is appropriate. • The estimation of possible NNDR appeals is reasonable. • The valuation of the pension fund liability. Some of the estimates used by Barnett Waddingham are out of line with other actuaries, specifically the discount rate and the future inflation rate, which are higher than the average. Our work on the sensitivity of the rates applied has shown that these rates work in opposition and that, whilst the expectation is that the liability is higher than other actuaries might forecast, it is, nevertheless a reasonable estimation of the potential liability. 	 Green

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Going concern</p>	<p>The Chief Finance Officer, s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and have satisfied ourselves that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;">● Green</p>
<p>Other accounting policies 15</p>		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	<p style="text-align: center;">● Green</p>

Assessment

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	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit. We will update our understanding of management's arrangements at the Committee.
2.	Matters in relation to related parties	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	Written representations	A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment balances. This permission was granted and the requests were sent. We also requested the audited accounts for Strata solutions Limited. The audited accounts of SSL and bank requests were received,
6.	Disclosures	Our review found no material omissions in the financial statements. We have agreed some minor disclosure amendments, which management have included in the final statements.
7.	Matters on which we report by exception	We have not identified any issues we would be required to report by exception in the following areas <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 information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	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. We have yet to submit our work on Whole of Government Accounts.

16

Misstatements, misclassifications and disclosure changes

There are no adjusted or unadjusted Misstatements, Misclassifications and disclosure changes

Impact of uncorrected misstatements in the prior year

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 18 The Non Domestic Rates (NDR) appeals provision was underestimated for the outcome of outstanding appeals by purpose built GP surgeries on the 2010 rating list. The Council had already provided for some reduction in rateable value but the valuation office has now determined all the relevant appeals leading to higher rate refunds than expected.	0	0	There is no ongoing impact from this uncorrected misstatement in the 2015/16 financial statements, as the provision has been re-estimated at the 31 March 2017 and the over-provision is no longer an issue.
Overall impact	£0	£0	

Internal controls

	Assessment	Issue and risk	Recommendations
R1	 Amber	<p>No Proactive Reviews of User Access User accounts and their associated permissions Active Directory and folder shares were not being formally and proactively reviewed for appropriateness.</p> <p>There is a risk that gaps in user administration processes and controls may not be identified and dealt with in a timely manner and that access to information resources and system functionality may not be restricted on the basis of legitimate business need. This may lead to segregation of duties conflicts and disproportionate access by a number of people which may have unforeseen consequences.</p> <p>It is our experience that access privileges tend to accumulate over time, especially as 'transformation' projects move users to different roles in the organisation. As such accounts that should have been disabled or deleted offer the opportunity for abuse by valid system users to circumvent internal control.</p>	<p>Proactive reviews should occur regularly, especially in times of change, to ensure that users exist and only have access to services, devices or data that they require in their role.</p> <p>While we appreciate a number of changes will occur during the transition to STRATA systems, we believe management should consider making, at minimum, a quarterly review of user accounts to ensure that access is strictly on a need to have basis and that users are valid and accountable.</p>
R2	 Amber	<p>Journals In order to prove completeness of the journal population and to ensure that any journals voided or not input are required to be filed and the hard copy shown in the paper file. This had not been done on a number of times.</p>	<p>The instruction that all journals voided or not input are required to be filed and the hard copy shown in the paper file should be emphasised to all input staff.</p>

Assessment
 Significant deficiency – risk of significant misstatement
 Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
R3 20	 Amber	<p>Journal Authorisation</p> <p>We have identified that the Chief Finance Officer and the Finance Manager have the ability to make journal entries.</p> <p>The Chief Finance Officer (S151 Officer) is a key decision maker and would not be expected to directly input journals into the ledger.</p> <p>The Finance Manager (Deputy S151 Officer) has responsibility for directly inputting journals into the ledger and reviewing all journals above £100k.</p> <p>We recommend that key decision makers should not have the ability to directly input journals into the system.</p>	<p>A small finance team necessitates the requirement for all members of the team to input journals at particular times of the year. The level of input is mitigated by other officers in the finance team processing the majority of these journal entries and all large journal entries being reviewed by the Finance Manager and one other Accountant for accuracy and validity throughout the year.</p> <p>Ongoing</p> <p>Martin Flitcroft, Finance Manager</p>

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

21 *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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 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 14 March 2017.

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.

Significant qualitative aspects

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:

- Strategic financial planning – sustainable resource deployment
- Working in partnership

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 23 to 24.

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.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed one recommendation for improvement on page 23

Management's response to these can be found in the Action Plan at Appendix A.

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	Work to address	Findings and conclusions
<p>Strategic financial planning – sustainable resource deployment</p> <p>The Council's medium term revenue budget summary shows revenue support funding will be reduced from £1.6m in 2016/17, £0.847m in 2017/18, £0.382m in 2018/19 and £0 in 2019/20. The rates baseline funding is forecast to increase over the same period, £3.169m in 2017/18, £3.271m in 2018/19 and £3.387m in 2019/20. However, the new homes bonus funding is reducing over the same period, £3.436m in 2017/18, £2.801m in 2018/19 and £2.246m in 2019/20. Shortfalls in funding are predicted over the medium term as follows, £8,290 in 2017/18, £82,990 in 2018/19 and £92,170 in 2019/20.</p> <p>General reserves are being maintained at around 10% of the net revenue budget over the medium term plan (approximately £1.5m).</p>	<p>We have reviewed</p> <ul style="list-style-type: none"> the savings target for 2016/17 and how this was achieved. the assumptions behind the medium term revenue budget, including the robustness of savings plans achieved through, for example the management structure review implemented in 2013, gains from the Strata partnership and the returns from Market Walk. the use of reserves. the outcome of the business challenge process to identify savings - Business Efficiency Service Transition 2020. 	<p>Savings target was built into the 2016/17 budget and has been achieved.</p> <p>The Council's reserves have increased during 2016/17, the General fund now stands at £1.7m (11.4%) and Earmarked reserves at £7.8m against a net revenue spend of £ 14.9m</p> <p>At 31 March 2017 the Council finds itself in a strong financial position. It has achieved its savings plans and cut costs, without any appreciable reduction in service delivery or quality. Although the myriad of uncertainties affecting local government make medium term financial planning far more challenging, the fairly recent confirmation of a fixed 4 year funding settlement has at least given some clarity to one of the Councils major funding sources.</p> <p>The Council relies on the use of the New Homes bonus to balance its annual budget. The Local Government Finance Settlement for 2017/18 was finalised in February 2017 and confirmed a significant reduction in new homes bonus which had been announced in December 2016.</p> <p>The Council has identified savings in its medium term financial plan, this enables the forecast to show a balanced position to 2020. However, there is an acceptance that further savings will need to be made beyond 2020.</p> <p>Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting.</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	Work to address	Findings and conclusions
<p>Working in partnership</p> <p>Through our review of Council agendas and minutes and through discussions with officers we are aware that the Council is involved in a range of different partnerships covering devolution, economic growth and health and well being and ICT (Strata). This also includes the Heart of the South West initiative.</p>	<p>We will review</p> <ul style="list-style-type: none"> • what involvement the Council has in various partnership arrangements; and • how these contribute to the delivery of its strategic priorities. 	<p>The Council is currently involved in significant partnership working as follows:</p> <ul style="list-style-type: none"> • Strat Solutions Limited – Joint operation - A Commercial company that provides a shared information communications technology service to the Council East Devon district Council (EDDC) and Exeter City council (ECC). • Greater Exeter Strategic Plan – Bringing together planning and Economic development plans for the Council, EDDC, ECC and Mid Devon District Council (MDDC). • Exeter and Heart of Devon Shared Economic Strategy - To support common economic development objectives working in partnership with ECC, EDDC and MDDC. • Heart of the South West – Devolution - Teignbridge, alongside 16 other local authorities in Devon and Somerset, two national parks, three Clinical Commissioning Groups, and the Heart of the South West Local Enterprise Partnership (LEP) is exploring the opportunities around future devolved powers from Westminster. <p>The Council is continuing to participate in the progression of partnerships within Devon and the wider South west. The use of partnerships has direct links to the Council’s objectives set out in its “Council Strategy 2016-2025”.</p>

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. There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

We confirm below our final fees charged for the audit services. No non-audit or audited related services have been undertaken for the Council.

Fees

	Proposed fee £	Final fee £
Council audit	48,363	48,363
Grant certification	7,500	*TBA

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

The Grant certification fee was included in the plan at £7,500, currently this is showing as £13,174 on the PSAA website, following a final review we would expect this to be reduced.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £	Threat	Safeguard
Audit related services:	None		
Non-audit services Governance at Heart of the SW LEP	8,646	Y	The work carried out for the Heart of the South West LEP has been undertaken by a separate team, Independent of the Audit team.

No non-audit or audited related services have been undertaken for the Council

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1 Page 20	No Proactive Reviews of User Access Proactive reviews should occur regularly, especially in times of change, to ensure that users exist and only have access to services, devices or data that they require in their role.	 Amber	'Access' report to be set up on a monthly basis to review changes in conjunction with notification from HR & Strata re post changes. We will also investigate an access right reset process with Strata.	September 2017 Systems & Insurance Officer
2 Page 20	Journals The instruction that all journals voided or not input are required to be filed and the hard copy shown in the paper file should be emphasised to all input staff.	 Amber	All staff to be emailed to ensure void journals are filed in the manual files.	September 2017 Finance Manager
3 Page 21	Journal Authorisation Key decision makers should not have the ability to directly input journals into the system	 Amber	A small finance team necessitates the requirement for all members of the team to input journals at particular times of the year. The level of input is mitigated by other officers in the finance team processing the majority of these journal entries and all large journal entries being reviewed by the Finance Manager and one other Accountant for accuracy and validity throughout the year.	Ongoing Martin Flitcroft, Finance Manager
4 Page 24	Strategic financial planning – sustainable resource deployment Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting.	 Amber	This process is already in place through regular reporting to CLT(E), Executive, monitoring our Medium Term Financial Plan, the annual BEST2020 review and follow up on savings/pressures identified and the annual Council Tax setting process.	Ongoing Chief Finance Officer

Priority

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



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

This page is intentionally left blank

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence

EXECUTIVE PORTFOLIO HOLDER: Cllr Stuart Barker

DATE: 12 September 2017

REPORT OF: Finance Manager

SUBJECT: STATEMENT OF ACCOUNTS 2016/17

PART I

RECOMMENDATION

That the Audit Scrutiny Committee recommend the statement of accounts 2016/17 and letter of representation for approval to Council subject to any final adjustments agreed with the external auditors which will be reported to Council.

1. PURPOSE

To bring an update on the statement of accounts 2016/17 for Members to review and recommend to Council for approval.

2. BACKGROUND

- 2.1** The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual statement of accounts. A committee of the authority or the full Council must approve the statement for 2016/17 by the 30 September.
- 2.2** At the Audit Scrutiny meeting on 20 July the committee was introduced to the draft accounts and the results for the year 2016/17 including those for treasury management. The draft accounts were published on the 30 June.
- 2.3** Our external auditors (Grant Thornton) are completing their audit and will provide their signed opinion by the end of September. Their annual governance report on the accounts has been provided separately on this agenda for consideration. Any final adjustments will be reported to Council on 25 September. Any likely adjustments will be discussed at today's meeting when Grant Thornton submit their findings.
- 2.4** The conclusion of the audit will be published by advertisement on the Teignbridge website as required by legislation. After approval the final accounts will be available on the website or a hard copy can be obtained. Members can access the accounts via this link: [Teignbridge website](#) and a hard copy is available in the Committee section.
- 2.5** The Chartered Institute of Public Finance and Accountancy (CIPFA) Toolkit for Local Authority Audit Committees published in 2006 recommends the following focus in relation to the committee's review of the financial statements :

TEIGNBRIDGE DISTRICT COUNCIL

- the suitability of accounting policies and treatments
- any changes in, and compliance with, accounting policies and treatments
- major judgemental arrears such as provisions
- significant adjustments and material weaknesses in internal control reported by the external auditor

This report will concentrate on those areas.

3. STATEMENT OF ACCOUNTS 2016/17

- 3.1** The audit of the statement of accounts is currently being carried out and there are no known major adjustments to date. Grant Thornton will discuss any findings separately in their report. There are no adjustments required to the Strata figures consolidated into the accounts of the Council.
- 3.2** The draft balance sheet shows a negative net worth of £7.5 million at 31 March 2017 compared to a net worth of £7.4 million at 31 March 2016. This is due mainly to an increase in the pension fund deficit partly offset by an increase in the value of our property, plant and equipment.
- 3.3** The regulations require the formal approval of the accounts and this will be signified by the Chairman of the Council signing and dating the accounts on the page entitled The Statement of Responsibilities for the Statement of Accounts at the Council meeting. This statement is from the Chief Finance Officer and will be signed by her before presentation of the accounts to the Council meeting.

3.4 Accounting Policies and Treatments

Note 1 of the notes to the financial statements identifies the accounting policies which follow CIPFA recommendations in the latest Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The most significant policies relate to property, plant and equipment, charges to revenue, accruals, pensions, reserves and provisions as follows:

- All expenditure over £10,000 on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis in the accounts. These are valued on the basis recommended by CIPFA and in accordance with The Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The majority of assets are valued at fair value with some at depreciated historical cost. Property, plant and equipment excluding land are depreciated over their remaining useful life on a straight line basis.
- Charges for depreciation and impairment are made to the comprehensive income and expenditure account by direct allocation to the relevant service and then reversed out in the movement in reserves statement. Capital charges therefore help show the true cost of services but have a neutral impact on the amount required to be raised from council tax.

TEIGNBRIDGE DISTRICT COUNCIL

- The accounts are maintained on an accruals basis in accordance with the Code of Practice on Local Authority Accounting. That is all sums due to or from the council during the year are included whether or not the cash has actually been received or paid in the year.
- Accounting for the council's defined benefit pension scheme is prepared under the requirements of International Accounting Standard 19. Thus entries are made in the accounts and the valuation of liabilities is shown in the balance sheet. The notes explain that the cost of benefits is charged as they are earned but this cost is reversed out so that the charge against council tax is based on the cash payable in the year.
- Reserves are maintained to meet general rather than specific future expenditure although some can be earmarked for specific purposes. Provisions are only recognised when there is a liability that is of uncertain timing or amount. Provisions are required where Teignbridge has a present obligation as a result of a past event.

3.5 Provisions

The main provisions are those for bad debts (now described as an impairment allowance for bad debts) and the most significant of these are for sundry debtors, council tax, and national non domestic rates. These are as follows:

- A provision of £540,000 or 13% has been made against a year end balance of £4,089,000 for sundry debts. The majority of the debt relates to housing benefit overpayments where arrangement for regular affordable payments has been made. 20% is provided for small older debts still outstanding with specific appropriate provision for individual large debts. Write offs in the year were £186,000 or 1.6% of debt raised in year (2015/16 £170,000 or 1.5% of debt raised in year).
- The council tax gross debt at the year end was £3,354,000 (2015/16 £3,286,000) and write offs in the year were £139,000 (2015/16 £63,000). The write offs have remained low for each of the last five years at less than 0.2% of the debit raised. The debit raised in the year was £98 million. The bad debt provision for 2016/17 has been increased by £20,000 to £670,000 being 20% of the balance.
- For national non domestic rates the gross balance at the year end was £492,000 (2015/16 £834,000). Write offs were £90,000 (2015/16 £53,000). The value of the bad debt provision has been reduced by £100,000 being 61% of the debt due. Write offs have remained low for each of the last five years at less than 1% of the debit raised. The debit raised in the year was £38 million.

3.6 External Auditor Reports

All reports from Grant Thornton regarding internal control and any other relevant matters and the officer responses for review are brought to this audit

TEIGNBRIDGE DISTRICT COUNCIL

scrutiny committee. The specific comments on these accounts are in the Annual Governance Report (AGR) which is on this agenda. The accounts adjustments suggested/noted in the AGR can be discussed by the committee at that item together with the draft management letter.

3.7 Letter of Representation

Our external auditor requires assurances from us on various financial matters including statutory and contractual requirements, reasonableness of estimates and provisions, responsibility for internal controls, various disclosures and information provided. These are detailed in the attached letter which needs recommendation for approval at full Council.

4. MAIN IMPLICATIONS

The main implication that Members need to be aware of is that preparation and approval of the accounts is required by the Accounts and Audit Regulations 2015 and that if these regulations are not complied with the external auditor could qualify the accounts.

5. GROUPS TO BE CONSULTED

The draft accounts have been advertised as available for inspection and published on the website. As required by legislation these will be updated with the final version including the external audit opinion and Grant Thornton annual audit letter when available. There is also a brief introduction on the website.

6. WITNESSES TO BE CALLED

None, but the external auditor will be in attendance at the audit scrutiny committee meeting if there are any relevant questions that need to be answered.

7. TIME-SCALE

Members' approval and publication of the accounts for the year ended 31 March 2017 is required by 30 September 2017.

TEIGNBRIDGE DISTRICT COUNCIL

8. CONCLUSION

The draft accounts have been prepared in accordance with the relevant legislation and current best professional practice. They await finalisation of the external audit by Grant Thornton and any final adjustments will be reported to Council for approval on 25 September 2017.

Martin Flitcroft
Finance Manager

Wards affected	All
Contact for any more information	Martin Flitcroft on 01626 215246 or Lesley Tucker on 01626 215203
Background Papers (For Part I reports only)	2016/17 Year End Working Files The Accounts and Audit Regulations 2015 The Chartered Institute of Public Finance and Accountancy Toolkit for Local Authority Audit Committees 2006 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 The Statement of Valuation Principles and Guidance Notes – The Royal Institution of Chartered Surveyors Financial Reporting Standards
Key Decision	Yes
In Forward Plan	Yes
In O&S Work Programme	No

This page is intentionally left blank

FINANCIAL SERVICES

Telephone: 01626 215203
e-mail: lesley.tucker@teignbridge.gov.uk
My Reference: LAT
Please ask for: Lesley Tucker

Geraldine Daly
Associate Director
Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

25 September 2017

Dear Geraldine

Teignbridge District Council

Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Teignbridge District Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of 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 2016/17 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as stated in the financial statements:
 - a) There are no unrecorded liabilities, actual or contingent
 - b) None of the assets of the Council has been assigned, pledged or mortgaged
 - c) There are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code
- xii There are no adjusted or unadjusted misstatements schedule included in your Audit Findings Report. The financial statements are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
- xv We believe we now have a deed of guarantee relating to pensions that meets the accounting treatment of the statutory override for Strata Service Solutions Ltd.

Information Provided

- xvi We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx We have disclosed to you all information in relation to fraud or suspected fraud affecting the Council involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements
- xxi We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Narrative Statement

The disclosures within the Narrative Statement fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Full Council at its meeting on 25 September 2017.

Signed on behalf of the Council

Yours sincerely

Lesley Tucker
Chief Finance Officer

Councillor Tim Golder
Chairman of the Council

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarance

DATE: 12 September 2017

REPORT OF: Audit Manager

SUBJECT: INTERNAL AUDIT QUARTERLY PROGRESS REPORT

PART I

RECOMMENDATION

To note the report.

1. PURPOSE

- 1.1 To advise members of recent progress against the Audit Plan and the outcomes of completed audits.

2. BACKGROUND

- 2.1 The Audit Plan is approved by the Audit Scrutiny Committee in March annually and progress is reported at every meeting thereafter.
- 2.2 Internal audit reviews lead to an opinion on the effectiveness of the framework of risk management, control and governance of the area under review. Assurance opinions are graded as follows:

Excellent	☆☆☆☆	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	☆☆☆	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some areas for improvement have been identified.
Fair	☆☆	There is a basic control framework in place, but most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Poor	☆	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

3. AUDIT PLAN 2017-2018 – Progress at 12 September 2017

PROJECT	STATUS	OPINION
Governance Review and AGS	Complete	Good
Housing Enforcement	Complete	Good
Planning	Draft Report Issued	-
LAHS Housing Data Return	Complete	Good
Corporate Purchasing Cards	Complete	Good
Coastal Monitoring Programme	In Progress	-
Safeguarding	-	-
Community Infrastructure Levy	In Progress	
Emergency Planning & Business Continuity	-	-
Election Fees Review	-	-
Health and Safety	-	-
Building Control	In Progress	
Crime and Disorder Partnership (Grant Claim)	-	-
Economic Development	-	-
Information Governance & Cyber Risk	-	-
Risk Register	-	-
Council Tax	-	-
Benefits and Council Tax Support	-	-
Income and Banking	-	-
Creditor Payments	-	-
Debtors	-	-
Main Accounting and Budgetary Control	-	-
NDR (Business Rates)	-	-
Treasury Management	-	-
Payroll	-	-
Review of P-PERS Flexitime System	Draft Report Issued	-

Summarised findings for audits recently completed is shown in **Appendix A** below.

4. CONCLUSION AND RECOMMENDATION

- 4.1 So far in this audit cycle, 4 audits have been completed, 2 draft reports have been issued and 3 audits are in progress. There have been no Fair or Poor assurances. Generally, controls were found to be in place and risks well managed for the areas examined.
- 4.2 Members are recommended to note the report.

Sue Heath - Audit Manager

Wards affected	<i>N/A</i>
Contact for any more information	<i>Sue Heath – Audit Manager – 01626 215258</i>
Background Papers (For Part I reports only)	<i>Audit Files and Final Reports File 2017 – 2018</i>
Key Decision	<i>N</i>
In Forward Plan	<i>N</i>
In Audit Scrutiny Work Programme	<i>Y</i>

**TEIGNBRIDGE DISTRICT COUNCIL
AUDIT SCRUTINY COMMITTEE**

Summary of Internal Audits Completed from April 2017

PROJECT TITLE	SUMMARY
<p>Governance Review and Annual Governance Statement (AGS)</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>Reported in detail at the July meeting.</p> <p>The AGS has been recommended for approval at Full Council 25 September 2017.</p>
<p>Housing Enforcement</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>This audit was requested by the Housing Business Manager to provide assurance over arrangements for enforcement of the legal obligations Councils have to regulate standards in properties. The review considered the following risks:</p> <ul style="list-style-type: none"> • Inadequate Policy and Procedures; • Legislation and Regulation requirements not met; • Appropriate enforcement action not taken or timely; • Data and system unreliable / insecure. <p>Management of the function was generally found to be well controlled. Recommendations were made regarding update of Policy and Procedures for the new and forthcoming legislation changes, setting up of a monitoring system to regularly examine a sample of enforcement cases to ensure consistency, timeliness and reported in line with policy statement, review of data storage, retrieval and recording and clarification on the land charge process to ensure accuracy and completeness.</p>
<p>LAHS Housing Data Return</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>Local Authority Statistics on Housing are submitted annually to the DCLG. This audit, requested by the Housing Business Manager, verified the accuracy of data prior to submission.</p> <p>The auditor was satisfied that all fields of the return had been completed with data that could be verified to the systems from which it was derived; that calculation methodologies were correct; and final figures were accurate.</p>

**TEIGNBRIDGE DISTRICT COUNCIL
AUDIT SCRUTINY COMMITTEE**

Summary of Internal Audits Completed from April 2017

PROJECT TITLE	SUMMARY
<p>Corporate Purchasing Cards</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>A review of spending (probity check) and controls to manage and reconcile card use was undertaken. Areas covered included:</p> <ul style="list-style-type: none"> • authorisation of cardholders; • cancellation procedures; • access rights to online facilities; • credit limits; • approved goods and services purchased; and • separation of duties and reconciliation processes. <p>Findings confirmed that processes were generally sound and key risks well managed.</p>

45

This page is intentionally left blank

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence

DATE: 12 September 2017

REPORT OF: Audit Manager

SUBJECT: Annual Governance Statement - Amendment

PART I

RECOMMENDATION

To note the report.

1. PURPOSE

1.1 To seek members approval for minor amendments to the Annual Governance Statement (AGS) which is due to be approved by Council in September.

2. BACKGROUND

2.1 Local Authorities must publish an AGS. The AGS must be approved by full Council. The Audit Scrutiny Committee considered a draft AGS at their July meeting and recommended this to Council for approval on 25 September. A copy of the draft AGS can be found on the July Audit Scrutiny agenda [here](#).

2.2 Minor changes to this draft are now necessary as set out below.

3. PROPOSED CHANGES

Amendment No. 1 Page 5:

A Peer Challenge review undertaken by the Local Government Association in March 2016 has praised the Council's governance. The peers concluded that Teignbridge has strong political and managerial leadership, there are excellent member-officer relationships, and it is well regarded by its partners. ~~A follow up visit is taking place in 2017.~~

Reason:

A follow up visit is no longer taking place.

Amendment No. 2 Page 5:			
The Local Government Ombudsman has not found the Council at fault for maladministration in for 3 any of the 23 complaints received in 2016-2017. None caused injustice.			
Reason:			
The Ombudsman's annual review letter was received on 27 July 2017 which provided a complete overview of complaints and their outcomes.			
Amendment No. 3 Page 6:			
<table border="1"> <tr> <td> <u>2.Review of Local Code of Governance</u> The Council's Local Code of Governance has not yet been updated to adopt the new principles of the CIPFA/SOLACE framework. </td> <td> Revised Code will be presented to Council <u>the December 2017 Audit Scrutiny Committee</u> for approval <u>and recommended adoption by Council in September 2017.</u> </td> </tr> </table>		<u>2.Review of Local Code of Governance</u> The Council's Local Code of Governance has not yet been updated to adopt the new principles of the CIPFA/SOLACE framework.	Revised Code will be presented to Council <u>the December 2017 Audit Scrutiny Committee</u> for approval <u>and recommended adoption by Council in September 2017.</u>
<u>2.Review of Local Code of Governance</u> The Council's Local Code of Governance has not yet been updated to adopt the new principles of the CIPFA/SOLACE framework.	Revised Code will be presented to Council <u>the December 2017 Audit Scrutiny Committee</u> for approval <u>and recommended adoption by Council in September 2017.</u>		
Reason:			
The original timetable of September 2017 was too ambitious.			

4. RECOMMENDATION

- 4.1 Members are asked to accept the proposed changes for incorporation into the draft AGS that is due to be approved by Council on 25 September 2017.

Sue Heath – Audit Manager

Wards affected	N/A
Contact for any more information	Sue Heath – Audit Manager – 01626 215258
Background Papers (For Part I reports only)	July Audit Scrutiny Agenda – Item 11 – AGS Ombudsman Annual Review Letter
In Forward Plan	N
In Audit Scrutiny Work Programme	N

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence

DATE: 12 September 2017
REPORT OF: Audit Manager
SUBJECT: Internal Audit Assurance Ratings

PART I

RECOMMENDATION

To note the report.

1. PURPOSE

1.1 To provide members with information on internal audit assurance ratings.

2. BACKGROUND

2.1 One of the basic aims of most internal audit reports is to provide an opinion on the risks and controls of the area under review, building up to the obligatory annual opinion on the overall adequacy and effectiveness of governance, risk, and control across the Council.

2.2 The Teignbridge internal audit team use a grading system of “Excellent”, “Good”, “Fair”, and “Poor”.

2.3 At the July Audit Scrutiny meeting, members requested for alternative options to be provided at their next meeting. This report therefore offers a variety of approaches used across different sectors, together with information from relevant professional bodies.

3. ASSURANCE RATINGS

3.1 The Public Sector Audit Standards are not prescriptive about opinions, stating that they may be expressed as ratings, conclusions, or other descriptions of the results.

3.2 Best practice in the Local Government internal audit arena is usually issued by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance Accountants (CIPFA)

3.3 CIIA guidance

“Variations in expressing a positive assurance opinion may include the use of grades, where the effectiveness on internal controls or risk management is rated using a grading system. Common examples of a grading system include the use of colour coding (such as red-yellow-green) or the use of a grading scales (such as 1 to 4).

3.4 *An opinion can be “qualified” which may be useful in situations where there is an exception to the general opinion. For example, the opinion may indicate that controls were generally Satisfactory with the exception of a specific control which requires improvement.*

The following examples are provided:

3.5 **Example A**

Inadequate	Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet been started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weakness identified
Adequate	A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
Satisfactory	Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

3.6 **Example B**

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide assurance that risks are being managed and objectives should be met.

3.7 Example C

Unacceptable	The internal control framework does not meet minimum acceptable standards overall. In our opinion systemic and/or material weaknesses were identified.
Needs Significant Improvement	Internal control framework does not meet minimum acceptable standards overall as some key control activities require significant improvement to ensure all risks are adequately mitigated.
Needs Some Improvement	Internal control framework meets minimum acceptable standards overall but needs to be improved because some risks are not adequately mitigated.
Acceptable	Internal controls meet acceptable standards overall and provides reasonable, but not absolute, assurance that the activity covered is subject to adequate risk management and control/

3.8 Example D

Full Assurance (Effective)	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
Substantial Assurance (some improvement needed)	Some specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Limited Assurance (major improvement needed)	Numerous specific control weaknesses were noted; controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
No Assurance (unsatisfactory)	Controls evaluated are not adequate, appropriate, and effective and do not provide reasonable assurance that risks are being managed.

3.9 Example E

Control system is satisfactory	Control arrangements provide reasonable assurance that risks are identified and managed effectively. No further action is required.
Control system is not satisfactory	Control arrangements do not provide full assurance that all risks are identified and managed effectively. Further action is required.

3.10 CIPFA Guidance

“The internal audit report should put the findings in perspective based on the overall implications and significance of the weaknesses being identified. The internal audit opinion should identify the extent to which the system’s control objectives are being achieved and the degree to which the organisation’s goals are being accomplished”.

No specific examples are given.

3.11 Examples from other audit providers

Devon Audit Partnership

High Standard	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures
Good Standard	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk
Fundamental Weaknesses Identified	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority

3.12 South West Audit Partnership

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★★★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲★★★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

3.13 Private Sector Example A

Assurance	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed around the system objectives.	Controls are being applied consistently.
Substantial		There is generally a sound system of internal control but there are some weaknesses which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the internal control system are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Minimal		Control is generally weak leaving the system open to significant error of abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

3.14 Private Sector Example B

Assurance level	Definition
Significant assurance	Means the system is well designed and only minor low priority recommendations have been identified related to its operation. Might be indicated by priority three only, or no recommendations (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).
Significant assurance with minor improvement opportunities	Means the system is generally well designed however minor improvements could be made and some exceptions in its operation have been identified. Might be indicated by one or more priority two recommendations (i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives, however if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
Partial assurance with improvements required	Means both the design of the system and its effective operation need to be addressed by management. Might be indicated by one or more priority one, or a high number of priority two recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and / or objectives, or result in unacceptable exposure to reputation or other strategic risks).
No assurance	Means the system has not been designed effectively and is not operating effectively. Audit work has been limited by ineffective system design and significant attention is needed to address the controls. Might be indicated by one or more high priority one recommendations and fundamental design or operational weaknesses in the area under review (i.e. the weakness or weaknesses identified have a fundamental and immediate impact prevent achievement of strategic aims and / or objectives or result in an unacceptable exposure to reputation or other strategic risks).

3.15 Private Sector Example C

Full assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial assurance	While there is a basically sound system there are areas of weakness which put some of the system objectives at risk, and / or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and / or the level of non-compliance puts the system objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse, and / or significant non-compliance with basis controls leaves the system open to error or abuse.

3.16 NHS

Rating	Indicator	Definition
Substantial assurance		The Board can take substantial assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with low impact on residual risk exposure.
Reasonable assurance		The Board can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved.
Limited assurance		The Board can take limited assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with moderate impact on residual risk exposure until resolved.
No assurance		The Board has no assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with high impact on residual risk exposure until resolved.

3.17 Teignbridge's current gradings

Excellent ☆☆☆☆	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good ☆☆☆	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some areas for improvement have been identified.
Fair ☆☆	There is a basic control framework in place, but most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Poor ☆	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

3.18 As members will be aware, the majority of audits we have undertaken for Teignbridge have fallen into the "Good" category above.

4. CONCLUSION and RECOMMENDATION

4.1 The information provide in this report is intended to give members an insight into alternative assurance ratings for comparison to the system currently used for Teignbridge audit reports.

4.2 If, having considered the above, members would prefer a different rating system, their preferences are sought. Consultation on such a change would then be arranged with other stakeholders.

4.3 In considering alternatives, an important factor to bear in mind is that these micro-level opinions (based on single audits) must be capable of feeding the macro-level opinion (the annual assurance process).

Sue Heath – Audit Manager

Wards affected	N/A
Contact for any more information	<i>Sue Heath – Audit Manager – 01626 215258</i>
Background Papers (For Part I reports only)	N
In Forward Plan	N
In Audit Scrutiny Work Programme	N