

## **AUDIT SCRUTINY COMMITTEE**

A meeting of the **Audit Scrutiny Committee** will be held on **Wednesday, 21st October, 2020** at **10.00 am**. This will be a virtual meeting and you can observe the meeting [via our YouTube Channel](#).

PHIL SHEARS  
Managing Director

### **Membership:**

Councillors Morgan, Rollason, H Cox, Colclough, Mullone, Thorne, Goodman-Bradbury and Clarence

**Please Note:** The meeting will be live streamed with the exception where there are confidential or exempt items, which may need to be considered in the absence of the media and public.

## **A G E N D A**

1. **Election of Chair**
2. **Election of Deputy Chair**
3. **Apologies for Absence**
4. **Minutes of the previous meeting**  
To approve and sign the minutes of the meeting held on 26 August 2020.
5. **Declarations of Interest.**
6. **Public Questions (if any)**
7. **Members Questions (if any)**

Members of the Council may ask questions of the Chairman subject to procedural rules.

The deadline for questions is no later than three clear working days before the meeting.

8. **External Audit Findings Report** (Pages 3 - 34)
9. **Final Accounts Report** (Pages 35 - 46)
10. **Internal Audit Report** (Pages 47 - 56)
11. **Ombudsman Report** (Pages 57 - 62)

If you would like this information in another format, please telephone 01626 361101 or e-mail [info@teignbridge.gov.uk](mailto:info@teignbridge.gov.uk)



# The Audit Findings for Teignbridge District Council

---

Year ended 31 March 2020

21 October 2020



Agenda Item 8

# Contents



## Your key Grant Thornton team members are:

Julie Masci  
Director

T: 02920 347506  
E: julie.masci@uk.gt.com

Andrew Davies  
Audit Manager

T: 0117 305 7844  
E: andrew.davies@uk.gt.com

Jasmine Kemp  
In-charge Auditor

T: 0117 305 7814  
E: jasmine.r.kemp@uk.gt.com

## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

## Page

- 3
- 5
- 17
- 21
- 23
- 25
- 26
- 27
- 28

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. 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.

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Teignbridge District Council Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has been faced with the administration of grants to businesses, closure of leisure centres, reduced usage of car parks with the additional challenges of reopening services under new government guidelines and facilitating testing. In addition, the finance team have faced the challenge of compiling the financial statements with the team partly working remotely.</p> <p>Councils are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 16 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the entries within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.</p> <p>Although we are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working, there has been a increased challenge in this area due to the Council's use of manual working papers. Whilst the council has invested significant resource in ensuring that the majority of these manual working papers were scanned to the audit team, auditing manual working papers is more challenging. We do acknowledged that in response to remote working the Council have increased the number of electronic working papers. Our 'info' document sharing system has helped facilitate this but inevitably the remote working has impacted on delivery and additional resources have been necessary on both sides to complete the work in accordance with the new extended reporting timetable.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We commenced our post-statements, remote audit, in August and as at 6 October 2020 our audit is approximately 85% complete. Our work to date has focused on the significant risks thus minimising the risk of additional significant issues arising between now and audit sign off. Our findings are summarised on pages 5 to 16. On 6 October we have 'paused' the audit to allow management time to gather the evidence needed to satisfy our audit queries, or enable us to select our samples for detailed testing. We have arranged for additional resources to be available from 21<sup>st</sup> October to complete this work. In order to meet the 30<sup>th</sup> November deadline it is critical that the outstanding information is provided by 21<sup>st</sup> October at the latest.</p> <p>Our work continues, but to date, we have identified no material errors or adjustments to the financial statements. No adjustments have been identified that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. We have recommended a small number of adjustments to improve the presentation of the financial statements as detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Subject to completing the remaining audit procedures set out on page 5, our anticipated opinion will be unqualified and include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings. We are currently awaiting the Pension Fund Assurance letter from the Devon Pension Fund Auditor. We expect this later in October/ early November 2020. We expect this to include an Emphasis of Matter in relation to the uncertainty of the property investment funds that form part of the Pension Fund Assets.</p>

## Headlines (continued)

### Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Teignbridge District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

We therefore anticipate issuing an unqualified value for money conclusion as detailed in Appendix E. Our findings are summarised in the VFM section of this report.

### Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.



### Acknowledgements

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

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 21 March 2020, to reflect our response to the Covid-19 pandemic. These changes were communicated in an addendum to the Audit Plan dated 16 April 2020.

	<b>Council Amount (£)</b>
Materiality for the financial statements	1,405,000
Performance materiality	1,054,000
Trivial matters	70,000
Materiality for Senior Officers Remuneration	10,000

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been revised following receipt of the draft financial statements. Materiality has been reduced since planning from £1.584m to £1.405m. The reduction is driven by actual Council spend in 2019/20 and the audit team's reassessment of risk following Covid-19.

## Conclusion

Our audit remains in progress, however at the time of writing this report and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Council meeting on 23 November 2020, as detailed in Appendix E.

These other outstanding items include completion of testing and documentation of evidence as follows:

- completion of our work on PPE. This includes opening balances testing (ownership and existence) and receipt of responses to our questions raised with the Council's valuer;
- receipt of responses to pensions queries;
- receipt of assurance letters from the Pension Fund Auditor and the Auditor of STRATA;
- receipt of evidence to complete our testing in the following areas: movement in reserves, journals, debtors, cash at bank, creditors, grants received in advance, employee remuneration, operating expenditure, provisions, refcus, income, and leases.
- undertaking a site visit to manual working papers that we have been unable to obtain electronically throughout the audit;
- final review by engagement lead of ongoing audit procedures;
- receipt of management representation letter; and
- review of the final set of financial statements and subsequent events review.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

In response to this risk we have:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided in line with the revised timetable;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Our audit work, to date, has not identified any significant issues in respect of Covid-19 specific risks. This is not to say that there has not been an impact. The Council has identified a material uncertainty in relation to land and building valuations. We are also awaiting the Devon Pension Fund Auditor's letter of assurance. This could identify similar material uncertainties to those on land and buildings due to the level of property investment funds that form part of the Pension Fund Assets.

The financial challenge into the medium term have also increased due to the lost income, additional costs and the uncertainty of future government funding in respect of Covid-19.

In previous years we have discussed with management the impact that manual working papers have on audit efficiency. Due to remote working the impact of this has increased and delays have been experienced with progressing the audit in some areas.

# Significant audit risks

## Risks identified in our Audit Plan

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

## Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined at the planning stage that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Teignbridge District Council, mean that all forms of fraud are seen as unacceptable.

We have reviewed material revenue transactions as part of our audit and we are satisfied that there have been no changes of circumstances requiring us to alter our proposed strategy with regards to revenue recognition in the latter part of the year.

Our audit work has not identified any issues in respect of improper revenue recognition.

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

At the time of writing this report work our journals work remains in progress. Our audit work to date, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls.

In previous years we have reported that the S151 Officer has posted journals which increases the risk in this area, due to a lack of segregation of duties. The Council continue to accept this increased risk due to the size of the finance team. The S151 has posted an increased level of journal lines during 2019/20. This has resulted in the audit team having test a higher number of journals to ensure that each of these were appropriate.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Valuation of land and buildings (Rolling revaluation)

The Council revalues its land and buildings on a rolling five-yearly basis (+ top 20 assets). This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

0

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by the valuer for those assets (20% + plus top 20 assets) revalued at 1 April 2019 and how management has satisfied themselves that these are not materially different to current value at year end. For the remaining 80% that were assessed using indices at 31 March 2020 we have evaluated the assumptions and appropriateness of the indices used.

At the time of writing this report our work on Property, Plant and Equipment remains in progress.

As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and building valuations at year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in their final valuation report. Officers reflected this in note 4 of the financial statements. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by covid-19. This is in line with other local councils.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£86 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- followed up the unadjusted misstatement reported in the 2018/19 Audit Findings Report and have ensured that this has now been adjusted correctly as a past service cost.

At the time of writing this report our work in this area remains in progress.

We await assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Further detail on the assumptions are set out later in this report.

Furthermore, this letter of assurance could identify similar material uncertainties to those on land and buildings due to the level of property investment funds that form part of the Pension Fund Assets.

In addition, clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations are that pension liabilities will be lower than estimated in actuarial reports produced for 31 March 2020 and we are liaising with the Council to gain assurance over the likely impact of this development.

Our audit work to date has not identified any issues in respect of valuation of the net liability.

# Other audit risks

## Risks identified in our Audit Plan

### International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)

The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.

## Auditor commentary

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosures in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.

The draft financial statements did not include these required disclosures, and we have requested amendments to be processed by management and they are considering the appropriate wording.

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings - £93.446m</b>  <b>13</b>	<p>Other land and buildings comprises c£93m of assets, which are required to be valued at either current market value or depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The Council has engaged the Valuer to complete the valuation of properties as at 1 April 2019 on a five yearly cyclical basis. This year the Council has instructed the Valuer to value the top 20 assets by value. As a result 51% of total assets by value were revalued during 2019/20.</p> <p>For the remaining assets not formally revalued an exercise has been undertaken to ensure that the carrying value is not materially different to the current value. This exercise has also been completed for those assets valued at 1 April 2019 to ensure that there is not a material difference at 31 March 2020.</p> <p>In line with RICS guidance, the Council's valuer has included a material valuation uncertainty in respect of the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. This has been reflected by management in the commentary is set out in note 4 of the financial statements.</p>	<p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>Assessed management's expert to ensure suitably qualified and independent,</li> <li>Assessed the completeness and accuracy of the underlying information used to determine the estimate,</li> <li>Confirmed there were no changes to valuation method,</li> <li>Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and</li> <li>Assessed the adequacy of disclosure of the estimate in the financial statements.</li> <li>We are proposing to include an emphasis of matter paragraph in our audit opinion to draw the readers attention to the uncertainty disclosed within the financial statements.</li> </ul> <p>Our work in this area remains in progress, however work to date suggests that estimates and judgements in this area are reasonable. We have assessed this estimate as overall amber due to the material uncertainty on the valuation of Land and Buildings set out in note 4.</p>	 <b>Amber</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
-----------------	--------------------------------	--------------------	------------

**Net pension liability – £86.418m**

The Council's total net pension liability at 31 March 2020 is £86.418m (PY £87.523m). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon County Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £1.105m decrease in the liability during 2019/20.

We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure they are suitably qualified and independent,
- Assessed the actuary's roll forward approach taken,
- We have used PwC as our auditors expert to assess the assumptions made by the Council's actuary. The table below summarises where Teignbridge District Council fall in the acceptable ranges determined by PwC:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	●
Pension increase rate	1.90%	1.85% - 1.95%	●
Salary growth	2.90%	1% above CPI 2.85% - 2.95%	●
Life expectancy – Males currently aged 45 / 65	22.9	21.4 - 23.3	●
Life expectancy – Females currently aged 45 / 65	24.1	23.7 – 24.7	●

●  
Green

- We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- We have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and
- We have reviewed the adequacy of disclosure of the estimate in the financial statements.

14

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

## Going concern disclosures

It has been a challenging year due to the Covid-19 pandemic and officers have had to respond quickly to the impact that this has had on the finances of the Council. During the early stages of the pandemic officers were predicting a full year impact of Covid-19 to be a budget pressure of £5.120m for 2020/21. The potential impact has been continually refined as further announcements have been made by central government and more funding being made available. The Council has identified £2m of savings that have been built into a revised budget for 2020/21. This coupled with the additional funding for lost income of 75% funding for 95% of losses of c £3m and a collection fund adjustment of £2.075m ensures that cost pressures at this stage are mitigated.

While this is a challenging situation, we agree with managements’ judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council’s adoption of the going concern assumption.

## Going concern commentary

### Management’s assessment process

Management have carried out a detailed assessment of the Council’s ability to continue as a going concern. This process included undertaking a detailed cash flow forecast through to November 2021. As part of this assessment management have considered their general fund and earmarked reserves balances as well as their net current asset position on their balance sheet. Importantly management’s assessment has also considered the impact of the Covid-19 pandemic and the impact on income in the year to date.

### Auditor commentary

- Going concern is defined as ‘the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations’.
- The Council’s financial statements are prepared on a going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due.
- A detailed budget for the Council is approved on an annual basis. Regular management reporting is produced for the senior leadership team and then reported to Full Council on at least a quarterly basis.
- We have concluded that management’s process is adequate, and that the assessment is supported by robust assumptions.

# Significant findings – going concern (continued)

## Going concern commentary

### Work performed

We have:

- discussed with management the financial standing of the Council;
- reviewed and challenged management's assessment of going concern assumptions and supporting information, e.g. medium term financial planning assumptions (including Covid-19 impact) and cash flow forecasts;
- reviewed budget gaps over the medium term as part of drawing our VFM conclusion.

### Concluding comments

Following our review we are satisfied with management's assessment of use of going concern basis of accounting.

16

## Auditor commentary

- We have reviewed management's assessment and have not identified any issues that would lead us to believe that there is a material uncertainty in the Council's assumption in preparing the financial statements on a going concern basis.
- The Council has a strong track record of delivering its budget, the deficit reported in 2019/20 of £0.633 million arose due to the planned use of earmarked reserves to increase revenue contributions to capital.
- Cash balances remain appropriate, and there is evidence that the Council has sufficient access to borrowing in the short term should this been needed.
- Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.

## Auditor commentary

- We concur with the S151 Officer's view that there are no material uncertainties that would require disclosure under ISA570.
- On the basis of our work we propose to issue an unmodified opinion for 2019/20 in relation to going concern.
- Our audit work detailed in the VFM section of this report provides more commentary regarding the financial challenge faced by the Council and this is impacted by the Covid-19 pandemic.

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Scrutiny 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 procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Audit and Scrutiny Committee papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. At the time of writing this report we are awaiting Lloyds and Barclays third party confirmations.
<b>Disclosures</b>	Our review found no material omissions in the financial statements.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>No detailed work is required in this area as the Council is below the thresholds set by the NAO.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of Teignbridge District Council in the audit report, as detailed in Appendix E.</p>

18

# Value for Money

## Background to our VFM approach

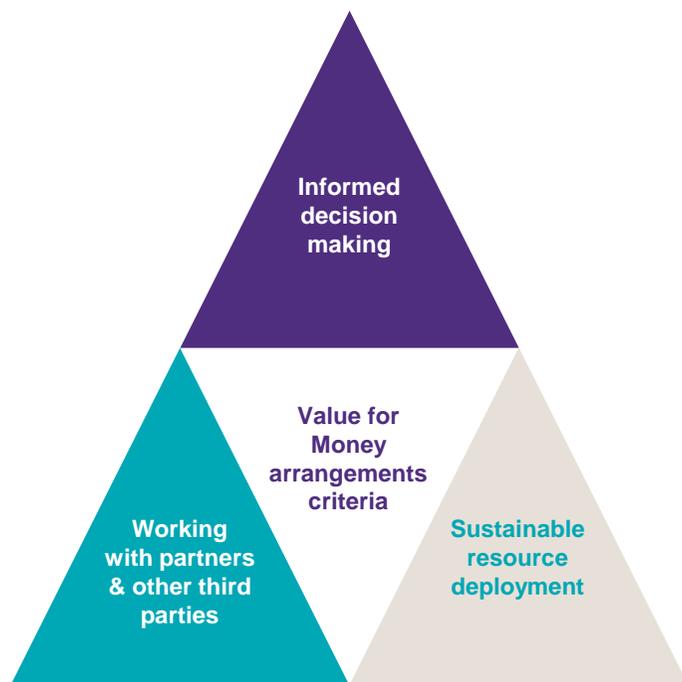
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:

19



## Risk assessment

We carried out an initial risk assessment in February 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 21 March 2020.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial outturn position and medium term financial plan;
- Arrangements for closing the budget gap; and
- Arrangements for responding to the impact of Covid-19 and the impact on financial planning.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on the following page.

## Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our proposed report can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

# Value for Money

## Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and through our ongoing review of documents.

In our Audit Plan dated 21 March 2020, we commented:

### Financial Sustainability

Teignbridge District Council continues to face significant financial challenges over the medium term. The Council is forecasting a small underspend in 2019/20 against its revenue budget. However the latest medium term financial plan (MTFP) shows a revenue budget gap in 2022/23 of circa £1.5m.

General Fund reserves are forecast to remain at just below £2.0m over the medium term. The MTFP does however, assume the use of £4.3m of earmarked reserves between 2019/20 and 2022/23. This would significantly reduce earmarked reserve balances over the medium term. The planned use of earmarked reserves in 2019/20 is £1.7m.

The two key areas that are impacting upon the Council's MTFP are New Homes Bonus and Business Rates. These are both areas of significant uncertainty.

In response to this risk we will review the significant assumptions made in the Council's medium term financial plan and progress towards further closing the funding gap and reducing the impact on earmarked reserves.

## Findings

As set out in our Audit Plan the Council faced a significant financial challenge pre Covid-19. The global pandemic has exasperated this through lost income in 2020/21 and an increased level of uncertainty. It is clear from our review that the Council's financial reporting arrangements are robust, and the level of reporting has been increased in response to the uncertainty presented by the virus.

The Council reported a deficit for 2019/20 of £0.633m which has reduced reserves. The Council ended the year with General Fund Reserves of £1.987m and General Fund Earmarked Reserves of £9.124m.

Pre Covid, the Council's Medium-Term Financial Strategy set out that there was a budget gap over the medium term of £1.5m and this was after the use of £4.3m of earmarked reserves. Whilst there are schemes identified to close this gap and work has started in some areas this has been delayed by Covid-19.

Although the Council has a good history of delivering savings, delivering this level of savings in the current climate will be challenging.

The revised Medium-Term Financial Strategy is now showing that there will be a small surplus generated of £0.067m in 2020/21. The shortfall was originally forecast to be £5.120m however with the sales fees and charges compensation scheme providing 75% funding for 95% of losses of c £3m and a collection fund adjustment of £2.075m the gap is closed. The Council has also taken action and have built into the revised 2020/21 budget c£2m of additional savings to be delivered.

The real pressures are likely to hit in 21/22 and beyond as income streams will take time to recover – particularly fees and charges and rental income and clarity on settlement funding hinging on any adjustments to business rates retention, continuation of new homes bonus and clarity on support for council tax and business rates income losses. Consideration of all available reserves will be essential in balancing the budget for next year and future years.

The Council are currently undertaken detailed work to fully understand the impact of the pandemic over the medium term.

# Value for Money

## Findings (continued)

Years 2021/22 and 2022/23 are therefore pivotal in achieving financial sustainability. Officers and Members must take action to identify saving/income generation schemes and review and continue to update the current medium-term financial strategy to ensure this remains updated with the most relevant and accurate assumptions. New schemes whether they are cost reduction or income generation often have significant lead times and as such progress needs to be made to ensure the impact on the Council's reserves are minimised. Whilst the Council has an adequate level of reserves, if sufficient action is not taken to address the budget gap on a recurrent basis this will impact on the Council's financial sustainability.

---

## Conclusion

Based on the work completed we have concluded that the Council has adequate arrangements in place to deliver financial sustainability. It is clear that the Council has responded positively to the challenge presented by Covid-19 and are adequately monitoring and assessing the current and future impacts on the Council's finances; albeit with an increased level of uncertainty. The financial years 2021/22 and 2022/23 will see perhaps the peak of the challenge with reduced levels of income, impact on savings, and uncertainty of funding. It is therefore business critical that officers and members take immediate action to identify further mitigations by way of reducing costs or increasing income. It is also crucial the medium-term financial plan is refreshed on an ongoing basis.

## 2 Management response

Agree – we are communicating with Government in relation to our concerns over future funding streams and await early clarification as part of the provisional settlement. We continue to strive for savings through the BEST2020 process and delivered savings in 20/21 which will be reviewed as part of the savings exercise for 2021/22. We will look at all areas of efficiency and savings as part of our recovery programme and look to identify commercial opportunities, new income streams and a review of the use of our assets etc.

---

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

# Independence and ethics

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the following threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Housing Benefit Certification 2018/19 billed in 2019/20	9,400	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,400 in comparison to the total fee for the audit of £44,740 and in particular is not significant relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Housing Benefit Certification 2019/20 to be completed in December/January 2020	8,400	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,400 in comparison to the total fee for the audit of £44,740 and in particular is not significant relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p> <b>High</b></p> <p>25</p>	<p>It is clear that the Council has responded positively to the challenge presented by Covid-19 and are adequately monitoring and assessing the current and future impacts on the Council's finance, albeit it with an increased level of uncertainty. The financial years 21/22 and 22/23 will see perhaps the peak of the challenge with reduced levels of income, impact on savings, and uncertainty of funding. It is therefore business critical that officers and members take immediate action to identify further mitigations by way of reducing costs or increasing income. It is also crucial the medium-term financial plan is refreshed on an ongoing basis.</p>	<p>We recommend that officers and Members take action in 2020 to reduce the current budget gaps over the medium term. We further recommend that the Council continue to refresh the medium-term financial plan to reflect the impact of Covid-19 as things develop and to ensure the financial challenge is fully known.</p> <p><b>Management response</b></p> <p>Agree – we are communicating with Government in relation to our concerns over future funding streams and await early clarification as part of the provisional settlement. We continue to strive for savings through the BEST2020 process and delivered savings in 20/21 which will be reviewed as part of the savings exercise for 2021/22. We will look at all areas of efficiency and savings as part of our recovery programme and look to identify commercial opportunities, new income streams and a review of the use of our assets etc. These findings will be incorporated in our draft budget proposals that will be worked up in December 2020</p>
<p> <b>Medium</b></p>	<p>In previous years we have reported that the S151 officer has posted journals which increases the risk on management overriding controls. The Council continue to accept this increased risk due to the size of the finance team. Due to the pandemic the S151 has posted an increased level of journals which has resulted in the audit team having test a higher number of journals to ensure that each of these were appropriate.</p>	<p>We recommend that the finance team reconsider the level of journals posted by the S151 Officer.</p> <p><b>Management response</b></p> <p>We will consider as part of any future resourcing and work allocations within the small Finance team and ability to reallocate due to the restrictive nature of operations from Covid 19.</p>
<p> <b>Medium</b></p>	<p>In previous years we have discussed with management the heavy reliance upon manual working papers. During the 2019/20 audit, which was conducted remotely, the use of manual working papers increased the amount of work needed both in terms of agreeing populations for testing and in verifying authenticity of documentation.</p>	<p>We recommend that the finance team ensure all working papers going forward are electronic as this will help audit efficiency.</p> <p><b>Management response</b></p> <p>We carried out significant work previously carried out by the auditors thus reducing their level of work. We also increased the number of electronic documents produced and scanned all manual working papers to ensure they were available for the audit. Any further changes in processes to provide a set of accounts will be dictated by future plans to change the finance system.</p>

#### Controls

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

# Action plan (continued)

Assessment	Issue and risk	Recommendations
 <b>Medium</b>	<p>Our work on property plant and equipment identified 164 historic assets included in the fixed asset register that were previously disposed pre 2018/19. These assets are correctly carried at nil value in the asset register.</p>	<p>We recommend that these items are removed from the FAR going forwards as they are no longer relevant to the Council's asset population and could result in misstatement of assets not in their possession.</p> <p><b>Management response</b></p> <p>These assets are not included as 'live' on the Finance spreadsheet but included for historic purposes only and flagged as sold. They are excluded from the Estates property system P-ASSETS.</p>

## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of Teignbridge District Council's 2018/19 financial statements, which resulted in four recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note that two remain in progress.

Assessment	Recommendation previously issued	Update on actions taken to address the issue
x	<p>We recommend that as a matter of urgency the Council identify further income generation/cost reduction schemes to reduce the future budget gaps and minimise the use of the Council's reserves.</p> <p>We further recommend that the Council take action on the implementation of those schemes identified to date. This is to ensure the earliest possible impact.</p>	Given the increased budget gap and the impact of Covid 19 more focus is needed in this area. An updated recommendation has been raised in Appendix A of this report.
27 <sup>x</sup>	We recommend that the Council review its arrangements for posting journals going forward.	The S151 officer has continued to post journals due to the size of the team. Due to Covid 19 the number of journals posted has increased considerable which in turn has increased the level of audit testing required. An updated recommendation has been raised in Appendix A of this report.
✓	We recommend that as the Council progresses new and innovative ways of generating income that the appropriate technical advice is sought at each stage in the process. The accounting implications of each transaction should also be considered.	This recommendation has been noted by the Council and our financial statements and VFM work have not identified any issues where the appropriate technical advice has not been sought.
✓	The Council should ensure at the end of each period the Capital Financing Requirement reconciles to the capital items on the balance sheet.	This recommendation has been addressed.

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

## Impact of adjusted and unadjusted misstatements

At the time of writing this report there are no adjusted or unadjusted misstatements.

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Financial Statements – Various	During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	✓

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£44,740	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£44,740</b>	<b>TBC</b>

The proposed indicative fee of £44,740 has been approved by PSAA. We set out in our audit plan how the Financial Reporting Council's has set its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This, coupled with the recent impact of Covid 19 and the time taken in managing the audit in a more remote working environment, has clearly impacted our work and we will need to review the actual audit inputs required at the conclusion of our work, to assess any fee implications arising from this.

In our experience, based on the indications from audits being undertaken to date, the issues highlighted above are increasing the time taken on audits by an average of 25%. We understand from discussions with the ICAEW that this is similar to other firms. We are mitigating this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is possible that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. Whilst it is too soon to estimate whether there will be any additional cost to the Council it is important to highlight this matter to you. We will discuss any additional costs with the Council's S151 Officer as we progress further towards the concluding stages of the audit. We hope the explanation above and the recent Redmond report (that indicates that, before the impact of Covid 19 is taken into account, audit fees are under-priced by 25 per cent) provides some context to any additional fees and the actions we are taking to mitigate them.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Certification of the Housing Benefit return	£9,400	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£9,400</b>	<b>TBC</b>

The fees set out on this page agree to the figures set out in note 34 of the Council's financial statements.

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## Independent auditor's report to the members of Teignbridge District Council Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Teignbridge District Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

## Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings [and property investments]

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings [and the Authority's share of the pension fund's property investments] as at 31 March 2020. As, disclosed in note 6 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in [both] the Authority's property valuer's report [and the pension fund's property valuation reports]. Our opinion is not modified in respect of this matter.

## Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Scrutiny Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

## Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

# Audit opinion

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

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

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julie Masci, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Bristol  
Date:



© 2020 Grant Thornton UK LLP. All rights reserved.

'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.

This page is intentionally left blank

**TEIGNBRIDGE DISTRICT COUNCIL**

**AUDIT SCRUTINY COMMITTEE**

**21 OCTOBER 2020**

<b>Report Title</b>	<b>2019/20 FINAL ACCOUNTS</b>
<b>Purpose of Report</b>	To bring an update on the statement of accounts 2019/20 for Members to review and recommend to Council for approval.
<b>Recommendation(s)</b>	<b>The Audit Scrutiny Committee recommend the statement of accounts 2019/20 and letter of representation for approval to Council subject to any final adjustments agreed with the external auditors which will be reported to Council.</b>

<b>Financial Implications</b>	The financial implications are contained throughout the report. The main implication is that the accounts have been closed and audited and general reserves are slightly above the budgeted level anticipated at 31 March 2020 - £1.987 million. See section 3 Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
<b>Legal Implications</b>	See section 5 – the Accounts and Audit Regulations 2015 set out the requirements for the production and publication and audit of the annual statement of accounts. Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
<b>Risk Assessment</b>	Major risks are summarised in section 4. The most significant of these is the level of future funding from Central Government and the level of reserves held to meet future unexpected variations in income. Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
<b>Environmental/ Climate Change Implications</b>	The revenue budget supports the funding of a Climate Change Officer and associated budget – see section 7. David Eaton – Environmental Protection Manager Tel: 01626 215064 Email: david.eaton@teignbridge.gov.uk
<b>Report Author</b>	Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
<b>Portfolio Holder</b>	Councillor Richard Keeling – Portfolio holder for Corporate Resources
<b>Appendices</b>	None – see links to statement of accounts
<b>Part I or II</b>	Part I
<b>Background Papers</b>	2019/20 year end files including Accounts and Audit Regulations 2015.

## 1. PURPOSE

To bring an update on the statement of accounts 2019/20 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. The statement usually has to be produced and certified by the chief finance officer by 31 May however the outbreak of Covid 19 has triggered amendments to

this deadline by extending this to the end of August. Ordinarily the accounts have to be brought for full council approval after external audit and by 31 July however again this has been amended to the end of November or as soon as is practically possible.

- 2.2** At the Audit Scrutiny meeting of 26 August 2020 the committee was introduced to the draft accounts and the results for the year 2019/20 including those for treasury management. The draft accounts were published at the end of July, a month before the temporary deadline of the end of August.
- 2.2** The statement of accounts and financial records have been audited by our external auditors Grant Thornton during August, September and October. Their signed audit opinion will be provided by the end of November. 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 23 November. Any likely adjustments will be discussed at today's meeting when Grant Thornton submit their findings.
- 2.3** 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 Finance.
- 2.4** 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:
- 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 DRAFT STATEMENT OF ACCOUNTS 2019/20**

- 3.1** The audit of the statement of accounts is currently being finalised and there are no known major adjustments to date. Grant Thornton will discuss any findings separately in their report when the audit is completed. There are no adjustments required to the Strata figures consolidated into the accounts of the Council. The draft closing general reserves at 31 March 2020 of £1.987 million are an improvement on the original budget of £41,000.
- 3.2** The draft balance sheet shows a net worth of £17.4 million at 31 March 2020 compared to a net worth of £13.9 million at 31 March 2019. This is due mainly to an increase in capital grants unapplied and capital receipts in the

year, a decrease in the pension fund deficit and an increase in the value of our property, plant and equipment.

- 3.2** 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 him before presentation of the accounts to the council meeting.

### **3.3 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 2019/20. 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.
- 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.

### **3.4 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. An appeals provision is also held for potential appeals against business rates valuations charged. These are as follows:

- A provision of £661,000 or 20% has been made against a year end balance of £3,336,000 for sundry debts. The majority of the debt relates to housing benefit overpayments where arrangement for regular affordable payments has been made. 30% is provided for small older debts still outstanding with specific appropriate provision for individual large debts. Write offs in the year were £149,000 or 1.2% of debt raised in year (2018/19 £111,000 or 0.8% of debt raised in year).
- The council tax gross debt at the year end was £3,826,000 (2018/19 £3,402,000) and write offs in the year were £196,000 (2018/19 £165,000). The write offs have remained low for each of the last five years at less than 0.3% of the debit raised. The debit raised in the year was £116 million. The bad debt provision for 2019/20 has been increased to £990,000 being 26% of the balance.
- For national non domestic rates the gross balance at the year end was £474,000 (2018/19 £390,000). Write offs were £49,000 (2018/19 £78,000). The value of the bad debt and appeals provision amounts to £1.6 million at 31 March 2020 to cover potential future bad debts and appeal adjustments on rating valuations. Write offs have remained low for each of the last five years at less than 0.5% of the debit raised. The debit raised in the year was £40 million.

### **3.5 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 scrutiny committee. The specific comments on these accounts will be 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.

### **3.6 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. RISKS**

The major risks to be aware of are around future funding and the adequacy of reserves going forward as further action may be required to address the impacts of the Covid 19 pandemic. General reserves are maintained at a value higher than originally budgeted and earmarked reserves are held to help deal with future forecast funding changes and earmarked projects/schemes. Further clarity is required on the level of Government support for both this year and next. These risks may impact on the performance of treasury management and borrowing levels moving forward. Preparation and approval of the accounts are required by the Accounts and Audit Regulations 2015 and if these regulations are not adhered to the auditors could qualify the accounts.

#### **5. MAIN IMPLICATIONS**

The implications members need to be aware of are as follows:

##### **5.1 Legal**

The Financial Accounts for 2019/20 need to be produced and audited in accordance with the Accounts & Audit Regulations 2015.

##### **5.2 Resources**

The report notes that general reserves have been maintained at a level slightly higher than originally budgeted at 31 March 2020.

#### **6. GROUPS CONSULTED**

The draft accounts are advertised as available for inspection and are available on the website. The external auditors have been auditing the financial records and accounts during August and September. 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.

#### **7. ENVIRONMENTAL/CLIMATE CHANGE IMPACT**

The revenue budget supports the appointment of a climate change officer and associated budget.

#### **8. DATE OF IMPLEMENTATION (CONFIRMATION OF DECISION SUBJECT TO CALL-IN)**

10.00 a.m. on 28 October 2020



This page is intentionally left blank

## **FINANCIAL SERVICES**

**Telephone:** 01626 215246  
**e-mail:** martin.flitcroft@teignbridge.gov.uk  
**My Reference:** MF  
**Please ask for:** Martin Flitcroft

Grant Thornton UK LLP  
2, Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL

Dear Sirs

23 November 2020

### **Teignbridge District Council Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Teignbridge District Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented 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 any 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. 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.
- vi. 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.
- vii. Except as disclosed 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. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that the Council has an adequate level of reserves and liquidity. 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.

## **Information Provided**

- xiv. 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. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xv. We have communicated to you all deficiencies in internal control of which management is aware.
- xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii. 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.
- xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
  - 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.
- xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx. 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.
- xxi. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxii. 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**

- xxiii. 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 Report**

- xxiv. The disclosures within the Narrative Report 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 Full Council at its meeting on 23 November 2020.

Yours faithfully

Martin Flitcroft  
Chief Finance Officer  
23 November 2020

Councillor John Petherick  
Chairman of the Council  
23 November 2020

**TEIGNBRIDGE DISTRICT COUNCIL**

**AUDIT SCRUTINY COMMITTEE**

**21<sup>ST</sup> OCTOBER 2020**

**PART I**

<b>Report Title</b>	<b>Internal Audit Report &amp; Redmond Review Update</b>
<b>Purpose of Report</b>	To update members on the plan of work this year and ask members to approve the Internal Audit Charter.  To provide information on the Redmond Review.
<b>Recommendation(s)</b>	<b>The Committee RESOLVES to note the report and APPROVE the Internal Audit Charter.</b>
<b>Financial Implications</b>	See section 3.1.
<b>Legal Implications</b>	See section 3.2.
<b>Risk Assessment</b>	See section 3.3.
<b>Environmental/ Climate Change</b>	See section 3.4.
<b>Report Author</b>	Sue Heath, Audit Manager Email: sue.heath@teignbridge.gov.uk
<b>Executive Member</b>	Councillor Keeling, Corporate Resources
<b>Appendices / Background Papers</b>	None.

---

**1. INTRODUCTION / BACKGROUND**

- 1.1 Internal audit provides an independent opinion on the Council's risk management, control environment, and governance. A plan of audit work is usually provided to Audit Committee members at the beginning of each financial year, setting out which areas will be audited with a view to providing the Council with a statutory internal audit opinion at the end of the year. The requirement for internal audit is set out in the Accounts and Audit Regulations 2015.

## 2. Audit Plan 2020-2021

- 2.1 This year is understandably unique. The Coronavirus pandemic has had a profound effect on all council services. Members of the internal audit team were either redeployed to critical services such as Business Grants and the Food Hub, or were furloughed as routine audits were suspended.
- 2.2 The risks from Covid are still directing what we do to a large extent, and we continue to focus on these given their high priority. Most available audit time has been spent ensuring counter fraud and error controls and data protection requirements are in place and operating effectively for the various emergency support grants launched. The aim was to make the payments as quickly possible and in view of this, post payment checking and assurance was recommended by central government.
- 2.3 For the initial business grants we seconded an auditor into the business grant team full time to help set up the scheme and to carry out embedded pre-payment checks in addition to post payment assurance. We have since continued to support grant and support scheme payments as they evolve from central government, and locally. The dedication of all Teignbridge staff in meeting the requirements and tight deadlines involved in this work has been, and continues to be, commendable.
- 2.4 Recognising the Council's current financial pressures, we have relinquished our small budget for audit days purchased from an external provider to help achieve the corporate savings target.
- 2.5 This means resources will be limited this year. Our plan is therefore to continue to respond in real time to the needs of the pandemic supporting new systems with internal control and counter fraud work where required. Our remaining time will be used for the following core systems audits which are key to financial governance:

<b>Planned Systems Work</b>	
<b>Risk Management</b>	The processes in place to manage risks (mitigations) will be verified to ensure that they are operating in practice and provide assurance that key risks are being managed.
<b>Main Accounting</b>	Accounts for the Council's activities and ensures budgetary requirements are met. Good Financial Management and Budgetary control are essential in the current challenging financial situation.
<b>Creditors</b>	Pays the authority's creditors and internal payments. This audit will ensure the payment controls adapted for home working are effective.
<b>Payroll</b>	Ensures prompt and accurate payment of employees. The new iTrent Payroll system is now live. Payroll audits have previously been postponed pending its implementation. Home working controls also need assurance.
<b>Council Tax</b>	Calculates, collects and accounts for Council Tax including recovery procedures for non-payment.
<b>Housing Finance</b>	Follow up of audit undertaken last year, to ensure income collection procedures are operating effectively.

### 3. Completed Work / Work in Progress

#### 3.1

SYSTEM	STATUS	OPINION
Governance Review and AGS	Complete	Good
Small Business Grants	Complete	Good
Discretionary Business Grants	Complete	Good
Coronavirus Hardship Fund	Complete	Excellent
Self Isolation Grants	In Progress	
Risk Management	In Progress	

#### 3.2

Key to Assurance Opinions:		
<b>Excellent</b> ☆☆☆☆	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.	
<b>Good</b> ☆☆☆	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some areas for improvement have been identified.	
<b>Fair</b> ☆☆	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 achieve system objectives.	
<b>Poor</b> ☆	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.	

3.3 The Audit team continue to undertake ad-hoc tasks and provide advice and guidance. The Audit Manager remains the key contact for the National Fraud Initiative and is a member of the Transformation Board and the IT Requirements Board which give valuable insight into audit opinion work.

### 4. INTERNAL AUDIT CHARTER

4.1 The Public Sector Internal Audit Standards require internal audit services to implement and maintain an Audit Charter which formalises their purpose, responsibilities and authority. Ours is updated annually and is set out at **Appendix A** below. **Members are asked to approve the Charter.**

## 5. REDMOND REVIEW – Overview / Update

- 5.1 On 8 September 2020, the Government published the results of an [independent review](#), led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit.
- 5.2 The review recognised that current arrangements are not working as well as they should and provides a number of key recommendations including:
- Implementation of a new local authority audit oversight body to coordinate, regulate and monitor performance of external audit activity.
  - Extending the dialogue with external auditors and members/senior officers.
  - Audit Committees to include an expert independent member.
  - Allowing the use of internal audit work by external auditors.
  - Moving the publication date for audited accounts from 31 July back to 30 September to allow audit firms more scope to resource audits effectively.
  - Revision of fee structures to ensure adequate resources are deployed.
  - Simplification and improved usefulness of the statutory accounts.
  - Simplified and standardised narrative statement of service information and costs to be made available to the public (this is in addition to the accounts and would be subject to audit).
- 5.3 The recommendations will now be considered by the relevant bodies. Some require primary legislation to be made, which will give a clearer timescale for implementation. It is anticipated they will be in place for the 2021-22 accounts, with some implemented on a trial basis in 2020-21.
- 5.4 **Potential implications for Teignbridge include:**
- A suspected increase in external audit fees – it is suggested these are currently 25% lower than required to fulfil requirements effectively.
  - The appointment of an independent member to this committee.
  - A report to full Council by the external auditor.
  - Production of a standardised statement of service information and costs.
  - Revised timetable for reporting from 31 July to 30 September.
- 5.5 This update gives a brief overview. Members will be kept informed as further details of timescales and implications emerge.

## **6. IMPLICATIONS, RISK MANAGEMENT & CLIMATE CHANGE IMPACT**

- 6.1 **Financial** – the internal audit proposals are within budget. The financial implications arising from the Redmond Review will be reported when known.
- 6.2 **Legal** – the statutory requirement for internal audit is met.
- 6.3 **Risks** – risks are taken into account in planning internal audit work.
- 6.4 **Environmental/Climate Change Impact** - not applicable.

## **7. CONCLUSION / RECOMMENDATION**

That the report be noted and the Internal Audit Charter be approved.

---

## INTERNAL AUDIT CHARTER 2020-2021

### INTRODUCTION

This document describes the purpose, authority, and principle responsibilities of the Council's Internal Audit Section.

### DEFINITION, FUNCTION and MISSION OF INTERNAL AUDIT

Internal auditing is an independent, objective, assurance providing activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit will advise management where internal control systems can be improved, and seek to promote compliance with corporate policies and procedures, and accomplishment of corporate priorities, through its review of the Council's activities.

### AUTHORITY, INDEPENDENCE, and OBJECTIVITY

Internal Audit's statutory authority comes from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015 which state:

#### Internal audit

- (1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—
  - (a) make available such documents and records; and
  - (b) supply such information and explanations; as are considered necessary by those conducting the internal audit.

Internal Audit must remain sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner which facilitates impartial and professional judgements and recommendations. Internal Auditors should ideally have no operational responsibilities. Where this is unavoidable, consideration will be given to obtaining oversight by a third party outside the internal audit activity.

Internal Audit forms part of the Council's Corporate Services. The Audit Manager reports to the Head of Corporate Services (Chief Finance / Section 151 Officer), and functionally to the Audit Scrutiny Committee (*who act as "the Board" for the purposes of the Public Sector Audit*

*Standards*) on audit matters. Close liaison with the Section 151 Officer (responsible for financial affairs) is maintained to ensure his Section 151 duties are fulfilled, and the Audit Manager has direct access to the Managing Director as and when required.

Internal Audit staff have unrestricted access at any time to such systems, records, information assets, personnel and premises, including those of partner organisations, as necessary for the proper fulfilment of their responsibilities. Any officer, or member of the Council shall, if required, make available, information required for audit purposes, and shall provide the auditor with such information and explanation as considered necessary for that purpose.

This statutory role and rights of access are recognised and endorsed within the Council's Financial Instructions (Constitution) and Internal Audit Manual.

## STANDARDS & PROFESSIONALISM

Internal Audit must take into account public sector auditing standards or guidance. For local authorities the Public Sector Internal Audit Standards guide audit activity. Team members are also governed by the Code of Ethics of their relevant professional body as well as the Council's own internal Code of Conduct.

For an internal audit function to be effective, the following core principles should be present:

- Integrity
- Competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with strategies, objectives and risks of the organisation
- Demonstrates quality and continuous improvement
- Effective communication
- Promotes organisational improvement
- Is insightful, proactive and future focussed

## SCOPE AND RESPONSIBILITIES

Heads of Service and Service Managers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The scope of Internal Audit allows for unrestricted coverage of the control environment including risk management and corporate governance. This ensures all of the Council's operations, resources, services and responsibilities are included. Where the scope of Internal Audit's work extends to services provided through partnership, Internal Audit staff may consider whether to conduct assurance work themselves (where contracts allow) or rely on assurance provided by others.

## INTERNAL AUDIT MANAGEMENT

The Audit Manager is responsible for:

- Managing the Internal Audit service, determining the scope and methods of audit activity
- Ensuring Internal Audit staff operate within current auditing standards and ethical standards of the professional bodies of which internal auditors are members
- Ensuring Internal Audit staff are impartial, unbiased, and avoid conflicts of interest

- Developing operational audit plans based on an assessment of risk and in consultation with senior management;
- Maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out audit work
- Liaison with the Council's external auditors to achieve co-ordination of work where possible both with external audit and other review agencies where appropriate
- Reporting to the Strategic Leadership Team (*i.e. "senior management" as defined by the Public Sector Internal Audit Standards*) and the Audit Scrutiny Committee on the results of audit activities, and the effectiveness of the actions taken by management to implement agreed recommendations
- Reviewing the Council's risk management and governance arrangements
- Providing the Strategic Leadership Team and the Audit Scrutiny Committee with an annual assurance statement on the adequacy of the Council's internal control systems

## FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, cannot guarantee that fraud and corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors will, however, be alert in all their work to the risks and exposures that could provide opportunity for fraud or corruption. They will investigate suspected frauds and irregularities where appropriate, and will act upon reports of fraud accordance with the Council's Anti-fraud, Theft and Corruption Strategy.

The Audit Manager must be informed of all suspected or detected fraud, corruption or improprieties so they may be considered in terms of the adequacy of the relevant internal controls, and be evaluated for the annual opinion on the control environment.

## AUDIT REPORTING

Audit assignments will be covered by formal reports in order to communicate the findings of the audit and encourage management to take prompt mitigating action if risks have been identified.

Reports will be issued in draft form to the managers responsible for the area under review for agreement of the factual accuracy of findings. On receipt of management comments, including acceptance or rejection of recommendations, reports will be finalised with agreed action dates where applicable. Each report will include an opinion on the adequacy of the control environment governing the activity that has been audited. Reports with Fair or Poor assurance ratings will be reviewed by the Strategic Leadership Team to ensure actions to address risks are adequate.

Full audit reports will be available to members of the Audit Scrutiny Committee and a summary of all audit work provided at meetings. If the failure to implement an audit recommendation is deemed to present the Council with an unacceptable risk, the matter will be reported to the Audit Scrutiny Committee and the manager concerned may be required to give an explanation.

At the end of each audit year, the Audit Manager will deliver an annual assurance opinion and report which can be used to inform the Council's Annual Governance Statement. The

annual opinion will conclude on the overall adequacy of the framework of governance, risk and control, and will summarise the work that supports the opinion.

## LOCAL AND NATIONAL ISSUES AND RISKS

The annual audit planning process should ensure that new or emerging risks are considered. The Audit Manager takes account of Council plans and strategies, and consults the Corporate Management Team on the issues and risks inherent to their service areas to identify any potential areas of concern for audit review. Risk registers are examined to ensure high scoring risks are taken into account. The audit 'universe' (list of auditable activities) and resulting plan are further informed by the review of Council minutes; cumulative corporate knowledge, and issues arising from past audits, or service reviews.

The Audit Plan is approved by the Audit Scrutiny Committee, however, it is recognised that this is flexible and work can be re-prioritised should unforeseen issues arise throughout the year.

Individual audit projects within the plan focus on the control systems for key risks within each area. Both systems based and risk based approaches may be used. Mitigating actions from the operational risk register may also be tested to assess how well risks are being managed.

Awareness of national issues is maintained through membership of and subscription to professional bodies such as the Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance Accountants' advisory services; Better Governance Forum; liaison with external audit; and with colleagues in other local authorities.

## PROVISION OF THE SERVICE

The service is provided by an in-house Audit Manager and Auditor. This is supplemented by a small budget to buy in external resource where needed. Some of the internal audit time is, however, directed to corporate work such as corporate working groups and internal boards.

Service delivery is monitored through key performance indicators such as achievement of the Audit Plan, customer feedback, assessment against the Public Sector Internal Audit Standards, and a value for money indicator which can be used to benchmark the cost of the service if required.

## RESOURCES AND SKILLS

The current level of resources (outlined above) is considered sufficient to deliver this year's Plan. Additional requests for work will be controlled to ensure they do not compromise assurance work.

Auditors are encouraged to develop their skills and knowledge through undertaking various training programmes. The Council recognises both CIPFA and the Chartered Institute of Internal Auditors (CIIA) qualification. Two internal audit staff members have CIIA qualifications.

Training needs are assessed on an ongoing basis. The aim is to ensure auditors are operating at a level which fulfils client requirements and meets professional standards.

If the necessary skills for a particular assignment were not available in house, consideration would be given to sourcing these externally, subject to available budget.

This page is intentionally left blank

**TEIGNBRIDGE DISTRICT COUNCIL**

**AUDIT SCRUTINY COMMITTEE**

**21<sup>ST</sup> OCTOBER 2020**

**PART I**

<b>Report Title</b>	<b>Local Government Ombudsman – Annual Report</b>
<b>Purpose of Report</b>	To make members aware of the findings of the
<b>Recommendation(s)</b>	<b>The Committee RESOLVES to note the report.</b>
<b>Financial Implications</b>	None – see section 3.1.
<b>Legal Implications</b>	None – see section 3.2.
<b>Risk Assessment</b>	Not applicable – see section 3.3.
<b>Environmental/ Climate Change Implications</b>	Not applicable – see section 3.4.
<b>Report Author</b>	Sue Heath, Audit & Information Governance Manager Email: sue.heath@teignbridge.gov.uk
<b>Executive Member</b>	Councillor Keeling, Corporate Resources
<b>Appendices / Background Papers</b>	None.

---

**1. INTRODUCTION / BACKGROUND**

- 1.1 The Local Government and Social Care Ombudsman (LGO) investigates complaints which cannot be resolved by the Council itself, and makes recommendations where faults have caused injustice.

1.2 Before the LGO will consider a case, customers must have first pursued the Council's own complaints process. This involves two stages:

- Stage 1: the service will review the complaint, and respond accordingly. This response will usually be from the relevant service manager.
- Stage 2: if the claimant is still dissatisfied, it will be escalated to a member or the Senior Leadership Team.

1.3 The LGO issues an Annual Review Letter to each Council. Teignbridge's is copied below. In summary, **5** investigations were undertaken for the period 1 April 2019 to 31 March 2020. **None of the complaints were upheld.** This compares to an average of 45% upheld in similar Councils and is therefore an excellent outcome for Teignbridge.

The complaints investigated were in the following areas:

<b>1</b>	Housing re. a Disabled Facilities Grant application	Not upheld
<b>2</b>	Planning re. enforcement of breach of planning control	Not upheld
<b>3</b>	Planning re. breach of condition	Not upheld
<b>4</b>	Planning re. erection of balcony	Not upheld
<b>5</b>	Environmental Control re. noise nuisance	Not upheld

## **2. IMPLICATIONS, RISK MANAGEMENT & CLIMATE CHANGE IMPACT**

2.1 **Financial** - there are no financial implications.

2.2 **Legal** - there are no legal issues.

2.3 **Risks** - not applicable.

2.4 **Environmental/Climate Change Impact** - not applicable.

## **3. CONCLUSION**

That the report be noted.

22 July 2020

*By email*

Mr Shears Managing Director  
Teignbridge District Council

Dear Mr Shears

### **Annual Review letter 2020**

I write to you with our annual summary of statistics on the decisions made by the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2020. Given the exceptional pressures under which local authorities have been working over recent months, I thought carefully about whether it was still appropriate to send you this annual update. However, now, more than ever, I believe that it is essential that the public experience of local services is at the heart of our thinking. So, I hope that this feedback, which provides unique insight into the lived experience of your Council's services, will be useful as you continue to deal with the current situation and plan for the future.

### **Complaint statistics**

This year, we continue to place our focus on the outcomes of complaints and what can be learned from them. We want to provide you with the most insightful information we can and have made several changes over recent years to improve the data we capture and report. We focus our statistics on these three key areas:

**Complaints upheld** - We uphold complaints when we find some form of fault in an authority's actions, including where the authority accepted fault before we investigated. A focus on how often things go wrong, rather than simple volumes of complaints provides a clearer indicator of performance.

**Compliance with recommendations** - We recommend ways for authorities to put things right when faults have caused injustice. Our recommendations try to put people back in the position they were before the fault and we monitor authorities to ensure they comply with our recommendations. Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

**Satisfactory remedies provided by the authority** - We want to encourage the early resolution of complaints and to credit authorities that have a positive and open approach to

resolving complaints. We recognise cases where an authority has taken steps to put things right before the complaint came to us. The authority upheld the complaint and we agreed with how it offered to put things right.

Finally, we compare the three key annual statistics for your authority with similar types of authorities to work out an average level of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

This data will be uploaded to our interactive map, [Your council's performance](#), along with a copy of this letter on 29 July 2020, and our Review of Local Government Complaints. For further information on how to interpret our statistics, please visit our [website](#).

### **Resources to help you get it right**

There are a range of resources available that can support you to place the learning from complaints, about your authority and others, at the heart of your system of corporate governance. [Your council's performance](#) launched last year and puts our data and information about councils in one place. Again, the emphasis is on learning, not numbers. You can find the decisions we have made, public reports we have issued, and the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

I would encourage you to share the tool with colleagues and elected members; the information can provide valuable insights into service areas, early warning signs of problems and is a key source of information for governance, audit, risk and scrutiny functions.

Earlier this year, we held our link officer seminars in London, Bristol, Leeds and Birmingham. Attended by 178 delegates from 143 local authorities, we focused on maximising the impact of complaints, making sure the right person is involved with complaints at the right time, and how to overcome common challenges.

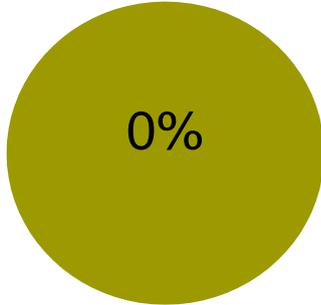
We have a well-established and successful training programme supporting local authorities and independent care providers to help improve local complaint handling. During the year, we delivered 118 courses, training more than 1,400 people. This is 47 more courses than we delivered last year and included more training to adult social care providers than ever before. To find out more visit [www.lgo.org.uk/training](http://www.lgo.org.uk/training).

Yours sincerely,



Michael King  
Local Government and Social Care Ombudsman  
Chair, Commission for Local Administration in England

### Complaints upheld



0% of complaints we investigated were upheld.

This compares to an average of 45% in similar authorities.

0 upheld decisions

Statistics are based on a total of 5 detailed investigations for the period between 1 April 2019 to 31 March 2020

### Compliance with Ombudsman recommendations

No recommendations were due for compliance in this period

### Satisfactory remedies provided by the authority

The Ombudsman did not uphold any detailed investigations during this period

This page is intentionally left blank