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16 March 2021

AUDIT SCRUTINY COMMITTEE

A meeting of the **Audit Scrutiny Committee** will be held on **Wednesday, 24th March, 2021 at 10.00 am**. This will be a virtual meeting and you can observe the meeting [via our Youtube Page](#).

PHIL SHEARS
Managing Director

Membership:

Councillors Clarence, Colclough, H Cox, Goodman-Bradbury, Morgan (Chair), Mullone, Rollason (Vice-Chair) and Thorne

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. **Apologies for Absence**
2. **Minutes of the previous meeting** (Pages 3 - 4)
To approve and sign the minutes of the meeting held on
3. **Declarations of Interest.**
4. **Public Questions (If any)**
5. **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.

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|-----|---|-----------------|
| 6. | Internal Audit Progress Report | (Pages 5 - 8) |
| 7. | Financial Instructions and Contract Procedure Rules Waiver Report | (Pages 9 - 12) |
| 8. | Annual Audit Letter | (Pages 13 - 30) |
| 9. | Audit Progress Report & Sector Update | (Pages 31 - 48) |
| 10. | Informing the audit risk assessment for Teignbridge District Council 2020/21 | (Pages 49 - 74) |

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

AUDIT SCRUTINY COMMITTEE**7 JANUARY 2021****Present:**

Councillors Clarence, Colclough, H Cox, Goodman-Bradbury, Morgan (Chair), Mullone, Rollason (Vice-Chair) and Thorne

Members in Attendance:

Councillor Jeffries

Officers in Attendance:

Christopher Morgan, Trainee Democratic Services Officer
Amanda Pujol, Head of Community Services and Improvement

59. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were signed as a correct record by the Chair.

60. NOTICE OF MOTION

The Notice of Motion was presented to the committee by the Chair.

In response to questions from Councillors, the Head of Community Services informed the Committee that it was not compulsory for Community Fund applications to meet the needs of the groups listed in the proposed questions for the application form. They advised that several training programs would be offered in order to include new elements such as unconscious bias. They also advised that the Councillors Community Fund had briefly been suspended during the ongoing pandemic but had been reinstated and work was doing done to improve the application process.

It was proposed by Councillor Morgan, seconded by Councillor Rollason and

Resolved

The Committee recommends to Executive the following in order to implement the Notice of Motion:

Motion No (1)

Review the Councils HR and Equalities practice including the provision of Equalities training for members and officers

Proposal

1. Equalities training for members is arranged through Democratic Services and members are encouraged to attend by Group Leaders
2. That the Committee report template is amended to include "Equalities Considerations" and whether a Business Impact Assessment is required
3. The Council's Equalities Policy, which expires in 2020, is reviewed and considered by O&S and Executive and included in 2021 Forward Plan

Motion No (5)

A board of representatives from local formally constituted groups representing those with protected characteristics (as defined by the Equality Act) be formed to review the Council Equality Impact assessment on the COVID recovery plan once this has been completed and the Spotlight Group to consider who should be invited to join the board of representatives.

Proposal

Members of the review group agreed to wait until the Equalities Impact assessment is completed, then review to determine if there are any areas of weakness. Comments could then be sought from external registered groups representing the interests of that group.

Motion No (7)

Review the criteria for the Councillor's Community Fund and recommendations be made to ensure funding promotes projects which address inequalities;

Proposal

An additional 2 questions should be included in the Councillors Community Fund form:

1. How does your organisation or project meet the needs of (tick all or any that apply)

- Older people (over 65yrs)
- Young people (under 18yrs)
- People with disabilities
- Members of the LGBT community
- Pregnant Women
- Black, Asian and Minority Ethnic (BAME) people
- 2. Do you have an Equalities Policy Yes / No
If Yes please upload a copy

The meeting commenced at 10.00 am and finished at 10.50 am.

Chair
Cllr Sally Morgan

TEIGNBRIDGE DISTRICT COUNCIL

AUDIT SCRUTINY COMMITTEE

24TH MARCH 2021

PART I

Report Title	Internal Audit Update
Purpose of Report	To update members on the internal work completed.
Recommendation(s)	The Committee RESOLVES to note the report.
Financial Implications	See section 3.1.
Legal Implications	See section 3.2.
Risk Assessment	See section 3.3.
Environmental/ Climate Change	See section 3.4.
Report Author	Sue Heath, Audit Manager Email: sue.heath@teignbridge.gov.uk
Executive Member	Councillor Keeling, Corporate Resources
Appendices / Background Papers	None.

1. INTRODUCTION / BACKGROUND

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

2. Audit Plan 2020-2021

- 2.1 Throughout the year we have been keen to ensure a high standard of control to counter fraud and error is included within the Covid grant schemes administered by the Council. This has included completion of the required Fraud Risk Assessments for the Department for Business, Energy and Industrial Strategy, to assist with their oversight that funds have been allocated as intended.
- 2.2 As the grant schemes have continued to evolve in response to various lockdowns, our auditing of them has continued. To accommodate this, the Creditors, Council Tax and Housing Finance audits have subsequently been postponed to the 2021-2022 plan.

SYSTEM	STATUS	ASSURANCE
Governance Review and AGS	Complete	Good
Risk Management	Complete	Good
Small Business Grants	Complete	Good
Discretionary Business Grants	Complete	Good
Coronavirus Hardship Fund	Complete	Excellent
Self Isolation Grants	Complete	Good
Local Restrictions Grants (Closed)	Complete	Good
Christmas Support Payment	Complete	Good
Local Restrictions Grants (Closed) Addendum and Closed Businesses Lockdown Payment (to 15 Feb)	Complete	Good
Tier 2 Local Restrictions Grants (Closed)	Complete	Good
Tier 2 Local Restrictions Grants (Open)	In Progress	-
Additional Restrictions Grant (Open)	In Progress	-
Additional Restrictions Grant (Top Up)	In Progress	-
Lockdown Grants 16 Feb onwards	In Progress	-
Restart Grants	-	-
Main Accounting	In Progress	-
Creditors	-	-
Payroll	In Progress	-
Council Tax	-	-
Housing Finance	-	-

2.3

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

3. IMPLICATIONS, RISK MANAGEMENT & CLIMATE CHANGE IMPACT

- 3.1 **Financial** – none - the internal audit service is currently within budget.
- 3.2 **Legal** – the statutory requirement for internal audit is met.
- 3.3 **Risks** – risks are taken into account when planning internal audit work.
- 3.4 **Environmental/Climate Change Impact** - not applicable.

4. CONCLUSION / RECOMMENDATION

That the report be noted.

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TEIGNBRIDGE DISTRICT COUNCIL

AUDIT SCRUTINY COMMITTEE

24TH MARCH 2021

PART I

Report Title	Financial Instructions and Contract Rules Waivers
Purpose of Report	To inform Members of the number of times the Financial Instructions and Contract Procedure Rules have been waived and the reasons for this.
Recommendation(s)	The Committee RESOLVES to note the report.
Financial Implications	None – see section 3.1.
Legal Implications	None – see section 3.2.
Risk Assessment	Not applicable – see section 3.3.
Environmental/ Climate Change Implications	None – see section 3.4.
Report Author	Sue Heath, Audit & Information Governance Manager Email: sue.heath@teignbridge.gov.uk
Executive Member	Councillor Keeling, Corporate Resources
Appendices / Background Papers	None.

1. INTRODUCTION / BACKGROUND

The Financial Instructions and Contract Procedure Rules provide the framework for managing the Council's financial affairs. They apply to every member and officer of the Council and anyone acting on its behalf. Sometimes there are instances where the rules cannot be followed and requests are made to waive them. One of the following criteria must be met:

1	LIFE OR DEATH There is significant chance that the life or health of officers, members, or the public will be put at real risk.
2	INCREASED COST / LOSS OF INCOME The Council will incur significant avoidable costs or lose significant income.
3	LIMITED MARKETS The Council would be wasting its time tendering as supply of the product or service is demonstrably restricted to one or few businesses.
4	URGENT ACTION REQUIRED The Council would be criticised for failing to act promptly.

2. WAIVERS

The following waivers have been processed since the December 2021 monitoring report:

Proposing Officer	Proposal / Reason	Approval
Principal Planning Officer	Low Carbon Study for Local Plan Direct appointment of the Centre for Energy and Environment (CEE) at Exeter University to update low carbon evidence. Value: £9,180 Reason: Urgent Action Required and supplier's previous involvement to build on work previously commissioned for GESP.	Neil Blaney Head of Place and Commercial Services

Senior Surveyor	Future High Streets work Remodelling of bid for resubmission. Direct appointment of Hatch Regeneris. Value: £4.9k fully funded by Govt award. Reason: Urgent Action Required and Limited Market due to supplier's previous work on this project.	Neil Blaney Head of Place and Commercial Services
Principal Delivery Officer	District Heating Project SW Exeter Direct appointment of Currie and Brown to review cost and savings assumptions. Value: maximum £30k funded by BEIS. Reason: Urgent Action Required. Supplier endorsed by BEIS and Exeter University.	Neil Blaney Head of Place and Commercial Services

3. IMPLICATIONS, RISK MANAGEMENT & CLIMATE CHANGE IMPACT

3.1 Financial

There are no direct financial implications as this is an advisory report only. The financial impacts of the spending covered by the waivers were assessed at the time these procurements were carried out.

3.2 Legal

The reporting of Waivers to the Audit Scrutiny Committee is a requirement of the Financial Instructions and Contract Procedure Rules within the Constitution.

3.3 Risks

Risks are evaluated when individual waiver approval is sought. Waivers would not be approved if they presented unacceptable risk.

3.4 Environmental/Climate Change Impact


Not applicable. This is an advisory report only.

4. CONCLUSION

That the report be noted.

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The Annual Audit Letter for Teignbridge District Council


Year ended 31 March 2020

21 December 2020



Contents



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A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Teignbridge District Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Scrutiny Committee as those charged with governance in our Audit Findings Report on 21 October 2020 and Full Council on 23 November 2020.

Respective responsibilities

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

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

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

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Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,405,000, which is 2% of the Council's gross cost of services.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements on 4 December 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property investment funds held within the Devon County Pension Fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return in line with the guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 4 December 2020.
Certificate	We certified that we have completed the audit of the financial statements of Teignbridge District Council in accordance with the requirements of the Code of Audit Practice on 4 December 2020.

Working with the Council

It has been a challenging year due to the impact of Covid-19.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we 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.

We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. Our 'Inflo' document sharing system has facilitated this but inevitably the remote working has impacted on delivery with additional resources being necessary to complete the work in accordance with the new extended reporting timetable.

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

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1,405,000, which is 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash and senior officer remuneration of £10,000.

We set a lower threshold of £70,000, above which we reported errors to the Audit and Scrutiny Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> 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. 	<p>Our work against this risk did not identify any significant issues. We noted that the S151 officer has the ability to, and has, posted journals. We have tested all of these journals and have identified no issues. Whilst we understand that the finance team is small it is not good practice for the S151 officer to post journals due to segregation of duties. We therefore raised a recommendation that the Council review its arrangements for posting journals for future years.</p>
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined at the planning stage that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Teignbridge District Council, mean that all forms of fraud are seen as unacceptable <p>We reviewed material revenue transactions as part of our audit and we were satisfied that there had been no changes of circumstances requiring us to alter our proposed strategy with regards to revenue recognition in the latter part of the year.</p> <p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>	

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>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:</p> <ul style="list-style-type: none"> - 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. <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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 on ahead of the revised reporting deadline; • 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. 	<p>Our audit work did not identify any significant issues in respect of Covid-19 specific risks.</p> <p>This is not to say that there was not an impact. The Council's financial statements highlighted a material uncertainty in relation to land and building valuations.</p> <p>In addition on receipt of the letter of assurance from the Devon County Pension Fund Auditor, an additional material uncertainty was identified in relation to the property investment funds that form part of the Pension Fund Assets and Teignbridge District Council's share of these assets. The draft financial statements were amended to reflect this uncertainty.</p> <p>The financial challenge into the medium term has also increased due to the lost income, additional costs and the uncertainty of future government funding in respect of Covid-19.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings (Rolling revaluation)</p> <p>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.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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. 	<p>As highlighted previously in this report, we included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and building (and investment property) valuations at the 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.</p> <p>This is in line with other local councils.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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. 	<p>Our work has not identified any issues in respect of valuation of the net liability.</p> <p>As mentioned earlier in this report, on receipt of the letter of assurance from the Devon County Pension Fund Auditor, an additional material uncertainty was identified in relation to the property investment funds that form part of the Pension Fund Assets and Teignbridge District Council's share of these assets.</p> <p>The Council amended the draft financial statements to include a material uncertainty in note 4 of the revised financial statements.</p> <p>As highlighted previously in this report, we included an emphasis of matter paragraph in the audit opinion to reflect this uncertainty. 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.</p> <p>This is in line with other local councils.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 4 December 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in July 2020. These were accompanied by working papers. The finance team responded promptly and efficiently to our queries during the course of the audit. The Council do use a number of hardcopy working papers to support some account balances which created additional work for the audit team due to remote working.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Scrutiny Committee on 21 October 2020 and Full Council on 23 November 2020.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We issued an assurance statement which confirmed the Council was below the audit threshold on 4 December 2020.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Teignbridge District Council in accordance with the requirements of the Code of Audit Practice on 4 December 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in October 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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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

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 undertaking 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 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.

A. Reports issued and fees – Teignbridge District Council

Audit fees 2019/20	Proposed fee
Council scale fee	37,240
Additional proposed audit fee at planning stage	7,500
Total proposed audit fees (excluding VAT) at planning	£44,740
Further additional fees proposed at completion	6,711
Total proposed audit fees (excluding VAT) on completion	£51,451

Reports issued

Report	Dated issued
Audit Plan	21 March 2020
Audit Findings Report	21 October and 23 November 2020
Annual Audit Letter	21 December 2020

The Teignbridge District Council Audit Plan date 21 March 2020 included £7,500 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £44,740.

Since the presentation of the audit plan and subsequent letter, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,711 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £51,451. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Appendix A – Teignbridge District Council Audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	37,240	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New Accounting Standards	1,500	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in. You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust.
Revised planning fee	44,740	
Covid-19	6,711	<p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	51,451	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefits	£8,400
Non-Audit related services	
- None	Nil

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Non- audit services

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

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



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Teignbridge District Council Audit Progress Report and Sector Update

Year ending 31 March 2021

12 March 2021
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit Scrutiny Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Scrutiny Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2021

Financial Statements Audit

We will undertake our initial planning for the 2020/21 audit in March 2021. We expect to begin our work on your draft financial statements in August.

Our planning and interim work includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting issues

By 1 April we will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2020/21 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by November.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations.

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Please see page 8 for further details.

Progress at March 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The DWP revised the deadline for completion of this work until 31 January 2021. We completed our work and signed off the claim on 29 January 2021.

Our initial testing identified errors that resulted in further work being undertaken. This was due to expenditure being incorrectly classified between Cells 012 and 013. The Council tested 100% of the cases in this area and we reperformed a sample of this work in line with DWP guidance. This enabled us to agree a cell amendment of £149.69 and conclude that the cells were fairly stated.

We have carried out additional testing over the past 3 years on Rent Allowances focusing on the earned income amount used in the assessment of entitlement. Whilst our discovery testing did not identify any issues in 2019/20, we are required to undertake additional testing under cumulative knowledge procedures. This work identified 2 cases where the incorrect income had been used. Of these 1 led to underpaid benefit and 1 led to overpaid benefit. The extrapolated impact of the overpaid benefit was £21,334. It should be noted that as the Council was below its Local Authority error threshold, this extrapolation does not impact on subsidy received.

Meetings

We met with Finance Officers in March as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Change of Engagement Team

It was agreed that as part of an internal review of portfolios, Gail Turner-Radcliffe will be taking on responsibility as your Engagement Manager. Gail brings with her a wealth of experience in the sector and look forward to forging strong working relationships with management and those charged with governance as the Council continues to navigate challenging times.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit Scrutiny Committee setting out our proposed approach in order to give an opinion on the Council's 2020-21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	April 2021	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the November Audit Scrutiny Committee.	November 2021	Not yet due
Auditors Report This is the opinion on your financial statements and annual governance statement.	November 2021	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	November 2021	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and

- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

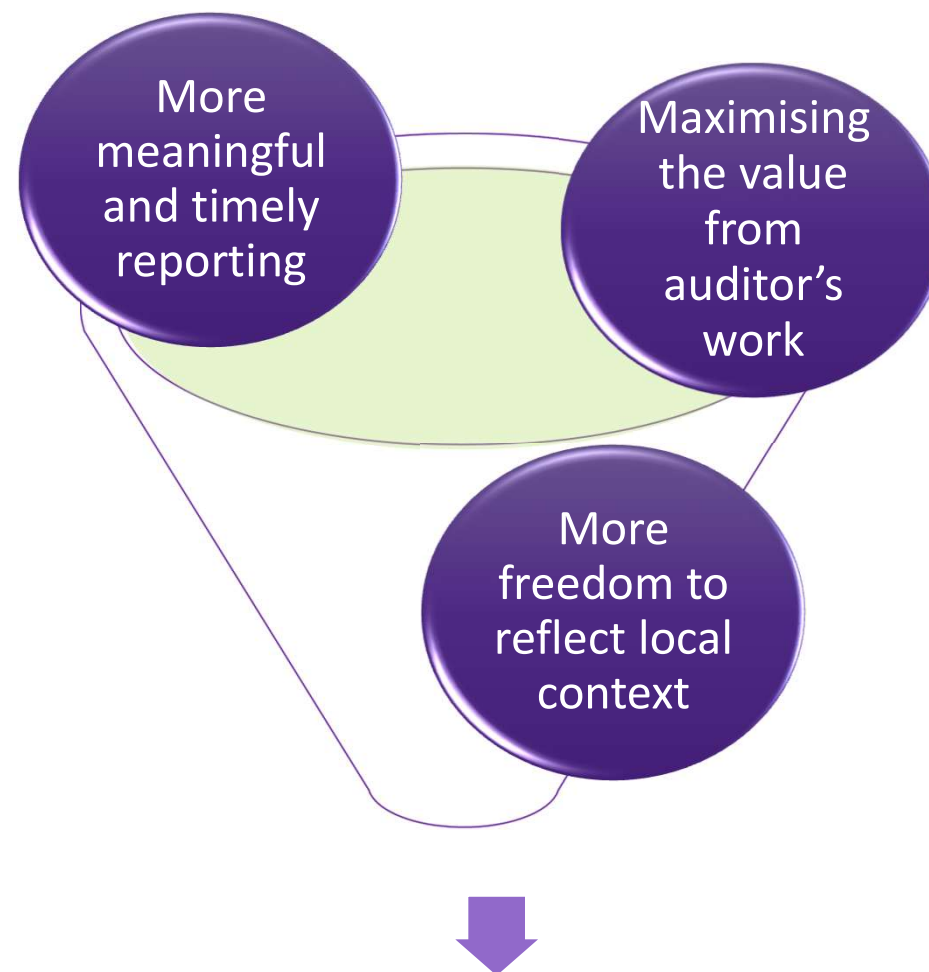
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:


- how financial and performance information has been used to assess performance to identify areas for improvement;
 - how the body evaluates the services it provides to assess performance and identify areas for improvement;
 - how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
 Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

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

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

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

Specifically do Audit Scrutiny Committee members:

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

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate, and
- How management address this estimation uncertainty when selecting their point estimate.

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For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to include:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help?

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquiries are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquiries on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Local government finance in the pandemic – National Audit Office

The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

46 Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>



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

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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.

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Purpose

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

Background

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

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



Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Covid 19. Further review of asset values and treatment of grants received.
2. Have you considered the appropriateness of the accounting policies adopted by Teignbridge District Council Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes. Nothing material requiring a change in accounting policies.
3. Is there any use of financial instruments, including derivatives?	No use of financial instruments. Our note on this remains similar to last year.
4. Are you aware of any significant transaction outside the normal course of business?	Only the extra work carried out in relation to Covid 19 and issuing grants, receiving funding for significant income losses etc.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Nothing to date. We will carry out our normal checks via the Estates team and service managers.
6. Are you aware of any guarantee contracts?	None.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No change to our contingent liabilities note from last year.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Teignbridge District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Yes – a list will be provided at the end of the year when the ledger is closed.</p> <p>There are no known contingencies from previous years being worked on.</p>

General Enquiries of Management

Question	Management response
9. Have any of the Teignbridge District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? 56	None of the Council's service providers have reported any items of fraud, non compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	A list will be provided at the end of the year when the ledger is closed.

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

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Question	Management response
<p>1. Have Teignbridge District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Teignbridge District Council's risk management processes link to financial reporting?</p>	<p>Yes. The risk of material misstatement due to undetected fraud is considered to be low.</p> <p>A fraud risk analysis is maintained for all Council services to ensure appropriate mitigations are in place; Management have overall responsibility for ensuring fraud risks are managed; proactive fraud detection exercises are undertaken such as data matching; we have a Counter Fraud and Compliance Officer – a dedicated post for Revenue counter fraud and Business Rates avoidance in the Revenues and Benefits team due to the likelihood of fraud in this area; an auditor was assigned to Covid Grant work; HR procedures require employees to be vetted; whistleblowing and anti-fraud policies exist; Financial Instructions are in place and systems are reconciled / exception reports are reviewed to highlight irregular transactions. Internal auditors review and test controls within financial systems; regular bank and control account reconciliations are undertaken by Finance staff.</p> <p>The key risks within core financial systems that feed into the financial statements are reviewed and tested by internal audit. A sensitivity and risk analysis of the Council's budget is undertaken and published with the budget papers. Quarterly budget monitoring reports are provided to the Executive, and monthly to Corporate Management Team to identify financial risks, and budget holders receive management accounts. The risk of making a mistake is mitigated by ensuring that the financial statements are prepared by professionally qualified and experienced accountants; data quality checks are carried out; and we subscribe to additional advisory services to ensure officers are kept informed of technical developments. Reports to decision makers are vetted by the S.151 and Monitoring Officers to ensure financial implications and risks are considered.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>These are HB, Council Tax Support / Discount claims, Covid Grants and NDR avoidance. Treasury management transactions are highest value but are subject to very robust controls.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Teignbridge District Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There are no material instances of fraud, error or irregularity identified during the year other than in the areas inherently susceptible to fraud risk, namely Council Tax Support and Discount, Benefit fraud. Some minor (non material) issues were detected in the Covid Grant Schemes.</p> <p>Risks are recorded in the corporate risk register and this is regularly reported to Strategic Leadership Team and the Audit Scrutiny Committee; the risk management report and includes fraud risk; full internal audit reports and quarterly summary of audits are also reported; and Better Governance Forum briefings on generic risks / emerging issues that may affect us are made available. A fraud risk analysis for the council is maintained and shared with the management team.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Teignbridge District Council where fraud is more likely to occur?</p>	<p>As in 3 above, the Fraud Risk Analysis identifies specific fraud risks and their mitigations.</p> <p>The areas typically with highest ongoing risk are Council Tax Support and Discount schemes and Benefits. A dedicated Counter Fraud and Compliance Officer is employed to help mitigate this along with routine verification of claims and data matching. DWP investigate Benefit fraud. Covid Grant Schemes continue to be monitored closely by internal audit due to inherent risk but actual instances of fraud/error have been low.</p> <p>There are no specific locations at higher risk – all outlying areas (namely leisure centres and our Teignbridge Services site) are subject to the corporate financial instructions and fraud risk controls.</p>
<p>5. What processes do Teignbridge District Council have in place to identify and respond to risks of fraud?</p>	<p>A fraud risk analysis is maintained for all Council services and mitigations for each risk are recorded; Management have overall responsibility for ensuring fraud risks are managed; proactive fraud detection exercises are undertaken such as data matching; Counter Fraud and Compliance Officer (as above); HR procedures require employees to be vetted; whistleblowing and anti-fraud policies exist; Financial Instructions are in place and systems are reconciled / exception reports are reviewed to highlight irregular transactions. Internal auditors review and test controls within financial systems; regular bank and control account reconciliations are undertaken by Finance staff. Internal Audit lead on the Cabinet Office NFI.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Teignbridge District Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Internal audit assess the quality of internal control and report outcomes to management and the Audit Scrutiny Committee. Internal audit reports provide assurance opinions for individual audits and the overall annual opinion comments on the effectiveness of governance, risk management and control. Self-assurance statements are sought from service managers, for confirmation that controls have operated effectively throughout the year. The Strategic Leadership Team (SLT) monitor this as part of the review of governance that informs the Council's Annual Governance Statement.</p> <p>Not applicable.</p> <p>See 5 above. Additionally, preventive controls are designed into systems to help stop fraud at the gateway for application processes. Detective controls are also designed in such as reconciliations, control account balancing, data matching, segregation of duties, and formal schemes of delegation and authorisation are in place for financial transactions.</p> <p>None. We are not aware of any conditions which would give rise to this. However, if override of controls was attempted, this should be picked up by compensating controls and other counter fraud measures as described. Qualified Accountants are bound by their code of ethics which would require them to highlight anything untoward.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None. Again, not aware of any areas but regular monitoring/reconciliations/internal controls/audits should identify this were it to occur.</p>

Fraud risk assessment

Question	Management response
<p>8. How does Teignbridge District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>9. What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Expected standards are set out in various ways including: Council's Constitution; Code of Conduct; Financial Instructions; Contract Procedure Rules; Supplier Contracts; and Teignbridge Vision and Values Statement. Employees are required to avoid conflicts and declare personal interests or offers of gifts or hospitality. A protocol on member / officer relations exists and equalities policies are in place. Communication is ongoing through induction; via the intranet; staff handbook; day to day management; staff briefings, team meetings and 1-1's; and the staff newsletter.</p> <p>Anti Fraud and Corruption, and Whistleblowing policies exist, providing staff with various options to raise concerns. Staff involved in processing applications for services which have an inherent risk of fraud are trained to be alert to the risk of fraud in their daily processing activities. The policies in place encourage staff to raise any concerns and include a confidential reporting form if they wish to remain anonymous.</p> <p>No significant issues have been reported.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior officers potentially, due to their power to influence decisions and controls.</p> <p>They are required to declare any interests and must follow Codes of Conduct and the Constitution.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None known.</p> <p>Related party transactions or associations are identified from registers held in relation to Members and Officers. Conditions of contract are in place covering fraud risks.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Scrutiny Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Plan and internal audit reports are provided to the Audit Scrutiny Committee – these include consideration of fraud controls. Strategic risks and mitigations including fraud are regularly reported to the Audit Scrutiny Committee. If any significant fraud were to occur this would be reported to members for scrutiny of lessons learned. An overview of National Fraud Initiative work is also reported.</p> <p>No significant fraud issues have been identified todate.</p>
<p>12. Are you aware of any whistle blowing potential complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Only non-fraudulent matters have been raised.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No reports under the Bribery Act have been received.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Teignbridge District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Teignbridge District Council's regulatory environment that may have a significant impact on the council's financial statements?</p>	<p>The Council's Monitoring Officer and Section 151 Officer (Chief Finance Officer) review decision making reports to ensure decisions are lawful, fair, and based on sound financial evidence. The Monitoring Officer is duty bound to advise members of any unlawfulness or maladministration. The Section 151 Officer is responsible for ensuring the lawfulness and financial prudence of decisions. These roles are formalised in the Council's Constitution. Heads of Service, Business Managers and Managers have managerial responsibility for ensuring that laws, regulations and organisational rules and policies are complied with through effective systems of internal control. Assurance statements are obtained from managers annually through the Annual Governance process to certify that the statutory obligations for the services they are responsible for, have been understood and fulfilled. No changes to the regulatory framework have had a significant impact on financial statements.</p>
<p>2. How is the Audit Scrutiny Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit reports; annual assurance opinion; reports of other inspectorates and review bodies where appropriate; results of the annual governance review in which managers are required to certify that their statutory obligations have been fulfilled. Audit Manager and Chief Finance Officer regularly attend Audit Scrutiny Committee. Chief Finance Officer is responsible for preparing the financial statements in line with regulatory requirements.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>None that we are aware of.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No material claims known. We will check again on 31.3.21.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Teignbridge District Council have in place to identify, evaluate and account for litigation or claims?	Legal department have a case management system which deals with all workload, claims etc. Evidence is drawn from this to identify potential claims and the likely value if applicable. External advice is sought where necessary. High risk claims are discussed at Strategic Leadership Team.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None that we are aware of in 2020-2021.

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Related Parties

Issue

Matters in relation to Related Parties

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

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Teignbridge District Council 's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Teignbridge District Council whether Teignbridge District Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>We are not aware of any changes at this point compared to the 2019/20 position but will complete our checks as part of the year end closedown.</p>
<p>2. What controls does Teignbridge District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A register of member and officer interests is maintained and this is reviewed for materiality.</p> <p>The National Fraud Initiative results for creditor to payroll matches are also reviewed in this respect.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Robust procurement controls are operated with contract authorisation limits. The process applies to all commercial activity regardless of whether it involves related parties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Not applicable. All financial transactions are within the scope of the Financial Instructions and Delegated Powers.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit Scrutiny Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The main estimates are in relation to bad debt provisions and business rates appeals.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates? 6	Estimates are based upon accounting knowledge, historical data, review of transactions or known events after the end of the financial year to determine the necessary calculations to provide the necessary provisions. Economic and environmental data is also considered.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Mathematical techniques including historical data, payments after the year end etc. as disclosed above.
4. How do management review the outcomes of previous accounting estimates?	As part of the ongoing monitoring of likely income from various sources.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	This is currently under review and will be considered in the light of the impact Covid 19 has had on collection of income and forecasts amended to also consider support from Government for part of these losses.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Chief Finance Officer is a member of Strategic Leadership Team (SLT). The Finance team has a significant number of staff qualified to Chartered or AAT standard including the Deputy CFO. Knowledge acquired as part of that training is applied to relevant areas together with any further training or developments provided by CIPFA in relation to specific areas e.g. appeals provision. Support is also provided by experienced external consultants.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The Chief Finance Officer considers these as part of their materiality assessment and also as part of dialogue with the Legal department in relation to any claims. Internal audit reports are considered where they report on any relevant control weaknesses.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	By monthly reporting of financial data.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Reporting financial data to Strategic Leadership Team/Corporate Management Team/Executive/Audit Scrutiny and any challenge made on assumptions. Consideration and examination is also made within the Finance team to consider the robustness of estimates and challenged. Service managers provide updates if material on any significant developments and data provided from the recovery team.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Recovery of debts from Covid 19 require consideration.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
71 12. How is the Audit Scrutiny Committee provided with assurance that the arrangements for accounting estimates are adequate ?	As part of the reporting process in relation to the accounts and accounting policies.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Use of internal qualified valuers.	Finance review any significant changes and challenge valuer.	Yes.	Valuers look at in terms of materiality, RICS and accounting guidance.	No.
No Evaluation of defined benefit net pension fund liabilities	Use of pension actuaries.	Spreadsheet completed/checked in relation to numbers before report produced.	Yes.	Assumptions provided by actuary and reviewed for reasonable based on data before actual report is produced.	No.
Accruals	Outstanding orders for expenditure outstanding/review of prepayments/accounts raised late for debtors and FMS indicators to attribute spends to correct financial year. Separate guidance to spending officers.	Orders/FMS indicators/ manual review of changes/large estimates etc.	No – all internal.	Agreed materiality based on accounting policies and review of ledger line by line for variances.	No.



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