



# The Annual Audit Letter for Teignbridge District Council

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Year ended 31 March 2019

8 October 2019



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Your key Grant Thornton  
team members are:

Julie Masci

Director

T: 029 2034 7506

E: [julie.masci@uk.gt.com](mailto:julie.masci@uk.gt.com)

Andrew Davies

Audit Manager

T: 0117 305 7844

E: [andrew.davies@uk.gt.com](mailto:andrew.davies@uk.gt.com)

Oscar Edwards

In-charge Auditor

T: 0292 034 7607

E: [Oscar.r.edwards@uk.gt.com](mailto:Oscar.r.edwards@uk.gt.com)

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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Teignbridge District Council (the Council) for the year ended 31 March 2019.

This letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Scrutiny Committee as those charged with governance in our Audit Findings Report on 12 September 2019.

## Our work

## 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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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1.522m, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 24 September 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO. The Council was below the threshold for full audit procedures and was limited to preparing an assurance return to the NAO to support its group procedures.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit findings report to the Council on 12 September 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Scrutiny Committee separately.
<b>Certificate</b>	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 24 September 2019.

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## Working with the Council

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

- An efficient audit – despite the delay to the audit commencement, we worked closely with officers to ensure the revised audit timetable was met with minimal disruption.
- Understanding your business – through the value for money conclusion we provided you with assurance on your effectiveness. We have made recommendations for to ensure the arrangements in place remain adequate as the Council and the environment in which it operates continue to evolve.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – your officers attended our Housing Benefit workshop in September 2019, and Chief Accountant workshops in February 2019.

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

**Grant Thornton UK LLP**  
**October 2019**

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# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1.522m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.005m.

We set a lower threshold of £0.076m, above which we reported errors to the Audit 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 financial statements, the narrative report and the annual governance statement published with the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

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

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

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

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>We considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, and we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Teignbridge District Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we concluded that we do not consider this to be a significant risk for Teignbridge District Council.</p>	
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. 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>We completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgements and decisions made by management,</li> <li>• tested journal entries,</li> <li>• reviewed unusual significant transactions, and</li> <li>• reviewed significant related party transactions outside the normal course of business.</li> </ul>	<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>

# 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><b>Valuation of land and buildings</b>            The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£83.8 million – Net Book Value) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of their internal valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>• Discussed with the Council's valuer the basis on which the valuation was carried out, and challenged the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>Our audit work did not identify any issues in respect of the Valuation of Land and Buildings.</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><b>Valuation of pension fund net liability</b>            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 and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£87m 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>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Although our audit work did not identify any issues in respect of this risk, we discussed the potential impact of the McCloud ruling on the financial statements of Local Government bodies.</p> <p>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1.173m, and an increase in service costs for the 2019/20 year of £0.103m.</p> <p>Management's view was that the impact of the ruling was not material for Teignbridge District Council, and will be considered for future years' actuarial valuations.</p> <p>We reported this in our Audit Findings Report as an unadjusted misstatement.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 24 September 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline (and published its accounts by the statutory deadline), and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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

We reported the key issues from our audit to the Council's Audit Scrutiny Committee on 12 September 2019.

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

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

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

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

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

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

We certified that we completed the audit of the financial statements of Teignbridge District Council in accordance with the requirements of the Code of Audit Practice on 24 September 2019.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## **Key findings**

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

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

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

## **Overall Value for Money conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial Resilience</b></p> <p>Although the Council has a strong history of delivering its budget, Teignbridge District Council face a significant financial challenge over the medium term. This is a challenge faced by the majority of councils as Central Government funding reduces and costs pressures continue to rise.</p> <p>As at 31 March 2018, the Council had general fund reserves of £1.9m and earmarked reserves of £11m. In the latest budget summary the Council are forecasting achievement of its revenue budget for 2018/19.</p> <p>However, the current Financial Plan 2019-2022 shows that there will be a required use of reserves in 2020/21 (£1.3m) and 2021/22 (£1.2m).</p> <p>The Council is currently working on an income generation and cost reduction programme to limit the future impact on reserves.</p> <p>In response to this risk we will review the significant assumptions made in the Council's financial plans. We will further review the arrangements in place for developing, monitoring and reporting progress in closing the funding gap.</p>	<p>In response to this risk we reviewed the significant assumptions made in the Council's medium term financial plan and progress towards closing the funding gap.</p>	<p>Despite the challenges faced by the Council there are adequate arrangements in place to achieve financial resilience.</p> <p>The Council have arrangements in place for addressing the budget gap and have a robust reserves levels should no action be taken.</p> <p>The Council is however taking action to mitigate the impact on reserves.</p> <p>Whilst some progress has been made in identifying further income generation/cost reduction schemes further work is still needed.</p> <p>Decisions need to be made to ensure that those schemes identified are actioned in order to take effect by 2020/21.</p> <p>We recommend that as a matter of urgency the Council identify further income generation/cost reduction schemes to reduce the future budget gaps and minimise the use of the Council's reserves.</p> <p>We further recommend that the Council take action on the implementation of those schemes identified to date. This is to ensure the earliest possible impact.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees proposed for the audit.

## Reports issued

Report	Date issued
Audit Plan	21 March 2019
Audit Findings Report	12 September 2019
Annual Audit Letter	1 October 2019

## Fees

	Planned £	Actual fees 2017/18 £	2018/19 fees £
Statutory audit	37,240	41,740	48,363
<b>Total fees</b>	<b>37,240</b>	<b>41,740</b>	<b>48,363</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £37,240 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

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

Fee variations are subject to PSAA approval.

# A. Reports issued and fees continued

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

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Housing Benefit Certification	8,400
<b>Non-Audit related services</b>	
- None	Nil
<b>Total</b>	<b>8,400</b>

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



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