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20 October 2021

## **AUDIT SCRUTINY COMMITTEE**

A meeting of the **Audit Scrutiny Committee** will be held on **Wednesday, 27th October, 2021** in the **Council Chamber, Forde House, Brunel Road, Newton Abbot, TQ12 4XX** at **10.00 am**

PHIL SHEARS  
Managing Director

### **Membership:**

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

**Please Note:** Filming is permitted during Committee meeting with the exception where there are confidential or exempt items, which may need to be considered in the absence of the press and public. By entering the Council Chamber you are consenting to being filmed.

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

### **Part I**

#### **5. External Audit Findings Report**

(Pages 3 - 36)

Report to follow.

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

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# The Audit Findings for Teignbridge District Council

**Year ended 31 March 2021**

**27 October 2021**

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**Your key Grant Thornton  
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## Section

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2. Financial statements
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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.

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

Julie Masci

For Grant Thornton UK LLP

27 October 2021

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Teignbridge District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced in August and at the time of drafting this report is still on-going. We have encountered challenges during the audit due to the continued use of scanned documents and limited digital audit working papers. The financial system in use by the Council has also hindered our interrogation of the finance system as the data we need to be able to complete our work has not been readily available due to the reporting limitations of the current software being used.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the entries within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.

Our findings are summarised on pages 5 to 20. Audit adjustments are detailed in Appendix C, although the impact of these is yet to be determined. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Although our work is on-going, based on our work to date, we would anticipate giving an unqualified audit opinion, including an Emphasis of Matter paragraph highlighting Material Uncertainty over the Market Walk Shopping Centre.

We will provide a further update to Audit Scrutiny Members at the Committee and a final Audit Findings Report will be issued and presented to full Council in November.

# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of Financial Sustainability. Our work on this risk is not yet complete and an update is set out in the value for money arrangements section of this report.



## Statutory duties

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's Whole of Government Accounts and VFM arrangements, which will be reported in our Annual Auditor's report in February 2022.

## Significant Matters

We have encountered challenges during the audit due to the continued use of scanned documents and limited digital audit working papers. The financial system in use by the Council has also hindered our interrogation of the finance system as the data we need to be able to complete our work has not been readily available due to the reporting limitations of the current software being used.

## 2. Financial Statements

### Overview of the scope of our audit

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

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

### Audit approach

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

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

We have not had to alter our Joint Audit Plan, as communicated to you in July 2021.

### Conclusion

We have commenced our audit work, but due to queries outstanding we have not yet concluded on many areas of our work. Subject to the completion of our work and outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Council meeting on 30 November 2021.

#### Acknowledgements

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

As highlighted on page 3 of our audit plan presented to the Audit Scrutiny Committee on 24 August 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as the continued use of scanned documents and limited digital audit working papers. The finance system in use by the Council has also hindered our interrogation of the finance system as the data we need to be able to complete our work has not been readily available due to the reporting limitations of the current software being used. The consequence of this is that we have not been able to use our data analytics software to its full potential and have had to seek alternative procedures. We have had to carry out additional audit procedures to test the accuracy of data extracted from the finance system and further additional fees are likely as a result, which we will review at the conclusion of the audit.



## 2. Financial Statements



### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

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### Council Amount (£) Qualitative factors considered

Materiality for the financial statements	1,405,000	We considered materiality from the perspective of the users of the financial statements. The council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the net cost of Services level was deemed as the most appropriate benchmark, this same benchmark was used in the prior period
Performance materiality	1,053,000	
Trivial matters	70,000	5% of materiality was deemed an appropriate level





## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

### Risks identified in our Audit Plan

### Commentary

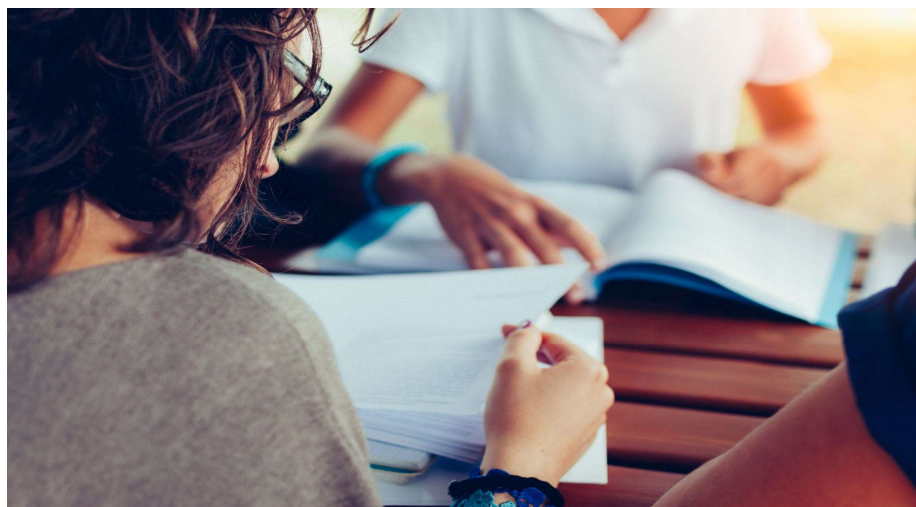
#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risk of material misstatement.

#### We have:

- - evaluated the design effectiveness of management controls over journals
- - analysed the journals listing and determined the criteria for selecting high risk unusual journals
- - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

At the time of writing this report our journal work remains in progress. Our audit work to date, including our review of journal entries and the related control environment, has highlighted that the recommendation raised in prior years around the S151 Officer posting journals has not been actioned as this has occurred in the current financial year. The S151 Officer posts journals in relation to PPE revaluations, depreciation, year end Pension movements and Provisions. All journals posted by the S151 Officer are being reviewed under our risk based approach.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### The revenue cycle includes fraudulent transactions

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.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited; and
- The culture and ethical frameworks of public sector bodies, including the Authority, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk of for the Authority

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

The council values at least 20% of its land and building assets on a rolling five year basis and add more assets to revalue each year if needed. 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 Authority financial statements is not materially different from the current value or the fair value.

We therefore identified valuation of Land and buildings, particularly revaluations and impairments, as a significant risk, material misstatement, and a key audit matter.

We have:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- Evaluated the competence, capabilities and objectivity of the valuation expert
- Written to the valuer to confirm the basis on which the valuation was carried out
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- Evaluated the assumptions made by the management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

At the time of drafting this report, our work in this area is on-going. We have however noted that the audit opinion will include an Emphasis of Matter paragraph highlighting Material Uncertainty over the Market Walk Shopping Centre.

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£105m in the Authority's balance sheet at 31/03/2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 3.8% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Updated our understanding of the processes and controls put in place by the management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>Evaluated the instructions issued by management to their management expert (an actuary) for this estimates and the scope of the actuary's work</li> </ul> <p>We will also:</p> <ul style="list-style-type: none"> <li>Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and perform any additional procedures suggested within the report;</li> <li>Agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures</li> <li>Obtain assurance from the auditor of the Pension fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements</li> </ul> <p>At the time of drafting this report, our work in this area is on-going.</p>

# 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p>The expenditure cycle includes fraudulent transactions (Rebutted)</p> <p>Practice note 10: Audit of Financial statements of Public sector bodies in the United Kingdom (PN10) states:</p> <p>“As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition”</p> <p>Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p>	<p>We have rebutted the presumed risk for Teignbridge District Council because:</p> <ul style="list-style-type: none"><li>• Expenditure is well controlled and the Council has a strong control environment;</li><li>• There is no incentive for management to mis-represent expenditure; and</li><li>• The council has clear and transparent reporting of its financial plans and financial position to those charged with governance.</li></ul> <p>We also plan to test expenditure and creditors at year end as part of our completeness testing to ensure that the expenditure is recorded in the correct financial year.</p> <p>We therefore do not consider this to be a significant risk of Teignbridge District Council</p>

## 2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>13 Recognition and Presentation of Grant Income</p> <ul style="list-style-type: none"> <li>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income</li> </ul>		<p>At the time of writing this report, we are awaiting an assessment from the Council as to whether the grants received are on an agency or principle basis and therefore have not been unable to conclude our work.</p>
<p>IT Control deficiencies</p> <ul style="list-style-type: none"> <li>Provide an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting.</li> </ul>		<p>At the time of writing this report our ITGC work remains in progress due to outstanding queries with the Council. We understand that these queries are with Strata and the S151 Officer is chasing up on our behalf.</p>

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £98.015m	<p>Other land and buildings comprises £98m of assets, which are required to be valued at either current market value or depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The council has engaged the Valuer to complete the valuation of properties as at 1 April 2020 on a five yearly cyclical basis. This year the council has instructed the Valuer to value the top 60 assets by value. As a result 75% of total assets by value were revalued during 2020/21</p> <p>Where the remaining assets not formally revalued, an exercise has been undertaken to ensure that the carrying value is not materially different to the current value. This exercise has also been completed for those assets valued at 1 April 2020 to ensure that there is not a material difference at 31 March 2021</p> <p>The Council's valuer has included a material valuation uncertainty in respect of the valuation of the council's Shopping Centre, Market Walk, at 31 March 2021 as the current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>The total year end valuation of land and buildings was £98m, a net increase £10m from 2019/20 (£88m).</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reconciled the valuation report to the Fixed Asset Register</li> <li>Reviewed the valuation report to identify any changes in valuation basis from the prior year.</li> <li>Performed review over indices to compare the valuation movement to the expected movement using Gerald Eve reports</li> <li>Review assets with a nil net book value as at 31 March 2020 and note that these remain in the Fixed Asset Register.</li> </ul> <p>Our work in this area remains in progress and we currently have queries outstanding in this area, including:</p> <ul style="list-style-type: none"> <li>How management have assured themselves that the carrying value of the assets are not materially misstated at the year end as the valuation was undertaken as at 1 April 2020?</li> <li>Understanding why six assets have been moved from an EUV to DRC valuation basis?</li> <li>Why the rental rates used in the valuation do not agree back to the market rates?</li> </ul>	TBC

### Assessment

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

## 2. Financial Statements - key judgements and estimates

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<b>Net pension liability – £105.019m</b>	<p>The Council's total net pension liability at 31 March 2021 is £105.019m (PY £86.418m)</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon County Pension Fund. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £18.601m increase in the liability during 2020/21.</p>	<p>In assessing the estimate, we have considered the following:</p> <ul style="list-style-type: none"><li>the actuary's experience, competence and professional qualifications;</li><li>the actuary's approach, through the use of PwC as an auditors expert, used to assess the methods and assumptions used (see below table for consideration of the assumptions adopted);</li><li>the impact of any changes to valuation method – none were noted;</li></ul> <p>We will assess:</p> <ul style="list-style-type: none"><li>the completeness and accuracy of the underlying information used to determine the estimate by comparing it to source records and other data provided through the audit;</li><li>the assurances provided by the auditor of Devon Pension Fund over the process and controls in place at the Fund over the information provided to the actuary; and</li><li>the adequacy of disclosures of estimate in the financial statements.</li></ul> <table><tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.0%</td><td>1.95%-2.05%</td><td>● Light purple</td></tr><tr><td>Pension increase rate</td><td>2.8%</td><td>2.8%-2.85%</td><td>● Light purple</td></tr><tr><td>Salary growth</td><td>3.8%</td><td>2.5%-4.2%</td><td>● Light purple</td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.6/24.0</td><td>20.5-23.1/ 21.9-24.4</td><td>● Light purple</td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>23.9/25.4</td><td>23.3-24.4/24.8-26.4</td><td>● Light purple</td></tr></table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.0%	1.95%-2.05%	● Light purple	Pension increase rate	2.8%	2.8%-2.85%	● Light purple	Salary growth	3.8%	2.5%-4.2%	● Light purple	Life expectancy – Males currently aged 45 / 65	22.6/24.0	20.5-23.1/ 21.9-24.4	● Light purple	Life expectancy – Females currently aged 45 / 65	23.9/25.4	23.3-24.4/24.8-26.4	● Light purple	
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Our work is currently on-going in this area.																											

### Assessment





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



## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions	Provisions relates to the likely refund of business rates as a result of appeals against rateable value of business properties.	<p>In order to recompute the balance included in the financial statements, we have requested:</p> <ul style="list-style-type: none"> <li>A list used for 2010 and 2017 calculations as per the NNDR3 report</li> <li>An extract from Civica to confirm the 4.7% rate used for 2017</li> <li>An explanation for the opening debit balance form the RRV317 report.</li> </ul>	TBC
 Minimum Revenue Provision - £169k	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £169k (PY £125k).</p>	<p>Our work in this area is on-going.</p> <p>We are currently reviewing the Council's MRP calculation and figures disclosed for the Capital Financing Requirement. We will also review Management's policy to ensure that this conforms with CLG guidance.</p> <p>We will provide a further update at Audit Scrutiny Committee.</p>	TBC

### Assessment

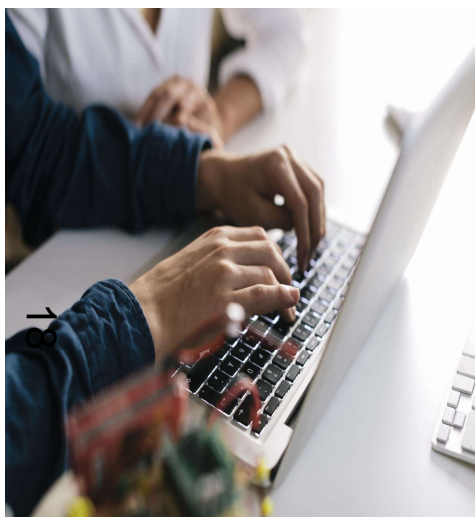
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-  **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Scrutiny Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banks. This permission was granted and the requests were sent. These requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review to date has found no material omissions in the financial statements, although completion of the disclosure checklist remains outstanding.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided, although we have encountered challenges during the audit due to the continued use of scanned documents and limited digital audit working papers. The financial system in use by the Council has also hindered our interrogation of the finance system as the data we need to be able to complete our work has not been readily available due to the reporting limitations of the current software being used.

## 2. Financial Statements - other communication requirements



### Our responsibility

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

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Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2013 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p data-bbox="871 999 2051 1137">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we will consider and evaluate:</p> <ul data-bbox="871 1153 1973 1299" style="list-style-type: none"> <li>• the nature of the Council and the environment in which it operates</li> <li>• the Council's financial reporting framework</li> <li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul>

Our work in this area is currently on-going.

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our work in this area is on-going.</p>
20 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters based on our audit work to date</p>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the threshold.</p>
<b>21 Certification of the closure of the audit</b>	<p>We intend to delay the certification of the closure of the 2020/21 audit of Teignbridge District Council in the audit report, as detailed in Appendix E, due to ongoing VFM work and the submission of the WGA Assurance Statement.</p>

# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements



# 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Financial Sustainability

The Council set a balanced budget for 2020/21, but the longer term picture looks more challenging. The February 2021 budget identified a budget gap for 2022-23 of £1.2 million and £2.6 million for 2023/24. Service reviews within the Council are exploring further savings that can be made this year and in the future. Consideration will need to be made of any future developments regarding funding changes from business rates retention and changes to New Homes Bonus.

There is a risk that financial plans are not sufficiently developed to close the funding gap, which in turn could impact on the Council's ability to deliver services. The Council needs to fully understand the risks involved in utilising its revenue reserves to support its financial position and ensure that it has clear plans in place through its 'Better 22' initiative to realise the necessary savings and efficiencies across the Council.

Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability. We will review the council's arrangements for identifying and monitoring risks to financial delivery, review the robustness of the council's medium term financial strategy and savings plans.

No issues have come to our attention to date to conclude a significant weakness in Value for Money arrangements at the Council.

## 5. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix D

### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 5. Independence and ethics

## Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	10,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,500 in comparison to the total fee for the audit of £58,740 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
27 Low	In our prior year audit, we identified recommendations for action by Management. We noted that three of these recommendations have not been sufficiently addressed.	<p>We would therefore recommend that Management revisit the prior year recommendations and prepare an action plan to address these issues.</p> <p><b>Management Response</b></p> <p>Journals by s151 officer – ‘Due to staff availability it was necessary for the s151 officer to continue to process a small number of journal entries in the year. Staff training for 2 staff has commenced in the Autumn in relation to year end accounts work and related journals.’</p> <p>Electronic working papers – ‘it is not possible to eliminate all manual working papers due to the financial system we operate with. We have made improvements since last year and increased the number of electronic documents and reconciliations which enable the audit to be processed efficiently.’</p> <p>FAR – ‘Due to the pandemic there was insufficient time to review the FAR and not considered urgent as all disposed assets are clearly marked as such and identified with zero value and are not included in the Estates separate system for land and buildings’</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements - continued

Assessment	Issue and risk	Recommendations
Low	The financial system in use by the Council has also hindered our interrogation of the finance system as the data we need to be able to complete our work has not been readily available due to the reporting limitations of the current software being used.	<p>We would recommend that Management look to consider installing a modern accounting software that would bring efficiencies to Management and always interrogation by the Auditors.</p> <p><b>Management Response</b></p> <p>We are in the process of procuring a new Financial Management System with a report to Full Council on 30 November</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

## B. Follow up of prior year recommendations

We identified the following issues in the audit of Teignbridge District Council's 2019/20 financial statements, which resulted in four recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note three are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<b>TBC</b>	We recommend that officers and members take action in 2020 to reduce to current budget gaps over the medium term. We further recommend that the council continue to refresh the medium-term financial plan to reflect the impact of Covid-19 as things develop and to ensure the financial challenge is fully known	We will follow up on this recommendation as part of our Value for Money work and will report the findings to you in the Auditors Annual Report.
<b>×</b>	We recommend that the Financial team consider the level of Journals posted by the S151 officer	The S151 officer has continue to post journals in 2020/21 due to the size of the finance team.
<b>×</b>	We recommend that the Finance team ensure all working papers going forward are electronic as this will help audit efficiency	The audit team continue receiving large amount of PDF working papers with handwriting on them
<b>×</b>	We recommend that disposed asset to be removed from FAR going forward as they are no longer relevant to the Council's asset population and could result in misstatement of assets not in their possession	We noticed assets with nil balances at 30/03/2020 are included in FAR 2020/21

### Assessment

- ✓ Action completed
  - ×
- Not yet addressed



# C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Minimum Revenue Provision (MRP) During our testing we have noted that the useful life for one asset used to calculate MRP is not in line with the useful life used to depreciate the asset	TBC	TBC	TBC
Overall impact	£X,XXX	£X,XXX	£X,XXX

# C. Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Adjusted?
<p>In note 8 of the draft financial statements we noted that adjustments made during the financial statements preparation have been posted to 'other services expenditure' rather than to 'employee benefits'. This has had the following impact:</p> <ul style="list-style-type: none"> <li>- Correction of £39,268 in fees and other charges</li> <li>- Correction of £85,446 in employee benefits</li> <li>- Correction of £124,734 in other services expenditures</li> </ul>	TBC
<p>In note 8 of the draft financial statements we noted that the expenditure and income amounts are both understated by £11,892k, resulting in nil impact in the note, as a result of adjustments posted while preparing the draft financial statements. We are currently reviewing guidance to identify whether a prior period adjustment is also necessary.</p>	TBC
<p>During our testing of the cashflow statement we noted that the 'increase in impairment of bad debt' was overstated by £54,000.</p>	TBC
<p>During the audit, various other minor disclosure updates were made to the financial statements to improve readability or correct more trivial findings.</p>	✓

# C. Audit Adjustments



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## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
None noted to date				
Overall impact	£X,XXX	£X,XXX	£X,XXX	

## Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

# D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£58,740	TBC
Total audit fees (excluding VAT)	£58,740	TBC

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services-Certification of Housing benefit	£10,500	TBC
Total non-audit fees (excluding VAT)	£10,500	TBC

# E. Audit letter in respect of delayed VFM work

Councillor Morgan  
Chair of Audit Scrutiny Committee  
Teignbridge District Council  
Forde House  
Brunel Road  
Newton Abbot  
TQ12 4XX

Dear Councillor Morgan

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022 .

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Julie Masci  
Director



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