



# Annual Audit Letter

*Year ending 31 March 2018*

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**Teignbridge District Council**

3 August 2018



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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 2018.

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, in our Audit Findings Report to the Council's Audit Scrutiny Committee on 19<sup>th</sup> July 2018 and those charged with governance, Full Council on 30<sup>th</sup> July 2018.

## Our work

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### Materiality

We determined materiality for the audit of the Council's financial statements to be £1.37m, which is 1.8% of the Council's gross revenue expenditure.

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### Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018.

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### Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO. The Council is below the WGA Threshold and an assurance statement confirming this was issued.

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### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

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## 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# 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 report to the Council on 31 July 2018.
<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 2018. We will report the results of this work to the Audit Scrutiny Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Teignbridge District Council in accordance with the requirements of the Code of Audit Practice.

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### Working with the Council

enter summary of key deliverables and any developments/issues you wish to communicate.. For example during the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in MMM, delivering the accounts x days before the deadline, releasing your finance team for other work.
- Regular discussions with senior officers at the council to discuss emerging issues and developments that impacted on the audit.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting

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**  
August 2018

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# Audit of the Accounts

## 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 accounts to be £1.37m, which is 1.8% 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:

- Remuneration report – we will review all disclosures in excess of £100,000
- Related Party Transactions where we will apply materiality of £100,000
- Exit packages will be looked at only where they relate to anyone that is disclosed in the annual report.

We set a lower threshold of £68,000, 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 Statement of Accounts, and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are 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 is 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 Accounts

## 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>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.</p> <p>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>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We performed the following work in respect of 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</li> <li>• reviewed significant related party transactions outside the normal course of business.</li> </ul>	<p>We did not identify any evidence of management over-ride of controls.</p>
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues a proportion of its land and buildings annually, and ensures all assets are revalued within a five year cycle, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We performed the following work in respect of 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, challenging 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 the 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 work did not identify any material issues in the area.</p>

# Audit of the Accounts

## Significant Audit Risks (continued)

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>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We performed the following work in respect of 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 assessing 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>• undertaken 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>Our work did not identify any material issues in the area.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national 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 accounts**

We reported the key issues from our audit to the Council's Audit Scrutiny Committee on 19<sup>th</sup> July 2018, and to Full Council on 30<sup>th</sup> July 2018.

## **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 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.

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

We are also required to certify that we have completed the audit of the accounts of Teignbridge District Council in accordance with the requirements of the Code of Audit Practice. The Council is below the WGA Threshold and an assurance statement confirming this was issued.



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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 key risks where we concentrated our work.

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

We made no recommendations in respect of our work on the Council's Value for Money arrangements

## 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 2018.

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The Council's medium term revenue budget summary shows the Council will require £217,000 of its reserves to Balance the budget in 2020/21. The Revenue Support Grant will have been cut to zero by 2018/19 and overall the Council faces a 12% cut in cash income in each of the three years. Identification and delivery of the required efficiencies will need careful management.</p>	<p>We reviewed the Council's arrangements for putting together and agreeing its medium term financial plan, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2017/18 and beyond.</p>	<p>The Council is not currently experiencing difficulties in achieving its financial plans. However, the Council is forecasting an increase in pressures in future years. Regular monitoring will be needed to ensure the Council remains on track to achieve its financial plans.</p> <p>At 31 March 2018, the council finds itself in a good financial position with an increase in General Fund balances of £3.5m in 2017/18 although a £2.1m of this resulted from windfall gains.</p> <p>The general reserves at the end of the year were at £1.9 million against as estimate of £1.64 million, which is a positive sign. Earmarked reserves increased from £7.8m to £11m.</p> <p>The Revenue Support Grant will have been cut to zero by 2019/20 and the council seem to be preparing well for the reduction and eventual disappearance of the revenue support grant through initiatives such as the business rates pilot scheme. Nevertheless, further savings will need to be made post 2020.</p> <p>The Council's executive receives budget monitoring reports at set times through the year.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	22 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	3 August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	48,363	48,363	48,363
Housing Benefit Grant Certification	5,478	TBC	7,098
<b>Total fees</b>	<b>53,841</b>		<b>55,461</b>

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

## Fees for non-audit services

Service	Fees £
<b>Audit related services (y/e 31 March 2017)</b>	
• Housing Benefit Grant Certification	7,098
<b>Non-Audit related services</b>	
• Governance at Heart of the SW LEP	35,750

## Non- audit services

- The work carried out for the Heart of the South West LEP was undertaken, by a separate team, Independent of the Audit team. The work was commissioned and billed to Somerset County Council. We are obliged to inform you of this work.
- 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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