



# Grant Thornton

1 October 2024

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Chair of Audit Scrutiny Committee  
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Dear Sally

## **Teignbridge District Council: Conclusion of the audit for 2021/22 and 2022/23 – letter to those charged with governance on the application of the local authority backstop**

As you will be aware, on 5 September 2024 the government published draft Accounts and Audit (Amendment) Regulations 2024. These Regulations, which are expected to be approved by 30 September 2024, set a publication date for financial statements up to and including 2022/23 of 13 December 2024. The new National Audit Office Code, which is expected to be approved by Parliament towards the end of October 2024, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Chief Finance Officer & Head of Corporate Services, and for reasons which I set out in more detail below, it will not be possible for us to complete our audits for 2021/22 and 2022/23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer for the attention of the Audit Scrutiny Committee.

We are required under Auditing Standards to report certain matters to the Audit Scrutiny Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

### **Outcome of our audit for 2021/22 and 2022/23 – Disclaimer of the opinion on the financial statements**

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We have also been unable to assess whether issues reported in our disclaimer of opinion for 2020/21 have been resolved. We therefore plan to issue a disclaimer of the audit opinion. We have provided the draft wording for our 2021/22 and 2022/23 Audit Reports alongside this letter for your information. All documents will be discussed at the October 2024 meeting of Audit Scrutiny Committee.

#### **Chartered Accountants**

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The main reason for the application of the backstop is that the completion of the 2020/21 audit was delayed whilst the Council responded to audit queries in respect of the valuation of property, plant and equipment and car parks. We were unable to obtain assurance in these areas. This combined with the processes required to enable us as your auditor's to issue the qualified opinion result in a significant delay in concluding the audit.

We issued a disclaimer of opinion on your 2020/21 financial statements on 2 May 2024. This disclaimer also drew attention to weaknesses in the Council's record keeping in respect of its assets.

We had agreed with the Council that the audit of the financial statements for the year ended 31 March 2022 would not commence until the previous audit was concluded. This meant there was no realistic prospect of the audit of Council's financial statements for subsequent years being completed in advance of the December 2024 backstop.

### **Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice**

We undertook our Value for Money work for the years ended 31 March 2022 and 31 March 2023 and reported the outcome in a combined Annual Audit Report dated 26 February 2024. Our Annual Audit Report was presented to the Audit Scrutiny Committee on 22 March 2024 and full Council on 23 April 2024.

The key findings for the year ended 31 March 2022 noted four significant weaknesses in relation to governance as follows:

- a general lack of respect amongst members and difficult relationships between members and officers
- weaknesses in the Council's complaints investigation processes
- whistleblowing arrangements for officers and members to speak up were inadequate
- timeliness of the audit process due to the issues regarding asset valuations in the 2020/21 audit impacting the ability to start the 2021/22 and 2022/23 audit.

The key findings for the year 31 March 2023 noted that the significant weaknesses from the previous year had not been resolved in relation to:

- a general lack of respect amongst members and difficult relationships between members and officers
- timeliness of the audit process due to the issues regarding asset valuations in the 2020/21 audit impacting the ability to start the 2021/22 and 2022/23 audit.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We have nothing to report in respect of the above comment on statutory powers and duties.

### **Independence**

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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.

#### **Management letter of representation**

We have asked management to provide separate letters of representation in respect of the financial statements for 2021/22 and 2022/23. This will be tabled as a separate agenda item at the October meeting of Audit Scrutiny Committee.

#### **Looking ahead**

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely

***Peter Barber***

For Grant Thornton UK LLP

cc Chief Finance Officer & Head of Corporate Services

Attachments: Draft Disclaimer of Opinion 2021/2022 and 2022/23

# Appendix

## **Responsibilities**

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Teignbridge District Council. We draw your attention to both of these documents.

## **Scope of our audit**

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Scrutiny Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Scrutiny Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

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

## **Audit Plan**

For the year ended 31 March 2022, we issued an indicative Audit Plan on 22 August 2022. In our plan we identified the following issues as significant audit risks:

- Management over-ride of controls
- Valuation of land and buildings
- Valuation of pension net fund liability
- Accounting treatment of Suitable Alternative Natural Green Space (SANGS)

We have not identified any other significant risks since the date we issued our audit plan as we have not undertaken further work.

Due to delays in the completion of prior year audits, we were unable to issue an audit plan in respect of the year ended 31 March 2023.

## **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.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for the audit of the year ended 31 March 2022 and 31 March 2023.

## **Key financial reporting and audit issues identified during the audit**

As part of our 2021/22 planning, we commented on the Council's draft accounting treatment for the land purchases for SANGS (Suitable Alternative Natural Green Space). However, as no detailed work commenced on the 2021/22 draft financial statements we were unable to conclude our judgement on the appropriateness of the accounting treatment. We will review this as part of our forthcoming audit for 2023/24.

***We recommend that the Council undertakes a review of the accounting treatment of the SANGS land purchases and engages with the auditor as part of the audit of the 2023/24 financial statements.***

### **Going Concern**

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).

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 sets out the following key principles for the consideration of going concern for public sector entities:

- 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
- 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.

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 a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

### Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

### Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

### Audit fees and non-audit fees

PSAA set a scale fee for this the year ended 31 March 2022 of £40,240 and for the year ended 31 March 2023 of £44,740. Our audit plan for 2021/22 dated 22 August 2023 provided an indicative fee of £76,340 which included additional work required since the scale fee had been set. This included additional fees to reflect the increased work required under Value for Money (VFM) as a result of the new NAO code. No plan was issued for 2022/23.

Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for each audit year. Our current estimate of final fees for both years is set out below and are based on estimated costs incurred to date. Final fees will be determined by PSAA and we will update the Council in due course once their final determination is made.

Estimated 2021/22 audit fees which includes planning, VFM, communication and reporting (including issuing the backstop opinion) is £30,500

Estimated 2022/23 audit fees which included VFM, communication and reporting (including issuing the backstop opinion) is £26,700.

We have also undertaken the following non audit work in respect of the year.

<b>Audit Service</b>	<b>Proposed Fee</b>	<b>Final Fee</b>
Audit of housing benefits grant return year ending 31 March 2022	£10,500	£10,500
Audit of housing benefits grant return year ending 31 March 2023	£14,500	£14,500

The fees do not reconcile to the financial statements, so we have provided a reconciliation

	<b>31 March 2022</b>	<b>31 March 2023</b>
Audit fees per financial statements	£76,000	£76,000
Accrual for additional fees based on 2020/21	(£35,750)	(£31,260)
Total audit fees per above	£40,240	£44,470
Certification of grants per financial statements	£12,000	£12,000
Accrual over or underestimated	(£1,500)	£2,500
Total grant fees per above	£10,500	£14,500

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total original estimated fee for the audit for the year to 31 March 2022 of £76,340 and for the year to 31 March 2023 of £76,340 and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.