

# The Audit Findings for Teignbridge District Council

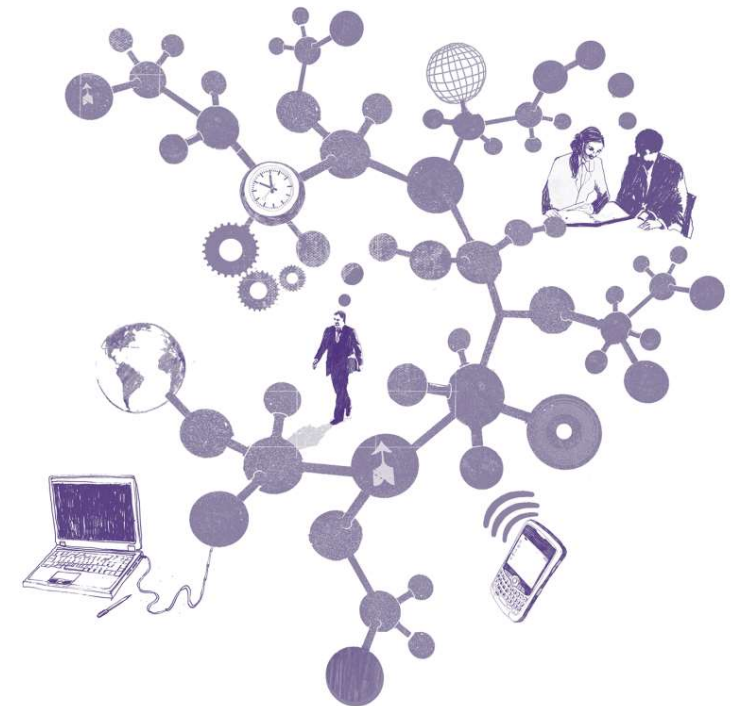
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**Year ended 31 March 2017**

12 September 2017

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12 September 2017

Dear Members of the Audit Committee

### **Audit Findings for Teignbridge District Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Teignbridge District Council, the Audit and Scrutiny Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Geraldine Daly".

Geraldine Daly

Engagement lead

#### **Chartered Accountants**

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	22
4. Fees, non-audit services and independence	26
5. Communication of audit matters	27

## **Appendices**

A Action plan

## Purpose of this report

This report highlights the key issues affecting the results of Teignbridge District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 14 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- ISA 240 letter responses
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded a deficit on the Total Comprehensive Income and Expenditure of £14,965k, with a reported net Income of a £87k surplus. The following statutory year end adjustments were made:

	£,000s	£,000s
Surplus on provision of services		14,965
Re-measurement of the pension fund liability	20,784	
Surplus on the revaluation of Property, plant & Equipment	-1,865	
Transfers to Earmarked reserves	-3,690	
Adjustments between funding and accounting basis (note 8)	-177	
		<u>15,052</u>
Increase in General reserve		<u><u>-87</u></u>

The key messages arising from our audit of the Council's financial statements are:

- The accounts were prepared, as required, by the end of June and the audit commenced on the 18<sup>th</sup> July. The Financial Statements for 2017/18 are statutorily required by the 31<sup>st</sup> May 2018 and the audit will need to be completed by 31 July 2018. The earlier timetable will require careful re-scheduling for 2017/18.
- We have not identified any adjustments that affect the Council's reported financial position

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Council.

### Findings

We draw your attention in particular to control issues identified in relation to: Journals and User access to IT systems.

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We have made a recommendation around the monitoring and scrutiny of savings plans needed to deliver the medium term financial plan.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance, Assets and Resources

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**September 2017**

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,248k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £62k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosure of auditors' remuneration in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000 as all misstatements are considered material.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000 as all misstatements are considered material.
Disclosures of members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000 as all misstatements are considered material.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Teignbridge District Council, we have 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</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 do not consider this to be a significant risk for Teignbridge District Council.</p>	<p>We have, however, performed testing on grants income, other revenues, council tax and NNDR and our approach has not identified any issues with these amounts.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of entity controls and a walkthrough of how journals are processed</li> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> <p>We have also set out our findings in respect of the authorisation of journals raised in the audit plan.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)



# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The expenditure cycle includes fraudulent transactions</b> Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>Having considered the risk factors set out in PN10 and the nature of the expenditure streams at Teignbridge District Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• opportunities to manipulate expenditure recognition are very limited</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 do not consider this to be a significant risk for Teignbridge District Council as our experience is that expenditure is well controlled and monitored.</p>	<p>Our testing of operating expenses and employee remuneration has not identified any material issues.</p> <p>Our audit work has not identified any issues in respect of expenditure recognition.</p>
<p><b>Valuation of pension fund net liability</b> The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Identified and walked through 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>The Pension Liability disclosed in the accounts has increased by £22,926k, primarily as a result of the reduction in the discount rate applied by your actuary. We have reviewed all the assumptions applied and are assured this is in line with general application across Local Government pension schemes.</p> <p>We use an audit expert – PWC- to review the methodology and assumptions made by the actuaries across the country. PWC's review highlighted that one of the estimates used by your actuary, Barnett Waddingham, was out of line with other actuaries, specifically the discount rate, which was set higher than the average.</p> <p>However, we review all the assumptions made and have performed a sensitivity analysis of the rates applied. This work concluded that, whilst the expectation is that the liability is higher than other actuaries might forecast, (a point estimate range of between £300k - £444k) it is, nevertheless a reasonable estimation of the potential liability.</p>

## Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b>                      The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>Reviewed:</p> <ul style="list-style-type: none"> <li>management's processes and assumptions for the calculation of the estimate;</li> <li>the competence, expertise and objectivity of the valuer.</li> <li>the instructions issued to valuation experts and the scope of their work</li> <li>and challenge of the reasonableness of the proposed revaluations, including reference to national trends.</li> <li>the disclosures made by the Council in its financial statements to ensure that they are in accordance with the requirements of the CIPFA Code of Practice and IFRS1</li> </ul> <p>Identified the controls put in place by management to ensure that the carrying values of property' plant and equipment are not materially different from the fair value at the year end, and assessed whether these controls were implemented as expected, and whether they are sufficient to mitigate the risk of mis-statement.</p> <p>Challenged the valuations using indices prepared by our own auditors expert, Gerald Eve.</p> <p>Tested the revaluations made during the year to ensure they were input correctly into the Council's asset register</p> <p>Evaluated the assumptions made by management for those assets not revalued during the year and how officers have satisfied themselves that these are not materially different to current value.</p>	<p>Our work has not identified any issues in this area in respect of the valuation of property, plant and equipment.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p> <p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented the processes and key controls over the transaction cycle</li> <li>undertaken a walkthrough of the key controls to assess the whether those controls were in line with our understanding</li> <li>Undertaken a substantive test, on a sample basis, of remuneration transactions throughout the year</li> </ul>	<p>Our work has not identified any issues in this area</p>
<p><b>Operating expenses</b></p> <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented the processes and key controls over the transaction cycle</li> <li>undertaken a walkthrough of the key controls to assess the whether those controls were in line with our understanding</li> <li>reviewed estimates, judgements and decisions made by management for unusual and large accruals</li> <li>Substantively tested of operating expenditure on a sample basis</li> <li>Testing the cut-off of expenditure including a review of after date payments to ensure all liabilities had been accounted for in the correct period</li> </ul>	<p>Our work has not identified any material issues in the area.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued



Description of risk	Work completed	Assurance gained & issues arising
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>We did not identify any issues in respect of the reclassification of income and expenditure within the CIES and the associated restatement note or the revised grouping of entries within the MIRS.</p>
<p><b>Strata Services Solutions limited (SSL)</b></p> <p>There is a risk that the external data used to consolidate the Council's share in SSL into the Council's accounts is incomplete or inaccurate.</p>	<p>We have obtained assurances from the auditors of SSL, in relation to their independence and the opinion given on the SSL financial statements, and:</p> <ul style="list-style-type: none"> <li>Tested that the accounting entries have been properly made in the Council's accounts;</li> <li>reviewed the consolidation process;</li> <li>obtained the signed audited statements of SSL the list of unadjusted misstatements and the letter of representation; and</li> <li>Concluded that the disclosures under IFRS11 have been correctly made.</li> </ul>	<p>We are satisfied that SSL has been accounted for as a Jointly controlled operation and that proper disclosures have been made in the accounts.</p>

## Significant matters discussed with management

	Significant matter	Commentary	
1.	Other than the items in this report no other significant matters were raised with management		

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The council has policies for Revenue recognition that cover <ul style="list-style-type: none"> <li>Revenue from the sale of goods</li> <li>Revenue from the provision of services</li> <li>Interest receivable</li> <li>Revenue from council tax and business rates.</li> </ul>	The policies are: <ul style="list-style-type: none"> <li>appropriate under the Local Authority Accounting code of Practice (the code);</li> <li>adequately disclosed in the accounting policies;</li> <li>consistent with the code; and</li> <li>have been applied appropriately.</li> </ul>	 Green
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>Revaluations and impairment of PPE</li> <li>Accruals</li> <li>Provision for NNDR appeals</li> <li>Valuation of pension fund net liability</li> </ul>	We have reviewed the Council's Judgements and estimates and concluded that these are reasonable in respect of the financial statements and the disclosure of financial position of the Council. We would comment as follows: <ul style="list-style-type: none"> <li>We considered the assumptions made by the Council's valuer as reasonable for Teignbridge.</li> <li>The Council's accruals process at year end is appropriate.</li> <li>The estimation of possible NNDR appeals is reasonable.</li> <li>The valuation of the pension fund liability. Some of the estimates used by Barnett Waddingham are out of line with other actuaries, specifically the discount rate and the future inflation rate, which are higher than the average. Our work on the sensitivity of the rates applied has shown that these rates work in opposition and that, whilst the expectation is that the liability is higher than other actuaries might forecast, it is, nevertheless a reasonable estimation of the potential liability.</li> </ul>	 Green



**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Chief Finance Officer, s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and have satisfied ourselves that the going concern basis is appropriate for the 2016/17 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**Assessment**

## 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
1.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit. We will update our understanding of management's arrangements at the Committee.
2.	<b>Matters in relation to related parties</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	<b>Written representations</b>	A standard letter of representation has been requested from the Council.
5.	<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests for Bank and Investment balances. This permission was granted and the requests were sent. We also requested the audited accounts for Strata solutions Limited. The audited accounts of SSL and bank requests were received,
6.	<b>Disclosures</b>	Our review found no material omissions in the financial statements. We have agreed some minor disclosure amendments, which management have included in the final statements.
7.	<b>Matters on which we report by exception</b>	We have not identified any issues we would be required to report by exception in the following areas <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	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. We have yet to submit our work on Whole of Government Accounts.





# Misstatements, misclassifications and disclosure changes



**There are no adjusted or unadjusted Misstatements, Misclassifications and disclosure changes**

## Impact of uncorrected misstatements in the prior year

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 The Non Domestic Rates (NDR) appeals provision was underestimated for the outcome of outstanding appeals by purpose built GP surgeries on the 2010 rating list. The Council had already provided for some reduction in rateable value but the valuation office has now determined all the relevant appeals leading to higher rate refunds than expected.	0	0	There is no ongoing impact from this uncorrected misstatement in the 2015/16 financial statements, as the provision has been re-estimated at the 31 March 2017 and the over-provision is no longer an issue.
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	


# Internal controls

	Assessment	Issue and risk	Recommendations
R1	 Amber	<p><b>No Proactive Reviews of User Access</b>                      User accounts and their associated permissions Active Directory and folder shares were not being formally and proactively reviewed for appropriateness.</p> <p>There is a risk that gaps in user administration processes and controls may not be identified and dealt with in a timely manner and that access to information resources and system functionality may not be restricted on the basis of legitimate business need. This may lead to segregation of duties conflicts and disproportionate access by a number of people which may have unforeseen consequences.</p> <p>It is our experience that access privileges tend to accumulate over time, especially as 'transformation' projects move users to different roles in the organisation. As such accounts that should have been disabled or deleted offer the opportunity for abuse by valid system users to circumvent internal control.</p>	<p>Proactive reviews should occur regularly, especially in times of change, to ensure that users exist and only have access to services, devices or data that they require in their role.</p> <p>While we appreciate a number of changes will occur during the transition to STRATA systems, we believe management should consider making, at minimum, a quarterly review of user accounts to ensure that access is strictly on a need to have basis and that users are valid and accountable.</p>
R2	 Amber	<p><b>Journals</b>                      In order to prove completeness of the journal population and to ensure that any journals voided or not input are required to be filed and the hard copy shown in the paper file. This had not been done on a number of times.</p>	<p>The instruction that all journals voided or not input are required to be filed and the hard copy shown in the paper file should be emphasised to all input staff.</p>

**Assessment**  
 Significant deficiency – risk of significant misstatement  
 Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
R3	 Amber	<p><b>Journal Authorisation</b></p> <p>We have identified that the Chief Finance Officer and the Finance Manager have the ability to make journal entries.</p> <p>The Chief Finance Officer (S151 Officer) is a key decision maker and would not be expected to directly input journals into the ledger.</p> <p>The Finance Manager (Deputy S151 Officer) has responsibility for directly inputting journals into the ledger and reviewing all journals above £100k.</p> <p>We recommend that key decision makers should not have the ability to directly input journals into the system.</p>	<p>A small finance team necessitates the requirement for all members of the team to input journals at particular times of the year. The level of input is mitigated by other officers in the finance team processing the majority of these journal entries and all large journal entries being reviewed by the Finance Manager and one other Accountant for accuracy and validity throughout the year.</p> <p>Ongoing</p> <p>Martin Flitcroft, Finance Manager</p>

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 14 March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Strategic financial planning – sustainable resource deployment
- Working in partnership

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 23 to 24.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

### **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed one recommendation for improvement on page 23

Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Strategic financial planning – sustainable resource deployment</b></p> <p>The Council's medium term revenue budget summary shows revenue support funding will be reduced from £1.6m in 2016/17, £0.847m in 2017/18, £0.382m in 2018/19 and £0 in 2019/20. The rates baseline funding is forecast to increase over the same period, £3.169m in 2017/18, £3.271m in 2018/19 and £3.387m in 2019/20. However, the new homes bonus funding is reducing over the same period, £3.436m in 2017/18, £2.801m in 2018/19 and £2.246m in 2019/20. Shortfalls in funding are predicted over the medium term as follows, £8,290 in 2017/18, £82,990 in 2018/19 and £92,170 in 2019/20.</p> <p>General reserves are being maintained at around 10% of the net revenue budget over the medium term plan (approximately £1.5m).</p>	<p>We have reviewed</p> <ul style="list-style-type: none"> <li>the savings target for 2016/17 and how this was achieved.</li> <li>the assumptions behind the medium term revenue budget, including the robustness of savings plans achieved through, for example the management structure review implemented in 2013, gains from the Strata partnership and the returns from Market Walk.</li> <li>the use of reserves.</li> <li>the outcome of the business challenge process to identify savings - Business Efficiency Service Transition 2020.</li> </ul>	<p>Savings target was built into the 2016/17 budget and has been achieved.</p> <p>The Council's reserves have increased during 2016/17, the General fund now stands at £1.7m (11.4%) and Earmarked reserves at £7.8m against a net revenue spend of £ 14.9m</p> <p>At 31 March 2017 the Council finds itself in a strong financial position. It has achieved its savings plans and cut costs, without any appreciable reduction in service delivery or quality. Although the myriad of uncertainties affecting local government make medium term financial planning far more challenging, the fairly recent confirmation of a fixed 4 year funding settlement has at least given some clarity to one of the Councils major funding sources.</p> <p>The Council relies on the use of the New Homes bonus to balance its annual budget. The Local Government Finance Settlement for 2017/18 was finalised in February 2017 and confirmed a significant reduction in new homes bonus which had been announced in December 2016.</p> <p>The Council has identified savings in its medium term financial plan, this enables the forecast to show a balanced position to 2020. However, there is an acceptance that further savings will need to be made beyond 2020.</p> <p>Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Working in partnership</b></p> <p>Through our review of Council agendas and minutes and through discussions with officers we are aware that the Council is involved in a range of different partnerships covering devolution, economic growth and health and well being and ICT (Strata). This also includes the Heart of the South West initiative.</p>	<p>We will review</p> <ul style="list-style-type: none"> <li>• what involvement the Council has in various partnership arrangements; and</li> <li>• how these contribute to the delivery of its strategic priorities.</li> </ul>	<p>The Council is currently involved in significant partnership working as follows:</p> <ul style="list-style-type: none"> <li>• Strat Solutions Limited – Joint operation - A Commercial company that provides a shared information communications technology service to the Council East Devon district Council (EDDC) and Exeter City council (ECC).</li> <li>• Greater Exeter Strategic Plan – Bringing together planning and Economic development plans for the Council, EDDC, ECC and Mid Devon District Council (MDDC).</li> <li>• Exeter and Heart of Devon Shared Economic Strategy - To support common economic development objectives working in partnership with ECC, EDDC and MDDC.</li> <li>• Heart of the South West – Devolution - Teignbridge, alongside 16 other local authorities in Devon and Somerset, two national parks, three Clinical Commissioning Groups, and the Heart of the South West Local Enterprise Partnership (LEP) is exploring the opportunities around future devolved powers from Westminster.</li> </ul> <p>The Council is continuing to participate in the progression of partnerships within Devon and the wider South west. The use of partnerships has direct links to the Council’s objectives set out in its “Council Strategy 2016-2025”.</p>



**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance. There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

We confirm below our final fees charged for the audit services. No non-audit or audited related services have been undertaken for the Council.

## Fees

	Proposed fee £	Final fee £
Council audit	48,363	48,363
Grant certification	7,500	*TBA

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

The Grant certification fee was included in the plan at £7,500, currently this is showing as £13,174 on the PSAA website, following a final review we would expect this to be reduced.

## Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## 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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.

## Fees for other services

Service	Fees £	Threat	Safeguard
<b>Audit related services:</b>	None		
<b>Non-audit services</b> Governance at Heart of the SW LEP	8,646	Y	The work carried out for the Heart of the South West LEP has been undertaken by a separate team, Independent of the Audit team.

No non-audit or audited related services have been undertaken for the Council

# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)





We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.




It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

# A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
<b>1</b> Page 20	<b>No Proactive Reviews of User Access</b> Proactive reviews should occur regularly, especially in times of change, to ensure that users exist and only have access to services, devices or data that they require in their role.	 Amber	'Access' report to be set up on a monthly basis to review changes in conjunction with notification from HR & Strata re post changes. We will also investigate an access right reset process with Strata.	September 2017 Systems & Insurance Officer
<b>2</b> Page 20	<b>Journals</b> The instruction that all journals voided or not input are required to be filed and the hard copy shown in the paper file should be emphasised to all input staff.	 Amber	All staff to be emailed to ensure void journals are filed in the manual files.	September 2017 Finance Manager
<b>3</b> Page 21	<b>Journal Authorisation</b> Key decision makers should not have the ability to directly input journals into the system	 Amber	A small finance team necessitates the requirement for all members of the team to input journals at particular times of the year. The level of input is mitigated by other officers in the finance team processing the majority of these journal entries and all large journal entries being reviewed by the Finance Manager and one other Accountant for accuracy and validity throughout the year.	Ongoing Martin Flitcroft, Finance Manager
<b>4</b> Page 24	<b>Strategic financial planning – sustainable resource deployment</b> Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting.	 Amber	This process is already in place through regular reporting to CLT(E), Executive, monitoring our Medium Term Financial Plan, the annual BEST2020 review and follow up on savings/pressures identified and the annual Council Tax setting process.	Ongoing Chief Finance Officer

## Priority

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice



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