

The Annual Audit Letter for Teignbridge District Council

Year ended 31 March 2017

October 2017

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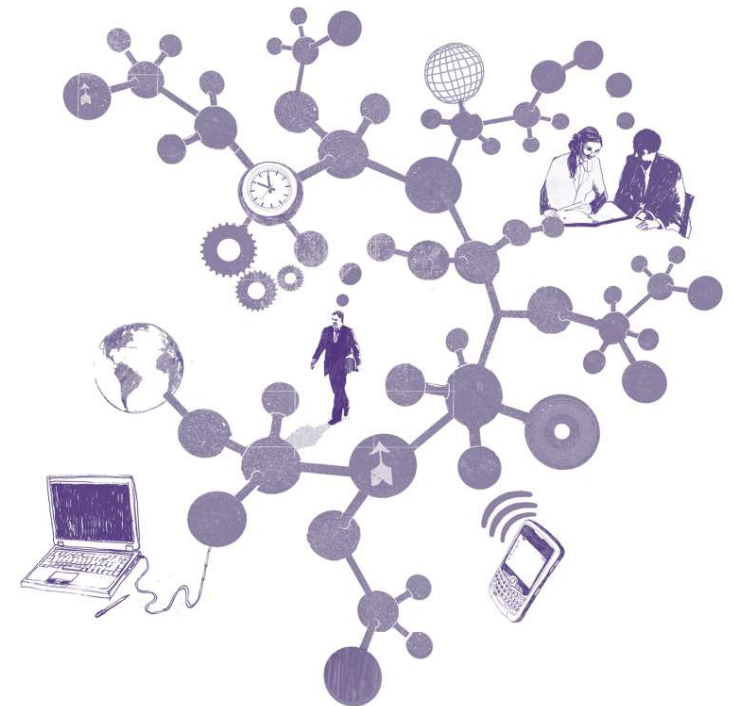
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Teignbridge District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Scrutiny Committee (and subsequently the Full Council - as those charged with governance) in our Audit Findings Report on 12 September 2017

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 September 2017.

Value for money conclusion

We were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 27 September 2017.

Whole of government accounts

We completed our work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified assurance statement on 27 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Teignbridge District Council in accordance with the requirements of the Code on 27 September 2017.

Certification of grants

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 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Use of additional powers and duties

We were not required to exercise any additional powers or duties.

Working with the Council

From 2017/18, the statutory deadlines for preparation and audit of the financial statements will be brought forward and the Council will be required to produce draft statements by 31 May 2018, and secure an audit opinion by 31 July 2018.

We will work in partnership with the Council to complete a substantial amount of early audit testing prior to March 2018 which will help to drive efficiencies within the year end audit process.

Moving towards an earlier deadline, particularly within the more complex environment within which you now operate, will require an element of redesign of some of the closedown processes, arrangements and internal business processes. The Council are currently reviewing the finance structure and financial processes. We have worked with many other District councils to successfully implement faster close and will continue to work with the Council during the coming year to support the Council in achieving the earlier deadlines.

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Council's accounts to be £1,248,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for cash, auditor's remuneration and senior officer remuneration.

We set a lower threshold of £62,000, above which we reported errors to the Audit and governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the accounts

These are the 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>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>Work completed to address this risk included:</p> <ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessing whether those controls had been implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewing the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Reviewing the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>The Pension Liability disclosed in the accounts had increased by £22,926,000, primarily as a result of the reduction in the discount rate applied by your actuary. We 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 some of the estimates used by your actuary, Barnett Waddingham, were out of line with other actuaries, specifically the discount rate and the future inflation rate, which were higher than the average.</p> <p>We therefore reviewed the assumptions made and 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 £300,000 - £444,000) it was, nevertheless a reasonable estimation of the potential liability in material terms.</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment 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>Work completed to address this risk included:</p> <ul style="list-style-type: none"> • Reviewing: <ul style="list-style-type: none"> - management's processes and assumptions for the calculation of the estimate; - the competence, expertise and objectivity of the valuer. - the instructions issued to valuation experts and the scope of their work and challenging the reasonableness of the proposed revaluations, including reference to national trends. - 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 • Identifying the controls put in place by management to ensure that the carrying values of property' plant and equipment were not materially different from the fair value at the year end, and assessing whether the controls were implemented as expected, and whether they were sufficient to mitigate the risk of mis-statement. • Discussing with the valuer, the basis on which the valuation is carried out and challenged the key assumptions. • Testing the revaluations made during the year to ensure that they were input correctly into the Council's asset register • Evaluating the assumptions made by management for those assets not revalued during the year and how officers have satisfied themselves that these were not materially different to current value. 	<p>Our work did not identify any issues in this area in respect of the valuation of property, plant and equipment.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Scrutiny Committee on 12 September 2017.

We did not identify any adjustments affecting the Council's financial position. We identified a few presentation and disclosure issues that were amended for in the Council's final financial accounts.

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 with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the NAO's group auditor to consider on 27 September 2017.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We were not required to exercise any additional powers or duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 in table 2 overleaf.

As part of our Audit Findings Report we recommended that the Council should ensure that its forward planning sets out the annual savings programme in a manner that allows the achieved savings to be monitored against plans and management should ensure that they monitor this through regular reporting.

Overall VfM 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 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Strategic financial planning – sustainable resource deployment</p> <p>The Council's medium term revenue budget summary shows revenue support funding will be reduced from £1,600,000 in 2016/17, £847,000 in 2017/18, £382,000 in 2018/19 and £0 in 2019/20. The rates baseline funding is forecast to increase over the same period, £3,169,000 in 2017/18, £3,271,000 in 2018/19 and £3,387,000 in 2019/20. However, the new homes bonus funding is reducing over the same period, £3,436,000 in 2017/18, £2,801,000 in 2018/19 and £2,246,000 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 £1,500,000).</p>	<p>We have reviewed</p> <ul style="list-style-type: none"> the savings target for 2016/17 and how this was achieved. 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. the use of reserves. the outcome of the business challenge process to identify savings - Business Efficiency Service Transition 2020. 	<p>Savings target was built into the 2016/17 budget and were achieved.</p> <p>The Council's reserves increased during 2016/17. At 31 March 2017 the General fund stood at £1,700,000 (11.4%) and Earmarked reserves at £7,800,000 against a net revenue spend of £ 14,900,000</p> <p>At 31 March 2017 the Council found itself in a strong financial position. It 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>Recommendation</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>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Working in partnership</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"> • what involvement the Council has in various partnership arrangements; and • how these contribute to the delivery of its strategic priorities. 	<p>The Council is currently involved in significant partnership working as follows:</p> <ul style="list-style-type: none"> • 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). • Greater Exeter Strategic Plan – Bringing together planning and Economic development plans for the Council, EDDC, ECC and Mid Devon District Council (MDDC). • Exeter and Heart of Devon Shared Economic Strategy - To support common economic development objectives working in partnership with ECC, EDDC and MDDC. • 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. <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>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and **there were no fees for the provision of non audit services.**

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)

Reports issued

Report	Date issued
Audit Plan	14 March 2017
Audit Findings Report	12 September 2017
Annual Audit Letter	13 October 2017

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

Service provided to Teignbridge District Council	Fees	Threat identified	Safeguards
Governance at Heart of the SW LEP	10,000	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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.

Fees for other services

Service	Fees £
Audit related services:	None
Other services	
• Governance at Heart of the SW LEP	10,000
Total	110000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other 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, as reported in our Audit Findings Report.



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