

## **AUDIT AND GOVERNANCE COMMITTEE**

Date: Wednesday 18 September 2019  
Time: 5.30 pm  
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Mark Devin, Democratic Services Officer on 01392 265477.

Entry to the Civic Centre can be gained through the Customer Services Centre, Paris Street.

### *Membership -*

Councillors Wardle (Chair), Atkinson (Deputy Chair), Foggin, Hannaford, Henson, D, Mrs Henson, Lamb, Mitchell, M, Pattison, Sheldon and Warwick

### Agenda

#### **Part I: Items suggested for discussion with the press and public present**

##### **5 External Auditors Interim findings report**

To consider the report of the Council's External Auditor.

(Pages 3 -  
36)

#### **Date of Next Meeting**

The next **Audit and Governance Committee** will be held on Wednesday 4 December 2019 at 5.30 pm

Find out more about Exeter City Council by looking at our website <http://www.exeter.gov.uk> . This will give you the dates of all future Committee meetings and tell you how you can ask a question at a Scrutiny Committee meeting. Alternatively, contact the Democratic Services Officer (Committees) on 01392 265107 for further information.

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# The Audit Findings for Exeter City Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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Year ended 31 March 2019  
13 September 2019



# Contents



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## Section

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## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Headlines

This table summarises the key findings and other matters arising from our work to date on the statutory audit of Exeter City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance. We will provide a final version of this report to the Council's Audit and Governance Committee on the completion of our work.

### Financial Statements

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

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

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

Our audit work was completed on site during August and September 2019. This was later than originally planned due to resourcing issues within Grant Thornton and we are appreciative of the cooperation provided to us by the Council in working to a later timeframe.

Our findings are summarised on pages 5 to 18 and these are based on the work completed to date.

Audit adjustments agreed to date with management are detailed in Appendix C and we will update this on the conclusion of our work. We have also raised recommendations for management as a result of our audit work in Appendix A. We have also suggested a number of changes to the accounts in order to comply with the accounting standards including further notes for all material balances, detailed disclosure notes for financial instruments in accordance with IFRS9 and IFRS13. Management are currently reviewing these amendments. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Where non trivial items such as the Pension liability increase as a result of the Mc Cloud Sargeant case, we will require specific management representation on such matters that will require Audit Committee approval and sign off for non amendment.

The following are the major outstanding matters:

- completion of journals testing
- completion of the MIRS consistency tool, which ensures that the various elements financial statements are consistent with each other
- review of property, plant and equipment not revalued in the year
- agreement with management on the implications of the McCloud judgment
- completion of cut-off testing for operating expenditure
- completion of our work on the inclusion of Exeter City Living Ltd in the group accounts
- finalisation of our analytical review on payroll and testing of senior officer remuneration
- receipt of confirmations from third parties for loan and investment balances
- completion of testing on leases
- Review of recommended amendments for revenues contracts, accounting policies, financial instruments, material disclosure notes and the CLLA pooled investment fund.
- receipt of management representation letter
- review of the final set of financial statements, including the disclosure checklist, financial instruments disclosures, the Narrative Report and Annual Governance Statement.

All of our work is also subject to the final review from the key audit partner before we issue our audit opinion.

## Headlines (cont'd)

### Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Exeter City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Statutory duties

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

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

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

### Acknowledgements

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.

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality, considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for Exeter City Living Ltd. Please see pages 8 and 10 of this report for further information in this respect.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in March 2019, other than for the fact that the Council needed to prepare group accounts for the first time. Further information is included on pages 8 and 10 of this report. We have therefore added this as a risk.

## Conclusion

Our work is currently ongoing, subject to the satisfactory completion of the outstanding work and issues raised as part of the detail on page 3, amendments made to the accounts and our review of those amendments, we anticipate issuing an unqualified audit opinion on the financial statements. We will provide a further update to the Audit and Governance Committee on the completion of our work.

# Summary

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our audit plan for the Council.

We detail in the table below our determination of materiality for the group and Exeter City Council.

	Group Amount (£)	Council Amount (£)	Comments
Materiality for the financial statements	£1,950,000	£1,800,000	Materiality at the planning stage for the Council was set at 1.8% of the prior year's gross expenditure.  At the final accounts stage, it was confirmed that group accounts were required and the same percentage (1.8%) was applied to the current year's expenditure for the group.  As the Council's expenditure year on year was broadly consistent, we did not consider it necessary to update the Council's materiality.
Performance materiality	£1,267,500	£1,170,000	This is 65% of the materiality of the financial statements as a whole.
Trivial matters	£97,500	£90,000	This is 5% of the materiality of the financial statements as a whole.
Materiality for senior officer remuneration disclosures	£5,000	£5,000	A lower level of materiality has been set for this area as it is a sensitive disclosure within the Council's financial statements.  We have chosen this amount as the remuneration disclosures are in bands of £5,000.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Auditor Commentary

1

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable.

We therefore did not consider this to be a significant risk for Exeter City Council.

We reviewed this assessment during the course of our audit and no new information has come to light to change our original assessment. We have however, requested that management provide a detailed analysis of the Council's revenue streams in accordance with IFRS15.

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals

We are currently:

- testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- completing our understanding of the accounting estimates and critical judgements applied made by management and considering their reasonableness with regard to corroborative evidence
- evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work to date has not identified any issues in respect of the management override of controls and we will provide an update to the Audit and Governance Committee on the completion of our work.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Auditor Commentary

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### Group Accounts

At the time our audit plan was produced, the Council considered it likely that it would need to prepare group financial statements that consolidate the financial information of Exeter City Living Limited (ECL) as it considered the company is material when viewed alongside the City Council. This would be the first time that group accounts will be prepared by Exeter City Council. The Council have reintroduced Group accounts having previously prepared these under the old accounting standards up until 2013/14.

We reviewed:

- the key agreements to gain an understanding of the arrangements put in place on the establishment of the company
- the level and nature of transactions of Exeter City Living Limited in 2018/19
- management's assessment regarding the requirement for group accounts

We concur with management's assessment that group accounts were required in 2018/19.

We determined the scope of the work required in 2018/19 although this has yet to be concluded.

Our audit work has not identified any issues in respect of management's consideration of the need for group accounts.

### Valuation of land and buildings

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c. £390 million at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register and correctly reflected in the financial statements
- met with the valuer and reviewed a sample of revaluations in detail.

Our work in this area has not been finalised and, in particular, we have not completed our work on those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

See pages 13 and 14 for our assessment of the estimations made in this area.

Management have amended the accounts to ensure that they have clearly stated the assumptions made around the estimation uncertainty connected to PPE valuations.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Auditor Commentary

5

### Valuation of the pension fund net liability

The Authority's pension fund net liability represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£114 million in the Authority's balance sheet at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
- obtained assurance from the auditors of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our audit work to date has not identified any issues in respect of valuation of the pension fund net liability, although we are still in discussions with officers regarding the McCloud issue – see page 11. Our assessment of the estimations made in this area is set out on page 12 of this report.

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### Operating expenses

Our interim audit work identified that 80% of all service expenditure is procured without the use of purchase orders. It is possible that orders (and the committal of the Council to the expenditure) are therefore not authorised until the point that invoices are received for payment.

We are working with Council officers to fully understand the deficiencies in purchasing authorisations. This is likely to have a significant impact on our testing strategy.

We:

- asked management to review the procurement process and identify any compensating controls that may be in place
- assessed the design and operational effectiveness of the Council's operating expenses system

As all expenditure is approved before any payment is actually made, we concluded that there was no risk regarding the occurrence of expenditure in the year. However, there was a risk regarding the completeness of expenditure within the financial statements.

We therefore designed our audit programme to reflect this additional risk and undertook extended testing of the controls in place and extended cut-off sample to test to include the payments made in April, May and June 2019 to ensure they were accounted for in the correct financial year.

At the time of writing, our work on the cut-off sampling had not been fully completed.

## Significant findings arising from the group audit

As noted on pages 5 and 8, Exeter City Council prepared group accounts for the first time in 2018/19.

This was necessary because of the relative significance of Exeter City Living Limited which would have a material impact on the group accounts.

Component	Component auditor	Findings	Group audit impact
Exeter City Living Limited	Francis Clark LLP	<p>Based on the draft financial statements for Exeter City Living Limited we are satisfied that it is appropriate for the Council to prepare group accounts.</p> <p>We have requested the final audited accounts for the company and will take into consideration the auditor's findings before undertaking the necessary work on the group balances.</p>	We will be in a position to complete our work once we receive the final audited accounts for the company.

## Significant findings - other issues

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

Issue	Commentary	Auditor view
<p data-bbox="69 512 107 552">1</p> <p data-bbox="147 512 645 536"><b>Potential impact of the McCloud judgement</b></p> <p data-bbox="147 552 763 671">The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p data-bbox="147 687 763 775">The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful.</p> <p data-bbox="147 791 763 943">The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p data-bbox="786 544 1435 695">The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1.629m, and an increase in service costs for the 2019/20 year of £132k.</p> <p data-bbox="786 711 1435 799">Management's view was that the impact of the ruling was not material for Exeter City Council and will be considered for future years' actuarial valuations.</p>	<p data-bbox="1480 544 2172 632">We reviewed the analysis performed by the actuary, and considered that the approach that has been taken to arrive at this estimate is reasonable.</p> <p data-bbox="1480 647 2172 767">We are of the view that there there is sufficient evidence to indicate that a liability is probable. We have therefore suggested that management amend the accounts to include the revised amount.</p> <p data-bbox="1480 783 2172 807">We have included this as an uncertainty within Appendix C.</p> <p data-bbox="1480 823 2172 911">We will require specific representation from management and those charged with governance regarding the non amendment of this item.</p>

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment																								
<b>Net pension liability – £112m</b>	<p>The Council’s net pension liability at 31 March 2019 is £112m (PY £114m)</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from the Devon Pension Fund.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>Please also see the findings on page 9 regarding the valuation of the pension liability. As part of our work in this area we:</p> <ul style="list-style-type: none"> <li>assessed management’s expert</li> <li>used our auditor’s expert (PwC) to assess the actuary and the assumptions made by the actuary. The key assumptions underpinning the actuarial valuation are:</li> </ul>	 <b>Green</b>																								
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.35% to 2.45%</td> <td style="text-align: center;">● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.4%</td> <td>2.4% to 2.45%</td> <td style="text-align: center;">● Green</td> </tr> <tr> <td>Salary growth</td> <td>3.9</td> <td>3.1% to 4.35%</td> <td style="text-align: center;">● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.4 years &amp; 24.1 years</td> <td>22.2 to 25.0 years</td> <td style="text-align: center;">● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.4 years&amp; 26.2 years</td> <td>25.0 to 26.6 years</td> <td style="text-align: center;">● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35% to 2.45%	● Green	Pension increase rate	2.4%	2.4% to 2.45%	● Green	Salary growth	3.9	3.1% to 4.35%	● Green	Life expectancy – Males currently aged 45 / 65	22.4 years & 24.1 years	22.2 to 25.0 years	● Green	Life expectancy – Females currently aged 45 / 65	24.4 years& 26.2 years	25.0 to 26.6 years	● Green	
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		<p>We also:</p> <ul style="list-style-type: none"> <li>assessed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>checked the reasonableness of the Council’s share of the Pension Fund assets</li> <li>assessed the reasonableness of the change in the estimate</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul>																									

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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious (Yellow)
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious (Green)

## Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £121m	Other land and buildings comprises of specialised assets such as Council depots and leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuers to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis.	<p>Please also see the findings on page 8 regarding the valuation of land and buildings.</p> <p>As part of our work in this area we:</p> <ul style="list-style-type: none"> <li>assessed management's expert</li> <li>reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate</li> <li>met with the valuer and reviewed a sample of revaluations in detail</li> <li>assessed the adequacy of the disclosure of estimates in the financial statements. Note 5 to the accounts states that the major estimation uncertainty for land and buildings valuations relates to depreciation whereas our view is that the valuation itself is also a significant estimate and should be disclosed in the Council's financial statements.</li> </ul> <p>Our work in this area has not been completed and, in particular, we have not completed our work on those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</p>	

### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
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- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

## Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £264m	The Council owns 4,891 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its in-house valuers to complete the valuation of these properties. The year end valuation of Council Housing was £264m (2017/18 £261m).	<p>Please also see the findings on page 8 regarding the valuation of land and buildings.</p> <p>As part of our work in this area we:</p> <ul style="list-style-type: none"> <li>assessed management's expert</li> <li>reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate</li> <li>met with the valuer and reviewed a sample of revaluations in detail</li> <li>assessed the consistency of the estimate against market information</li> <li>considered the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Although our fieldwork is largely complete in this area, it is subject to review by the key audit partner.</p>	

### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

## Significant matter

## Commentary

## Auditor view

Prior period adjustments are only required when the amount is material. Our view is that this is not material and that the Council has made an unnecessary prior period adjustment.

Management have asserted that in their view this is material, although this is inconsistent with their view that the impact of the ruling on the McCloud issue (£1.629m), was not material for Exeter City Council. See page 11 for further information.

In our view, the error should have been corrected in 2018/19 rather than as a prior period adjustment. The closing balances for 2018/19 are unaffected by this management decision.

## Management response

The Code defines materiality as omissions or misstatements of items if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item could be a determining factor. Management applied judgement that this error was material to the users of the accounts due to its nature, in that it resulted in an actual reduction in the level of debtors to the authority.

Correction of errors must be distinguished from changes in accounting estimates and therefore separate consideration was given to whether the McCloud ruling was material to the users of the accounts. As this is a change of accounting estimate, the potential increase in pension liabilities of £1.7m (0.7% of total pension liabilities in the Balance Sheet at 31 March 2019) and an increase in the projected service cost for 2019/20 of £0.140m (2.2% of the service cost before consideration of the McCloud judgement) was not considered material.

Prior period adjustment

Management made a prior period adjustment due to an error they identified during the production of the 2018/19 financial statements.

This related to a home improvement loan programme which had previously been treated as a debtor but which management concluded should have been treated as REFUCUS as the monies are subject to an 'asset lock' and the Council had no rights to the assets of the company. The total included in the 2017/18 financial statements for this amount was £916k.

# Significant findings - Going concern

## Our responsibility

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

## Going concern commentary

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### Management's assessment process

Management have prepared the financial statements on a going concern basis and this is clearly set out in the financial statements.

Management's view is that the concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future as an authority can only be discontinued under statutory prescription. Although Central Government funding is being cut significantly, management is of the view that this will have no effect on Exeter City Council as a going concern.

### Work performed

We discussed the going concern principle with management and asked them to provide an assessment of the application of this principle and to assess what disclosures should be included in its financial statements. Management referred us to the budget for 2019/20 and the Council's medium term financial plan which we reviewed as part of our work on the Council's VFM conclusion – see page 21 of this report.

### Concluding comments

CIPFA's code of practice on local authority accounting for 2018/19 is clear that an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The issue is simply one around the disclosure within the Council's financial statements.

Our discussions with management, supplemented by our VFM conclusion work has given us sufficient assurance that the disclosures within the Council's financial statements are adequate. In reaching this decision we took into account the level of the Council's reserves and the savings that will be required in order to deliver a balanced budget in 2019/20 and 2021/22.

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## 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 and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② <b>Matters in relation to related parties</b>	Based on the work completed to date, we are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date.
④ <b>Written representations</b>	A letter of representation will be requested from the Council on the conclusion of our audit.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Council's bankers and those organisations that the Council has loans and investments with. This permission was granted and the requests were sent, although not all responses have yet been received. We have issued follow-up letters where appropriate and we will undertake alternative procedures if the necessary responses have not been provided to us.
⑥ <b>Disclosures</b>	We will complete our review of the disclosure checklist when we receive the final version of the Council's financial statements for 2018/19. At present we have recommended a number of amendments to the disclosures within the accounts- particularly with regards to all material balances having supporting notes and necessary disclosures, financial instruments and the enhanced disclosures required as part of the implementation of IFRS9.
⑦ <b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management to date has been provided and we have not encountered any significant difficulties in completing our work.

## Other responsibilities under the Code

Issue	Commentary
1 <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We will complete this work when we receive the final version of the Council's financial statements for 2018/19.</p>
2 <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>As noted above, we will complete this work when we receive the final version of the Council's financial statements for 2018/19.</p>
3 <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>However, other than a submission to the NAO, no additional work is required as the Council does not exceed the threshold of £500m for either total assets (excluding PPE), total liabilities (excluding pension liabilities), total income or total expenditure.</p>
4 <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Exeter City Council when we issue our audit opinion, as detailed in Appendix E.</p>

# Value for Money

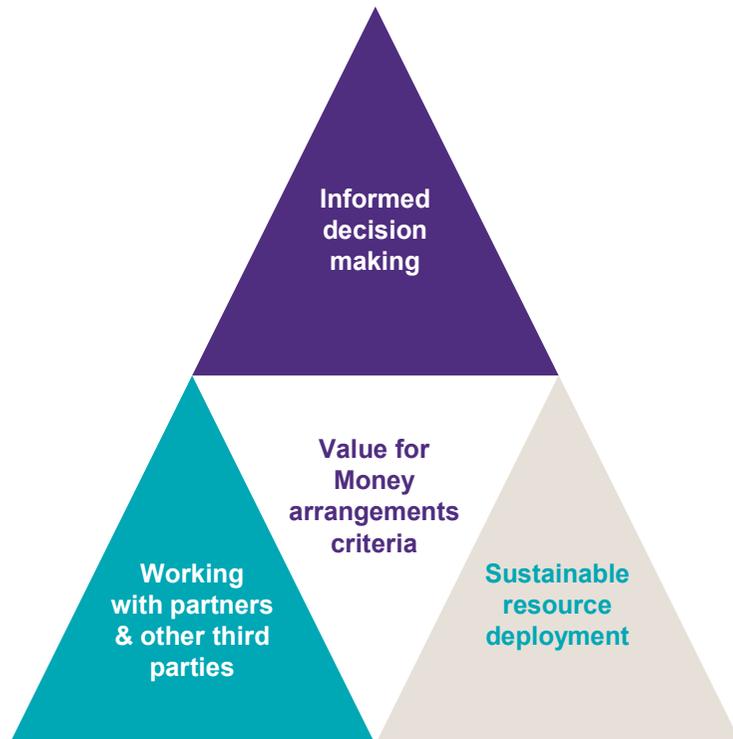
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment as part of our planning work and identified a number of 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 in March 2019.

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.

# Value for Money

## Our work

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:

- the Council's medium term financial plans
- the governance of Exeter City Group Limited
- the re-development of the bus station and the surrounding area

We also assessed the progress made by the Council in developing its procurement arrangements as the Council's previous External Auditors qualified the VFM conclusions in 2015/16, 2016/17 and 2017/18 in this area.

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 the following pages.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our expected report, which confirms this, can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## 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.

**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment.

**Significant risk from the audit plan**

**Delivering a sustainable medium term financial plan**

The medium term financial plan shows that significant savings are required to achieve financial balance with the Council planning a use of its reserves in 2018/19 in order to achieve its budget.

We will review the level of reserves and the plans in place to ensure an appropriate level of reserves is maintained and assess the arrangements in place to deliver savings in 2018/19 and from 2019/20 onwards, including those that have not yet been identified, in order to ensure they are realistic and deliverable.

**Audit Findings**

The outturn for 2018/19 per the draft financial statements showed that the General Fund balance reduced in the year by £296k (6% of the opening balance) to £4.691m, although this is still comfortably above the minimum level set by the Council of £3m. During 2018/19, the Council's earmarked reserves increased from £7.8m to £9.5m meaning that the Council's overall financial position strengthened in the year.

Looking ahead, the Council approved its most recent medium term financial plan in February 2019 which covers the 2019/20 financial year and looks ahead to 2022/23 (i.e the current year plus three additional years).

Whilst the funding available in the latter years is uncertain across the whole of Local Government, the Council's medium term financial plan shows that savings totalling approximately £2.4m will be required across that period as follows:

	2019/20	2020/21	2021/22	2022/23
Savings required (£,000)	1,963	210	293	0

As can be seen, there is a peak in 2019/20 and the Council has developed plans to deliver the required savings in that year. The Council has the safety net of available reserves to cover any shortfall, although this is clearly not a sustainable position.

The Council has a good track record of delivering its savings targets and although the projected outturn for 2019/20 cannot yet be known with any certainty, the Council is of a view that the savings for 2019/20 will be delivered on a recurrent basis.

**Conclusion**

The Council has adequate arrangements to deliver a sustainable medium term financial plan.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

### Significant risk from the audit plan

#### Governance of Exeter City Group Limited

The Council established a significant subsidiary company in the year which is likely to have material transactions outside the Council's direct control.

We will assess the governance arrangements in place for the new company.

### Audit Findings

During 2018/19 the Council established Exeter City Group Ltd (the holding company) and Exeter City Living Ltd (a housing development company), which are 100% owned by the City Council.

The main purpose of the group is to build homes to help tackle housing need in Exeter, to help reduce the pressures on the Council's housing waiting list and to improve the lives of those residents currently living in poor quality homes. The Council provided a 25 year loan of £2.2m on 11 January 2019 in order to implement the Year 1 business plan to Exeter City Living Ltd and a further £2.15m loan was advanced in April 2019.

Before the companies were formed there was considerable engagement with Members, with discussions at scrutiny, Executive and Full Council levels.

The City Council also obtained independent legal advice regarding the establishment of the companies and has appointed its own external auditors.

As part of the initial considerations, a business case was produced which supports the initial loans for £4.35m to referred to above. The Business case covers the strategic case, market context, delivery issues, the regulatory framework, access to finance, objectives (for the group and each company), a delivery plan, a financial plan, governance and operational procedures, key performance indicators and the risks to all parties.

With the Company likely to seek around £14.1m from the Council over its first three years, the risk to the Council should the company fail is set out, meaning Members have made an informed decision and the minutes suggest there was challenge and a range of questions were raised by Members.

The business plan is in the process of being updated and the expectation is that this will be reviewed annually prior to approval by full Council.

Performance will be reviewed at least twice a year against the business case and will be reported to Members.

### Conclusion

The governance arrangements in place for the new company appear to be adequate.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

### Significant risk from the audit plan

#### The re-development of the bus station and surrounding area

This is a significant project over two years and the capital programme will need to be managed effectively if it is to deliver the expected benefits on time and within budget.

We will assess the arrangements and information provided to enable the Council to make an informed decision and the capital monitoring arrangements to ensure the project is delivered on time and to budget. Procurement issues identified by the Council's previous auditors may also impact on this project.

### Audit Findings

The Council has established a Sub-Committee of the Executive (the Leisure Complex and Bus Station Programme Board) to monitor progress on this significant project for the Council which has a budget of over £50m. The Board includes seven Members of the City Council to ensure politically balanced.

The Board has been meeting since July 2015 and meets every three to four months. The terms of reference were agreed at the first meeting and include:

- To agree and oversee the Strategic direction of the Project including the design and build of the new Swimming Pool and Leisure Complex;
- To approve all future spend decisions in respect of the projects' agreed budget as approved by Full Council from time to time;
- To approve the Project Programme throughout its various stages including approving the planning, design, operator/operation, commercial agreements and construction route;
- To evaluate the business case on an ongoing basis;
- To monitor the project risks, quality and the timing of the Programme;
- To own and take responsibility for the Programme Board Risks;
- To resolve any conflicts arising between the needs/requirements of the programme;
- To monitor the business plans, feasibility and option appraisal and progress;
- To approve the appointment of the Project Managers and agree the scope of the Project Manager's objectives and responsibilities.

We reviewed the minutes for 16 meetings from 2015 to April 2019 and noted the regular engagement by the Council's Chief Executive & Growth Director and the fact that key decisions go through the Programme Board, Executive and then to Full Council.

The latest monitoring report (as at 19 August 2019) states that progress is currently as planned and that the budget is on track.

At that time, the budget for the Leisure Complex was £43.7m, with spend to date of £8.65m and the budget for the Bus Station was £8.025m, with spend to date of £1.595m. The project is expected to be funded by the New Homes Bonus (£18m), Community Infrastructure Levy (£8m), Capital Receipts (£6.2m) with the balance (approximately £18m) from external borrowing which will result in ongoing costs to the Council.

### Conclusion

The decision making arrangements in place for the new development appear to be adequate.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

### Significant risk from the audit plan

#### Procurement: follow-up work

Your previous auditors reviewed the progress made by the Authority against its procurement action plan and concluded that there had been some progress, such as developing a strategy, starting the process of appointing staff to the procurement department, and self-assessing the Authority's arrangements against the national procurement strategy to identify areas of improvement. However, the timing of these improvements and the need still for additional progress to be made meant that they were unable to conclude that sufficient improvement has been achieved in strengthening the Authority's procurement arrangements and they issued an 'except for' qualification in 2017/18 for a third year.

We will follow up on the progress made by on the issues raised by your previous auditors regarding the Council's procurement processes.

### Audit Findings

The Council was unable to provide us with an action plan setting out the way in which it has responded to the previous recommendations and the lack of an action plan setting out what need to be done, by who and when probably continued to an 'except for' qualification being issued for three consecutive years.

We therefore undertook an overview of the procurement arrangements in place at the Council and found that:

- The Council has updated its procurement and contract procedures and now has appropriate procedures in place. These form part of the Council's constitution and are available on its website;
- Training has been rolled out to all those officers involved in procurement to ensure they are aware of the new procedures and why they should be adhered to;
- The Council has reviewed and retendered its large contracts as appropriate, so that the majority are now compliant with its procurement and contract procedures.

The Council's Internal Auditors have completed a recent review of the procurement arrangements and they concluded that they provided 'satisfactory assurance'. Internal Audit made a number of recommendations, but none were assessed by them as being 'high risk'.

### Conclusion

We have concluded that sufficient progress has been made to conclude that adequate arrangements are in place. However, the Council should continue to embed effective procurement arrangements and should develop an action plan against which progress and remedial action can be taken as required. Progress against Internal Audit's recommendations should be monitored.

Management Response – Management agree with the findings relating to VfM, which are balanced and fair

## Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services are expected to be undertaken later in the year and we have set out the threats to our independence and the safeguards that have been applied to mitigate these threats.

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	Expected Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing benefits return	£17,298	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the expected fee for this work is estimated at £17,298 in comparison to PSAA's indicative fee for the audit of £44,573 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing capital receipts return	£3,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the expected fee for this work is £3,000 in comparison to PSAA's indicative fee for the audit of £44,573 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
None.			

These services are consistent with the group's policy on the allotment of non-audit work to your auditors

All services have been approved by the Audit and Governance Committee. None of the services are subject to contingent fees.

# Action plan

We have identified the following recommendations as a result of issues identified to date during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	 <b>Red</b>	<p><b>Disclosure of estimates in the financial statements</b></p> <p>The disclosures do not contain all of the estimates within the financial statements e.g. the valuation of land and buildings. We recommend that management amend the 1819 accounts to clearly state the material estimates.</p>	<p>The Council should review its disclosure relating to estimates in 2019/20 to ensure that they are complete and only cover areas where there is a significant risk of a material adjustment being required in the previous year.</p> <p><b>Management response</b></p> <p>The disclosure of assumptions made about the future and other major sources of estimation and uncertainty has been amended to include the valuation of property, plant and equipment</p>
2	 <b>Red</b>	<p><b>Critical judgements applied regarding accounting policies</b></p> <p>In our view, the disclosures are not all critical judgements that management have applied regarding the Council's accounting policies.</p>	<p>The Council should review its critical judgements in 2019/20 to ensure that they are appropriate and do have a material impact on the Council's accounts.</p> <p><b>Management response</b></p> <p>The reference to withdrawal from the EU and funding for local government have been removed, on basis that already covered within the Narrative Report. The judgement regarding preparing group accounts and the status of Strata Service Solutions Ltd as a joint operation are considered critical judgements in applying accounting policies and therefore remain.</p>
3	 <b>Amber</b>	<p><b>Procurement</b></p> <p>The Council has made some progress in improving the procedures concerning procurement and its VFM conclusion was no longer qualified in this respect.</p>	<p>The Council should continue to embed effective procurement arrangements and should develop an action plan against which progress and remedial action can be taken as required. Progress against Internal Audit's recommendations on procurement should be monitored.</p> <p><b>Management response</b></p> <p>Agreed – the Council will continue to enhance procurement arrangements by introducing a performance monitoring process and rolling out purchase ordering across the Council. Internal Audit will undertake a follow up audit to ensure implementation of their recommendations</p>

#### Risk rating

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

# Action plan

We have identified the following recommendations as a result of issues identified to date during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
4	 <b>Red</b>	<p>Material figures within the accounts require notes and appropriate disclosures.</p> <p>We recommend that management amend the 1819 accounts to ensure that all material figures within the accounts have supporting notes and the appropriate disclosures.</p>	<p>The Council should continue to review the Code and accounting standards requirements to ensure that the accounts are fully compliant.</p>

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**Risk rating**  
 High – Significant effect on control system (Red)  
 Medium – Effect on control system (Amber)  
 Low – Best practice (Green)

# Follow up of prior year recommendations

The following issues were reported by your previous External Auditors in their 2017/18 Audit Findings report. We have reviewed the progress made by the Council in addressing the issues identified in 2017/18.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<p><b>Severance Policy</b></p> <p>Create and approve a severance policy that defines the Council's expectations regarding severance packages.</p> <p>This should include, for example, a clear articulation of the expected stance on potential discretionary enhancements to severance packages, the need to specifically highlight any proposed deviations from the approach expected under the policy and the decision making process that should be followed in approving packages.</p>	<ul style="list-style-type: none"> <li>We are awaiting a response from the Council on the action taken to address this recommendation.</li> </ul>
2	✓	<p><b>Purchase matching</b></p> <p>Ensure that all departments are aware of the details of procurement process and how to follow the procurement process. They should ensure that all documents have been received and matched prior to making payments.</p> <p>A purchase order should not be adjusted to agree to the invoice, if a goods received note is retained it would account for any adjustments between the purchase order and the purchase invoice received.</p>	<p><b>Management Response</b> - The ABS system requires POs to be amended if there is a variation from the GRN/invoice. At this stage any amendment requires additional authorisation. The system works exactly as it has been designed to and it is not in our gift to amend the way that the system deals with changes. We believe that the additional authorisation stage provides appropriate protection.</p> <p>That being said, we are looking at the way the purchase order process works at the Council with a view to extending its use albeit within the limitations of the systems available.</p>

#### Assessment

- ✓ Action completed
- X Not yet addressed

## Follow up of prior year recommendations (cont'd)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	<p>✓</p> <p><b>Payroll</b>            Appropriate segregation of duties should be in place and there should be an additional layer who reviews the payroll report and particularly the exception report prior to payroll being sent for processing.            The starters and leavers forms should have the name and surname of the authorising line manger to ensure that this is legible and the authorisation is evidenced.</p>	<ul style="list-style-type: none"> <li>• We are awaiting a response from the Council on the action taken to address this recommendation.</li> </ul>

### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

No adjusted misstatements have been agreed to date with management. We will update this on the conclusion of our work and will provide a final Audit Findings Report to the Audit and Governance Committee.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 A prior year restatement occurred between short and long term liabilities. The amount changed was £10,028 and does not impact upon the net figures within the CIES or balance sheet	0	0	0
<b>Overall impact</b>			

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## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes agreed to date with management. We will update this on the conclusion of our work and will provide a final Audit Findings Report to the Audit and Governance Committee.

Area	Detail	Auditor recommendations	Adjusted?
<b>Subsequent events</b>	The draft financial statements included a number of items described as subsequent events (e.g. Brexit and Local Government funding) which would not affect the Council's accounts for the year ended 31 March 2019.	The accounts should only include adjusting and non-adjusting subsequent events that would actually have an impact on the Council's financial statements. <b>Management response</b> The accounts will be amended.	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below. We will update this on the conclusion of our work and will provide a final Audit Findings Report to the Audit and Governance Committee.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 As noted on page 15 of this report, our view is that the Council has made an unnecessary prior period adjustment as the amount involved is not material.	None.	None.		Management have applied judgement and taken into consideration both the nature and size of the error in determining whether it is a material item. As it results in a reduction in the actual level of debtors to the authority, as opposed to a change in accounting estimate, it has been treated as important to the reader's understanding of the Council's financial position.

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## 2 Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements

### Overall impact

# Unadjusted items

## Detail

### Potential impact of the McCloud judgement

The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.

Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.

The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1.629m, and an increase in service costs for the 2019/20 year of £132k.

We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.

The EFA is not a prime statement and should be moved as a disclosure note in the accounts as our audit opinion does not relate to the EFA.

All material balances require notes to support the readers understanding of them. Our audit opinion refers directly to the notes and disclosures within the accounts and the Council will need to amend the accounts to ensure that all material balances have supporting notes and disclosures.

As part of the introduction of IFRS9 the accounts need to include all the relevant disclosure notes to support material financial instruments.

## Reason for not adjusting

The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.

## Fees

We confirm below our final fees charged for the audit and provision of non-audit services in 2018/19. All fee adjustments need to be approved by Public Sector Audit Appointments Ltd.

Audit Fees	Fee per audit plan	Expected Fee	Per Accounts (note 35)	Commentary
<b>Council Audit</b>	44,573	44,573	45,000	This scale fee was set by Public Sector Audit Appointments Ltd.
Pensions – IAS 19		1,500		The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.
PPE Valuation – work of experts		1,500		As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.
Assessing the impact of the McCloud ruling		1,500		The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have been considering the impact on the financial statements along with any audit reporting requirements.
Group Accounts		1,500		Since the original fee was determined by Public Sector Audit Appointments, the Council has needed to produce group accounts for the first time and this required additional audit work.
Harbour Accounts		950		We have requested a separate Letter of Engagement and are required to issue a separate opinion on the Council's Harbour Accounts.
<b>Total</b>	44,573	52,523	45,000	The Council's audit fee in 2017/18 was £57,887; the expected fee for 2018/19 is 11% less than this
<b>2018/19 Grant Certification</b>				
Certification of Housing benefits return	£17,298	TBC	16,000	This work will be completed later in 2019 and we will provide an update to a future meeting of the Audit and Governance Committee.
Certification of Housing capital receipts return	£3,000	TBC	3,000	This work will be completed later in 2019 and we will provide an update to a future meeting of the Audit and Governance Committee.
<b>Total audit fees (ex VAT)</b>	<b>£TBC</b>	<b>£TBC</b>	<b>£64,000</b>	

### Non Audit Fees

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



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