



# The Audit Findings for Exeter City Council

# DRAFT

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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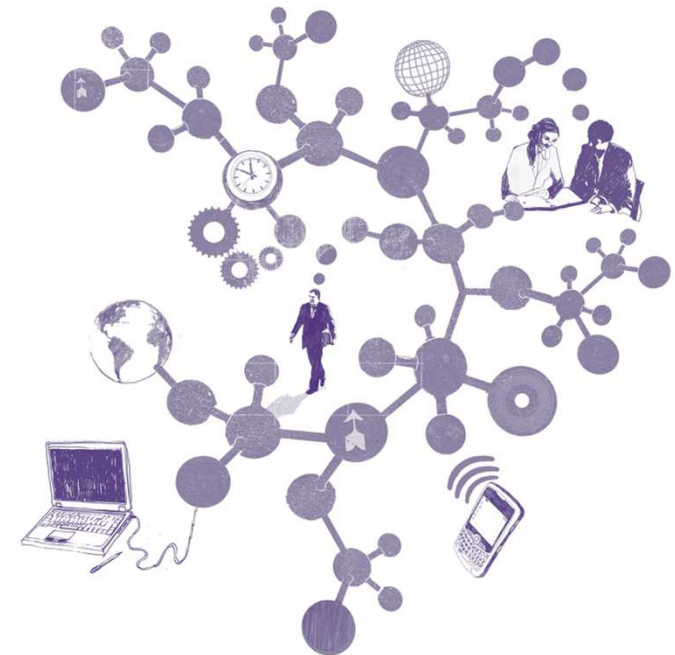
**Year ended 31 March 2013**

26<sup>th</sup> September 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Exeter City Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan issued in April 2013. Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We not have identified any adjustments affecting the Council's reported financial position. We have made a number of adjustments to the classification of items in the main financial statements and to the presentation of information in the supporting notes to the accounts.

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

- the revised statements now recognise the Council's relationship with Exeter Science Park as an associate undertaking
- we identified an amendment to the group cash balance with respect to Exeter Canal and Quay Trust. £850k was reclassified as investments.
- our audit identified a number of changes to the cash flow statement although the overall position was not changed.

Further details are set out in section 2 of this report.

### **Value for money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

### **Controls**

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

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

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

### **The way forward**

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

We have made a small number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Acting Assistant Director Finance.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: *Audit findings*

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## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 26 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 26 June 2013.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• testing of journals entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated/creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>substantive testing of operating expenses and significant creditor balances</li> <li>review of post year end payments to ensure all liabilities are identified.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to employee remuneration</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>substantive testing of employee remuneration expenditure.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to housing and council tax benefits</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>undertaken elements of the housing and council tax benefits subsidy certification to ensure the correct parameters have been applied to the software systems, movements in expenditure between years are understood and that the software suppliers' instructions have been followed in compiling the subsidy claim</li> <li>testing a sample of 25 benefit expenditure transactions in year to ensure entitlement correctly calculated.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Housing rent</b>	Revenue transactions not recorded.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to housing rents</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>substantive testing on a sample of 25 items to ensure revenue recognised agreed to supporting information.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to PPE additions</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>substantive testing of PPE additions</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to PPE valuations</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>agreement of revaluation movements to the fixed asset register and valuation statements.</li> <li>review of the method and assumptions adopted by the valuer.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the provision of services in the form of sales, fees, charges and rents, is recognised when it is probable that economic benefits or service potential will flow to the Council.</li> </ul>	<p>Revenue recognition policies have been reviewed and assessed as being in accordance with the requirements set out in the CIPFA Code.</p> <p>Disclosure requirements have been assessed as in accordance with CIPFA disclosure checklist and are deemed to be appropriate.</p>	●
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>The Council has disclosed that the key estimates and judgements in applying accounting policies are in relation to:               <ul style="list-style-type: none"> <li>pension fund valuations</li> <li>arrears.</li> </ul> </li> </ul>	<p>Note 4 appropriately discusses estimation uncertainty in relation to those areas listed.</p> <p>As a result of our audit, the disclosure has been extended to include accounting estimates and judgements with respect to property, plant and equipment</p>	●
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	●

### Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
<p><b>1 Exeter Science Park</b> This is the first year that Exeter Science Park has been recognised in Exeter City Council's Group accounts. The draft financial statements have been amended to show the investment of £188k in this associate undertaking as a separate line on the face of the Group balance sheet rather than within long term investments.</p>	Nil	Group Balance Sheet only: £188k increase in Investment in Exeter Science Park £188k decrease in long term Investments
<p><b>2 Cash flow statement</b> Capital grants (treated as REFCUS) and the movement in Council Tax debtors have been incorrectly reflected in the cash flow statement and the associated notes. The following amendments have been made:</p> <p>1) Cash flow statement:</p> <ul style="list-style-type: none"> <li>• 'Adjustments to net surplus or deficit on the provision of services for non-cash movements' has decreased by £100k to £12,414k.</li> <li>• 'Investing Activities' has decreased by £496k to £14,108k.</li> <li>• 'Financing Activities' has decreased by £396k to £6,730k</li> </ul> <p>2) Note 28 Investing Activities</p> <ul style="list-style-type: none"> <li>• 'Other receipts from investing activities' amended to £978k (previously £482k- difference of £496k due to capital grants treated as REFCUS)</li> </ul> <p>3) Note 29 Financing Activities</p> <ul style="list-style-type: none"> <li>• 'Other receipts for financing activities' amended to £270k (difference of £396k due to incorrect adjustment for movement in Council tax debtors).</li> </ul>	Nil	Nil

## Adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
<p>3 <b>Exeter Canal and Quay Trust (ECQT)</b> ECQT's bank balance included £850k of fixed rate bonds. £600k should have been recognised as long term investments and £250k as short term investments in the Group balance sheet.</p>	Nil	Group Balance Sheet only: £600k increase in long term Investments and £250k increase in short term investments; £850k decrease in cash and cash equivalents.
<p>4 <b>Group Comprehensive Income and Expenditure Statement (CIES)</b> The surplus on revaluation of property, plant and equipment within the group CIES has been amended to remove the element relating to an unrealised gain in respect of the Science Park, £186k. This is now shown on a separate line on the face of the Group Comprehensive Income and Expenditure statement.</p>	Group Comprehensive Income & Expenditure only: £186k increase in Share of Other Comprehensive Income and Expenditure of the Science Park. £186k decrease in Surplus on revaluation of Property, plant & equipment.	

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Account balance	Impact on the financial statements
1 Disclosure	Explanatory Foreword	A small number of adjustments were made to the Explanatory Foreword to enhance the overview of key items of income and expenditure in the year, and ensure consistency with the main financial statements.
2 Disclosure	External audit costs	Updated disclosure in Note 33 to show the level of rebates received for 2011/12 and 2012/13.
3 Disclosure	Financial Instruments- Impairment of Investments in Icelandic banks	Updated disclosure in Note 42 to the impairment value for monies held in the collapsed Icelandic Lansbanki bank. £620,000 was disclosed in the draft financial statements whereas it should be £62,000.
4 Disclosure	Financial Instruments- loans and receivables	Updated disclosure in Note 17 Financial Instruments, specifically the split of 'Loans and Receivables' between long term and current. £202,000 has been correctly transferred from long term to short term investments in other parts of the financial statements but had not been reflected in the 'loans and receivables' balances in the category of financial instrument table.
5 Disclosure	Classification of debtors	Updated disclosure in Note 20 Debtors to amend for £316,000 of Renaissance Grant monies received being credited against 'Sundry Debtors'. However, the debt was included in 'Government Department' debtors. The overall debtors position however, is correct.
6 Disclosure	Long term debtors	A long term debtors note has been added to the disclosure due to the material size of the balance. The note refers to the new material finance lease agreement entered into in 2012/13 which has created the material in-year movement on long term debtors.
7 Disclosure	Annual Governance Statement	The section entitled "Significant governance issues" has been updated to include the absence of appropriate risk management arrangements during 2012/13.
8 Disclosure	Cash flow statement notes	In Note 28 Investing Activities, both 'Purchase of short & long term investments' and 'Proceeds of short & long term investments' were reduced by £7m to agree to the Council's supporting working paper. In Note 29 Financing Activities, both 'Cash receipts of short & long term borrowing' and 'Repayments of short & long term borrowing' were reduced by £1m to agree to the Council's supporting working paper.



## Misclassifications & disclosure changes (continued)

	Adjustment type	Account balance	Impact on the financial statements
9	Disclosure	Comparatives on Comprehensive Income and Expenditure Account	Comparatives for gross expenditure, gross income and net expenditure for Central Services to the Public & Housing Services have been amended to agree with the prior year financial statements.
10	Disclosure	Property, plant & Equipment	In Note 12 Other land and buildings 'Other movements' has been amended to show £688k in reclassification held for sale to agree to note 23 and other movements shown as £751k being transfers from investment properties in note 13, (previously it was shown net).
11	Disclosure	Revaluation Reserve and Capital Adjustment Account	The Revaluation Reserve has been adjusted for £401k for invalid revaluation movements included for investment properties. This amendment is also reflected in the Capital Adjustment Account.
12	Disclosure	Capital Adjustment Account	Note 26 Unusable reserves: A number of balances within the capital adjustment account have been amended to ensure internal consistency within the accounts and that balances agree to underlying working papers: <ul style="list-style-type: none"> <li>Charges for depreciation and impairment of non-current assets have been amended from £13,852k to £13,789k</li> <li>Revenue expenditure funded from capital under statute (REFCUS) has been amended from -£1,261k to -£723k</li> <li>Capital Grants and contributions applied - CIES has been amended from £1,176k to £258k</li> <li>Capital Grants and contributions applied – CGU account has increased from nil to £317k</li> </ul>
13	Disclosure	Capital Expenditure and Capital Financing	Note 36, Capital Expenditure and capital financing, was amended for; <ul style="list-style-type: none"> <li>Government Grants and other contributions from £4,326k to £1,176k</li> <li>Sums set aside from reserves from £5,478k to £9,089k.</li> </ul> This decreases the Council's underlying need to borrow (unsupported by Government financial assistance) from £3,792k to £3,331k.
14	Presentation and disclosure	Various disclosures	A number of other minor disclosure and presentational adjustments have been processed by the Council during the audit to correct typographical and similar errors.

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit but 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.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 <b>Classification of monies retained in an Icelandic escrow account.</b> The Council's long term investments include £452k representing repayments from a collapsed Icelandic bank that remain under currency restrictions and currently have to be retained in an escrow account in Iceland. The Council has recognised these monies as long term investments in the draft financial statements as they consider the likelihood of repayment within one year of the balance sheet date to be remote. This is not in line with the latest CIPFA guidance (LAAP82 Bulletin 7) which indicates that such monies should be recognised as short term investments.</p>	Nil	<p>£452k increase in short term investments.</p> <p>£452k decrease in long term investments</p>	The Council considers it improbable that the monies will be received within 12 months of the year end and has concluded the current presentation better reflects the underlying position.
<b>Overall impact</b>	<b>£NIL</b>	<b>£NIL</b>	

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls, including IT controls, relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters 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.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<p><b>Journal Entry Controls</b></p> <p>In our audit plan we reported a weakness as there is no authorisation process for journals prior to posting. We have adjusted our testing strategy accordingly. Our detailed audit testing has not identified any evidence of any inappropriate journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgments. Without an authorisation process in place, there remains a risk to the Council that inappropriate or erroneous journals could be processed that might impact on the financial statements.</p> <p>Further discussions with the S151 Officer during the final audit confirmed that a sample based approach would be most practical to implement. This would then facilitate effective review and authorisation.</p>	<ul style="list-style-type: none"> <li>The Council should introduce a sample based approach to journal review and authorisation covering all journals.</li> </ul>
2.	●	<p><b>Returned cheques</b></p> <p>Our testing of the bank reconciliations identified that the system had not recognised £316,000 of returned cheques (for National Non Domestic Rate rebates) correctly. While the Council has made a manual adjustment to recognise the return of these cheques within the year-end cash balance, the system should incorporate them. We understand that this issue arose following a system update in Autumn 2012. Manual adjustment increases the risk of introducing errors in adjusting for the correct amount.</p>	<ul style="list-style-type: none"> <li>The Council should find a systems solution to ensure that returned cheques are correctly reflected in the system.</li> </ul>
3	●	<p><b>IT audit findings</b></p> <p>There are a number of findings relating to IT access controls which have been separately reported to management. We do not consider these to be significant deficiencies.</p>	<ul style="list-style-type: none"> <li>Management have accepted and agreed our findings and have an action plan in place to implement the recommendations.</li> </ul>

### Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Governance Committee and been made aware of the on-going criminal proceedings against a former employee of the Council. 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.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>For the first time the group financial statements recognise Exeter Science Park as an associate undertaking. Exeter Science Park's financial statements disclose that there are indications of 'the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern', recognising that the entity is 'dependent on the funding provided principally by its shareholders'.</li> <li>While Exeter Science Park's financial statements have not been qualified, this does represent an inherent risk to Exeter City Council as a shareholder in this entity. It is appropriate to recognise this underlying risk but we do not consider this to have material impact on the going concern status of the Council as a single entity or of the group as a whole, given the relative immateriality of the associate undertaking's activities.</li> <li>There are no other matters which we are aware of that could impact the going concern basis of preparation of the accounts.</li> </ul>

## Section 3: Value for Money

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# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that the arrangements were adequate. We recognise that the Council faces significant financial challenges going forward. However, the Council has good arrangements in place for financial planning and demonstrates a sound understanding of the financial environment and associated risks.

Our detailed findings, along with a small number of recommendations are set out in our separate Financial Resilience report. We note on the following page a small number of areas where we consider there to be some residual risks but these do not impact our overall conclusion.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. There are no issues we wish to report.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion. Where appropriate, recommendations have been agreed with management in our financial resilience report.

<b>Residual Risk identified</b>	<b>Assurances obtained</b>	<b>Conclusion on residual risk</b>
<b>Liquidity</b>	We compared the Council's liquidity ratio to that for its statistical nearest neighbours using the Audit Commission's financial ratios data.	The Council's liquidity ratio is relatively low compared its peer group. This means the Council will need to monitor its position very closely to ensure it has sufficient liquid resources available to pay liabilities as they fall due. The Council acknowledges its ratio in this area is relatively low and it maintains a close awareness of its liquidity.
<b>Benchmarking</b>	We considered whether the Council makes use of comparative information on unit costs to inform decision making.	We found that the Council does not routinely make use of benchmarking information to support its decision making although it has plans to do so going forward.
<b>Risk management</b>	We considered whether the Council had in place clear risk management arrangements and that they were operating during 2012/13.	We found that although risk management arrangements had been developed they were not operating effectively during 2012/13 as the corporate risk register had not been updated during the year. The Council reports this was due to the on-going change process being driven by the Vanguard Consulting review. The Council has now re-established its risk management arrangements .
<b>Procurement/contract registers</b>	We considered the arrangements in place for ensuring procurement arrangements are effective.	We noted that the Council is moving to a more corporate approach to managing its procurement and contract monitoring which would represent a strengthening of its arrangements.
<b>Organisational development</b>	We considered whether the expected benefits of the organisational review were being delivered.	We concluded that a post-implementation review should be undertaken to establish if the benefits has been realised and whether a revised performance management framework had been developed to meet the requirements of the new arrangements.

## Section 4: Fees, non audit services and independence

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05. Communication of audit matters



## Fees, non audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	76,283	76,283
Grant certification*	14,650	0
<b>Total audit fees</b>	<b>90,933</b>	<b>76,283</b>

\* indicative fee pending completion of the grants programme

### Fees for other services

Service	Fees £
Review of VAT transactions	5,200

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

### Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

# Appendices

## Appendix A: Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should introduce a sample based approach to journal review and authorisation covering all journals.	M	Agreed - we will continue to work to find a solution to this risk, which may arise out of the restructure of Finance	Acting Assistant Director Finance March 2014.
2	The Council should find a systems solution to ensure that returned cheques are correctly reflected in the system.	M	Agreed - we will work with the system provider to stop this problem arising.	Acting Assistant Director Finance December 2013.

## Appendix B: Draft audit opinion

We anticipate we will provide the Council with an unmodified audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXETER CITY COUNCIL

#### Opinion on the financial statements

We have audited the financial statements of Exeter City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Exeter City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Acting Assistant Director Finance and auditor

As explained more fully in the Statement of the Acting Assistant Director Finance's Responsibilities, the Acting Assistant Director Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Acting Assistant Director Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Exeter City Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources*****Respective responsibilities of the Authority and the auditor***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Exeter City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

***Certificate***

We certify that we have completed the audit of the financial statements of Exeter City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Barrie Morris  
Director, for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria St  
Bristol BS1 6FT  
September 2013

## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 26 June 2013 .

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None



## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	Yes [see Section 2]
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	Yes [see Section 2]
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	Yes [see Section 2]
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	Yes [see Section 2]
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Yes [see Section 2]

# DRAFT



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