

Dave Hodgson
Assistant Director – Finance
Exeter City Council
Civic Centre
Paris Street
Exeter
Devon
EX1 1JN

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT
T +44 (0)117 305 7600
F +44 (0)117 305 7784
DX 78112 Bristol
www.grant-thornton.co.uk

10 February 2015

Dear Dave

Exeter City Council
Financial Statements for the year end 31 March 2015

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other senior officers where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to our request to management, we also will need to gain an understanding of how Those Charged With Governance maintain oversight of the above process. I have also attached a copy of the letter that I intend to send to the Chairman of the Audit and Governance Committee, for your information.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses, and the sources of assurance that you have that the relevant management controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

It would be useful to co-ordinate both the Audit and Governance Committee and management responses to our letters in time for discussion at the Audit and Governance Committee meeting on 24 June 2015.

Chartered Accountants

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Please contact me if you wish to discuss anything in relation to this response.

Yours sincerely

Geraldine Daly
Engagement Lead
For Grant Thornton UK LLP

T 0117 305 7741
E geri.n.daly@uk.gt.com

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?	
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	
How would you assess the quality of the Council's internal control processes?	
How would you assess the process for reviewing the effectiveness of internal control?	
How do the Council's risk management processes link to financial reporting?	
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	
What has been the outcome of these arrangements so far this year?	
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	
Have any reports been made under the Bribery Act?	
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	
Is there any use of financial instruments, including derivatives?	
Are you aware of any significant transaction outside the normal course of business?	
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	
Are you aware of any guarantee contracts?	

Are you aware of allegations of fraud, errors, or other irregularities during the period?	
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	
Although the public sector interpretation of IAS1 means that the financial services should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	
Can you provide details of other advisors consulted during the year and the issue(s) on which they were consulted?	
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	

Cllr Greg Sheldon
Chairman of Audit and Governance Committee
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10 February 2015

Dear Cllr Sheldon

Exeter City Council
Financial Statements for the year end 31 March 2015
Understanding how 'Those Charged With Governance' gain assurance from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how 'Those Charged with Governance' (which for Exeter City Council is the Audit and Governance Committee) obtain assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chairman of the Audit and Governance Committee with your responses to the following questions.

- 1 How does the Audit and Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the Council (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit and Governance Committee gain assurance that all relevant laws and regulations have been complied with?

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4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to Dave Hodgson. We suggested that it would be useful to co-ordinate both the Audit and Governance Committee and management responses in time for discussion at the Audit and Governance Committee on 24 June 2015.

Yours sincerely

Geraldine Daly
Engagement Lead
For Grant Thornton UK LLP

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E geri.n.daly@uk.gt.com

Response from Audit and Governance Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	
How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2014?	

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	