

The Audit Findings for Exeter City Council

Year ended 31 March 2020

19 November 2020



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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 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 the statutory audit of the Exeter City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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 consistent with the financial statements or our knowledge obtained in the audit.</p>	<p>Our audit work was completed remotely during August to November 2020. Our findings are summarised on pages 5 to 15. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work in the following areas remains in progress:</p> <ul style="list-style-type: none"> • response to follow up actions undertaken on our 2018/19 IT general controls report; • management's cashflow forecast to December 2022; • completion of our journals testing; • review of the evidence to support our other services expenditure sample; • completion of our cut-off testing for income and expenditure; • testing of a small number of our remaining samples of debtors and creditors; • completion of our testing on land and building and investment property valuation sample testing; • completion of our audit procedures on the Council's net defined pension liability, including receipt of assurances from the Devon Pension Fund auditor; • finalisation of our review of the Council's Expenditure and Funding Analysis note; • review of the Council's capital commitments; • review of the group accounts consolidation and group disclosures; • final quality reviews of the file and receipt of satisfactory responses to our outstanding queries; • receipt of the signed management representation letter (on the agenda); and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings and investment properties – refer to page 8 for further detail. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations.</p>
Value for Money arrangements	<p>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').</p>	<p>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.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 17 to 20.</p>

Headlines (continued)

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 as described to us under the Act; and
- to 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, however, the areas outlined on page 3 are still to be concluded. Following their completion, we expect to be able to issue our certificate alongside our audit opinion.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, staff re-deployment, closure of car parks, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.

Councils are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in May 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions on non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing. Remote audits have taken longer than we would normally expect an audit to take and we have seen this around the country.

We originally planned to start our work in July 2020, however following agreement with your officers we started our audit in August 2020 upon receipt of the Council's draft financial statements. Although later than originally planned these were received ahead of the revised national deadline of 31 August 2020. In most areas, management have provided good working papers and there has been a responsive attitude to audit queries. As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries, alongside the "day job" and the requirements of additional government returns, and internal reporting. There are some areas where working papers could be improved, and we have discussed these with management throughout the audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 auditors 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 and Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- 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 had to alter our audit plan, as communicated to you in May 2020, to reflect our response to the Covid-19 pandemic. To date we:

- identified a new significant financial statement risk (Covid-19).
- reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries on page 3 being satisfactorily resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix D.

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 levels remain the same as reported in our audit plan.

	Council £000	Group £000	Qualitative factors considered
Materiality for the financial statements	2,169	2,171	The Council and group operate in a stable, publicly funded environment.
Performance materiality	1,626	1,626	75% of materiality, no history of deficiencies or large number of misstatements.
Trivial matters	108	108	Level set for reporting errors or omissions to TCWG.
Materiality for Senior Officer Remuneration	20*	20*	Public sensitivity in the pay of senior officers in the public sector.

*We reported a materiality level for Senior officer remuneration of 2% of the amount disclosed for Senior Officer remuneration in our audit plan. Upon receipt of the draft financial statements this was calculated to be £20,000.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements could require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

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.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. As previously noted, we received draft financial statements in advance of the revised national timetable, but later than originally planned;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

The Covid-19 pandemic resulted in land and building, Council dwelling and investment property valuations being reported on a 'material uncertainty' basis. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations. This is also the case for investment property held by Devon Pension Fund on behalf of Exeter City Council and this also needs to be reported in the Council's accounts.

We reviewed management's other estimates and judgements in light of the Covid-19 pandemic and concluded that these were reasonable.

The audit was completed remotely which resulted in certain challenges and work taking longer than we would have expected in normal conditions.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Significant audit risks continued

Risks identified in our Audit Plan

Management override of controls

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk.

Auditor commentary

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk and unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Findings

Our testing of journal entries is ongoing.

Valuation of pension fund net liability

The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit 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 (£106.2m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council'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 Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council 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; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention. We are currently awaiting a letter of assurance from the auditor of the Devon Pension Fund.

Significant audit risks continued

Risks identified in our Audit Plan

Valuation of land and buildings

The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. Investment properties are valued annually. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£261.6m for Council Dwellings, £127.9m for other land and buildings and £54.8m for investment properties) and the sensitivity of the estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. The Council's valuer undertakes a desktop exercise for all assets not valued as part of the rolling programme to ensure that this is the case.

We identified the valuation of land and buildings (including Council Dwellings) and investment properties as a significant risk.

Auditor commentary

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 experts;
- wrote to the valuers to confirm the basis on which the valuations were carried out;
- selected a sample of in-year valuations to test;
- tested the sampled revaluations made during the year to see if they had been input correctly into the Council's asset register;
- challenged the information and assumptions used by the valuers for the sampled assets to assess completeness and consistency with our understanding; and
- evaluated the assumptions made by management for 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.

Findings

Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the Council Dwellings, land and buildings and investment property valuations to the balance sheet and the caveat made by the valuers in their valuation reports, we will highlight the material uncertainty in our audit report in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosures made in the statement of accounts in Note 5. We requested the disclosures be made clearer in the accounts in respect of the material uncertainty for land and buildings, Council dwellings and investment property valuations.

The EOM paragraph does not qualify the opinion but refers to management's disclosure on the material uncertainty that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

We are still completing our testing and corroboration of the valuation assumptions following receipt of information from the Council's valuer.

Other audit risks

Risks identified in our Audit Plan

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary

The Council has reported the deferral and noted that the impact is not known or reasonably estimable at 31 March 2020. This is in accordance with our expectations and accounting standards.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings - £127.9m	<p>The Council used its internal valuer to complete the valuation of all of its land and buildings as at 31 March 2020. The Council's rolling programme sees 20% of the portfolio valued in year, along with the top 4 assets from the previous year's valuation (based on value). The remaining assets are subject to a desktop valuation by the Council's valuer.</p> <p>In line with nationally issued RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its 'Assumptions made about the future and other major sources of estimation uncertainty' disclosure in the Statement of Accounts.</p>	<p>We have assessed the Council's valuer to be competent, capable and objective.</p> <p>We have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p> <p>Our work in this area in respect of the assumptions applied to our sampled assets is still ongoing and we will verbally update the committee before we give our opinion.</p>	In progress
Land and Buildings – Council Dwellings - £261.6m	<p>The Council is required to revalue these properties in accordance with DCLG'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 guidance confirms a full valuation must be completed at least every 5 years, with desktop exercises performed in intervening years. The Council has engaged its internal valuer to complete a desktop valuation of these properties in 2019/20, with the last full valuation undertaken in 2018/19.</p> <p>The year end valuation of Council Dwellings was £261.6m, a net decrease of £2m from 2018/19 (£263.6m).</p>	<p>The valuer undertook a desktop valuation exercise in 2019/20, in accordance with the Council's valuation programme and in line with the DCLG Stock Valuation for Resource Accounting guidance.</p> <p>All Council properties were valued and the valuer issued a signed valuation certificate for the properties, which we agreed to the fixed asset register and the financial statements.</p> <p>We challenged the valuer's assumptions in respect of property prices and corroborated these to publicly available data, noting that they valuer had used property values for the locality as we would expect.</p>	Green

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment properties - £54.8m	<p>The Council's investment properties were revalued at the 31 March 2020 for inclusion in the Balance Sheet in accordance with the CIPFA Code.</p> <p>Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19.</p>	<p>We have assessed the Council's valuer to be competent, capable and objective.</p> <p>We reviewed the valuation performed by the valuer, with reference to the comparative properties and information used by the valuer in undertaking their valuations and considered these to be appropriate.</p> <p>We agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p> <p>The Council did not distinguish the material uncertainty in relation to investment property in its disclosures. We recommended that the valuation of investment property, including the material uncertainty, be included in the note regarding material estimates.</p> <p>We are finalising our testing of the specific assumptions adopted by the valuer in respect of our sampled items and will verbally update the Committee with any further findings.</p>	In progress

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																											
Net pension liability – £63.4m	<p>The Council's net pension liability at 31 March 2020 is £106.2m (PY £112m). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. 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>There has been a £12.2m net actuarial gain during 2019/20.</p>	<p>We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.</p> <p>We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.</p> <p>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</p>	In progress																											
		<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>2.35%</td> <td>2.35%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Inflation (RPI/CPI)</td> <td>2.7% 1.9%</td> <td>2.65%-2.8% 1.85%-1.95%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>Between 1.85%-1.95%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>Between 2.85%-2.95%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Pensioners: 22.9 years Non-pensioners: 24.3 years</td> <td>21.4 – 23.2 22.8 – 24.7</td> <td rowspan="2" style="text-align: center;">● GREEN</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Pensioners: 24.1 years Non-pensioners: 25.5 years</td> <td>23.7 – 24.7 25.2 – 26.2</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	● GREEN	Inflation (RPI/CPI)	2.7% 1.9%	2.65%-2.8% 1.85%-1.95%	● GREEN	Pension increase rate	1.9%	Between 1.85%-1.95%	● GREEN	Salary growth	2.9%	Between 2.85%-2.95%	● GREEN	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.9 years Non-pensioners: 24.3 years	21.4 – 23.2 22.8 – 24.7	● GREEN	Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1 years Non-pensioners: 25.5 years	23.7 – 24.7 25.2 – 26.2	
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We are finalising our procedures in respect of the net defined pension liability and the recognition of the transactions and balances in the financial statements of Exeter City Council. We are also awaiting receipt of a letter of assurance from the auditor of Devon Pension Fund in respect of the processes and controls in place at the Pension Fund covering the information that is supplied to the actuary.

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

Management’s assessment process

The Council’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be a going concern where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

Auditor commentary

We have reviewed the 2020/21 budget and Medium Term Financial Plan to 2023/24 and considered the appropriateness of management’s use of the going concern assumption. We deem that the services provided by Exeter City Council (and group) will continue and the Council is in receipt of Government funding for 2020/21, with the funding allocations being publicly available.

The Council set a balanced budget for 2020/21 which was subsequently re-forecast to take account of the anticipated impact of Covid-19 on the Council’s finances. At quarter 1 the Council was forecasting an overspend of £0.9m against the re-forecast, noting continued loss of income due to Covid-19.

Additional funding from central government for income losses will help address this overspend but at this point in time it remains unclear how much will be met by central government. If central government does not meet all Covid-19 related costs the Council will need to meet these by re-purposing its earmarked reserves. However, the Council’s reserves position is strong, with General Fund balances of £14.7m and an HRA balance of £10.5m.

At 31 March 2020 the Council had cash and short term investments of £62.3m which are highly liquid and hence could be used to meet any short term cash flow requirements.

Conclusion

We deem it appropriate that the accounts are prepared on a going concern basis.

The Council’s reserves position is robust and it has sufficient liquid resources to enable it to meet its day-to-day cash demands. Although the Council doesn’t appear to be receiving government financial support to mitigate all its Covid-19 financial losses, in line with other Councils across the country, it has other plans to address its in-year budget shortfall.

We are still awaiting the Council’s detailed cashflow forecast to December 2021 in order to allow us to finalise our procedures.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council and group, which is included in the Committee papers. No specific representations have been requested over and above those that would normally be required.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment institutions. This permission was granted and the requests were sent. We are still awaiting one response..
Disclosures	Further information on disclosure changes arising from our audit can be found in Appendix B.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management have been provided, with the exception of the final outstanding items listed on page 3.

Other responsibilities under the Code

Issue	Commentary
Other information	<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 consistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix D.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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; and • if we have applied any of our statutory powers or duties. <p>We have not identified any requirement to exercise our statutory powers.</p>
Specified procedures for Whole of Government Accounts	<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>Detailed work is not required as the Council does not exceed the audit threshold set by the NAO, and we will issue our assurance return on this basis.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Exeter City Council in the audit report, as detailed in Appendix D.</p>

Value for Money

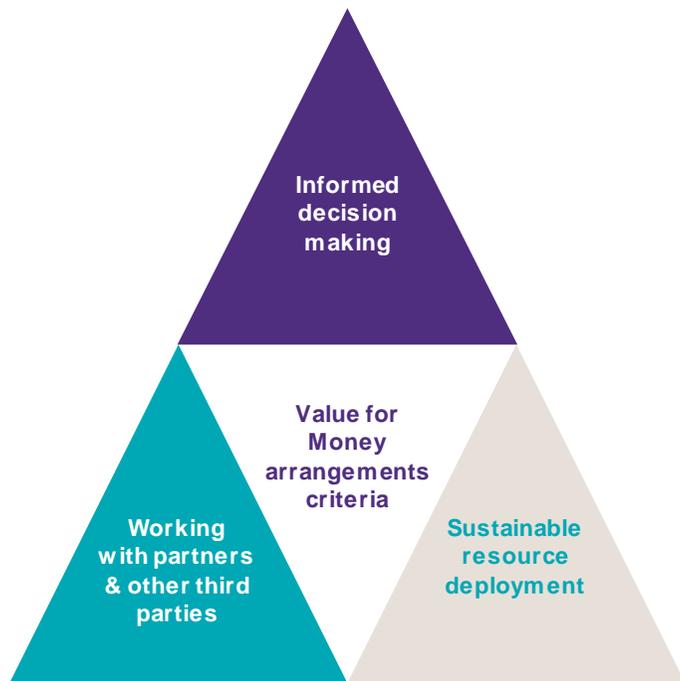
Background to our VFM approach

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 April 2020. 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 in March 2020 and identified one significant risk in relation to the Council's financial sustainability using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 11 March 2020.

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.

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's arrangements for setting its 2019/20 budget and five year medium term financial plan to 31 March 2024;
- how these evolved through discussion and reporting;
- the Council's monitoring and flexing of the budget through 2019/20;
- the Council's 2019/20 financial outturn; and
- the Council's response to the Covid-19 pandemic on its income and expenditure streams.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 and 19.

Overall conclusion

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

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

Recommendations for improvement

We discussed findings arising from our work with management. No recommendations for improvement were identified.

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.

Value for Money (continued)

Key findings

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

Financial outturn and sustainability

The Authority's 2020/21 financial plan includes identified savings of £2.3m. There remains a requirement to find additional savings of £3.7m over the following three financial years. All non-statutory services are under pressure to deliver savings and there is a risk that the Authority could fail to set balanced budgets in the future.

Findings

Planning and assumptions

The Council set its 2019/20 budget and updated its five year Medium Term Financial Plan (MTFP) in January 2019. At this point the Council was forecasting that it required additional savings of £2.6m by 2022/23. In the report the Council set out its assumptions as follows:

- inflationary pressures of £0.6m
- decreased income resources of £0.4m
- additional spending pressures of £1.1m
- identified savings of £2m

The resulting budget was balanced, the projected total additional savings required by 2022/23 of £2.6m were not yet identified.

2019/20 Outturn

Monitoring throughout year demonstrated that the budget was being met with quarter 2 forecasting an underspend of £0.1m and quarter 3 monitoring indicating that there was likely to be an underspend of £0.8m. The outturn for 2019/20 resulted in a transfer of the £1.5m underspend to the General Fund, primarily as a result of the waiving of the 2019/20 Voluntary Revenue Provision charge and a clawback of previous year's voluntary amounts set aside. This was considered prudent when anticipating the anticipated income losses for 2020/21 resulting from the Covid-19 lockdown, and was deemed to be in accordance with the regulations in respect of such charges.

Identified savings were reported as part of the budget setting and were built into the Council's budget forecasts. Savings targets in year were achieved with few minor variances on expenditure being reported in the outturn.

Value for Money (continued)

Financial outturn and sustainability

Findings (continued)

Medium term financial plan

In January 2020 the Council revised its Medium Term Financial Plan and was forecasting that it required additional savings of £3.6m by 2023/24. This was subsequently overtaken by the effects of the Covid-19 pandemic. In March 2020 the Council's Section 151 officer was reporting that it had become evident that there were significant risks to ECC's income streams for 2020/21, in light of Covid-19 and in particular in relation to car parking, markets and halls and commercial rents due to the anticipated significant reduction in footfall.

Following the national lockdown, in June 2020 the Council's Section 151 officer reported that the Council faced a projected £10.4 million shortfall against which the Government had provided £1.4m in grant. Although Government funding has been made available it does not address all of the lost income and the forecast effects going forward. In October 2020 a revised budget was agreed for 2020/21 which relied on the use of £1.4m of reserves to break-even, however at the end of Quarter 1 2020/21 this had fallen to a forecast use of reserves of £0.9m.

The ongoing repercussions of Covid-19 restrictions and the second lockdown will prove a challenge to the Council. Government support to date has been welcomed but does not mitigate all of the negative financial impacts and with an expected one-year settlement announcement for 2021/22, financial planning into the medium term continues to be challenging.

However the Council remains in a reasonable position. Its General Fund balance at 31 March 2020 was £5.9m, almost twice the minimum level set of £3m. It also held £8.9m of earmarked reserves and the HRA reserve stood at £10.5m. Taking into account the Q2 2020/21 forecast of a use of balances of £0.9m, the Council would still have sufficient General Fund reserves in line with its agreed policy. The reserves provide the Council with the time required to identify savings and to consider new ways of working to allow it to meet the projected financial challenges over the medium term.

Auditor view

Exeter is in a reasonable position to address the challenges arising from Covid-19 and has taken steps to re-forecast its finances to provide the Council with the time required to develop its longer term financial response to the pandemic. The Council currently has a good level of reserves, however there is an identifiable funding gap going forward which will need to be addressed.

As such, we propose to issue an unqualified Value for Money conclusion for 2019/20.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£17,298*	Self-interest, self-review, management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,298 in comparison to the originally proposed fee for the audit of £54,423 and in particular relative to Grant Thornton UK LLPs turnover overall. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.
Agreed upon procedures in respect of the Council's pooling of housing capital receipts return	TBA	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 fee for this work is not expected to be significant in comparison to the total fee for the audit and in particular is not significant relative to Grant Thornton UK LLPs 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.
Non-Audit related			
None			

*proposed fee, our work has yet to begin on the Council's Housing Benefits Subsidy return for 2019/20.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Councils S151 Officer. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Exeter City Council's 2018/19 financial statements, which resulted in the following recommendations being reported in our 2018/19 Audit Findings report. We set out below the progress made against each of these.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Disclosure of estimates in the financial statements</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 18/19 accounts to clearly state the material estimates.</p> <p>Management response</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>	<p>Management updated the disclosures in the prior year. In 2019/20, due to the exceptional nature of Covid-19 and the valuation uncertainty that this brings, we requested that management make further disclosures in respect of this specific issue.</p>
✓	<p>Critical judgements applied regarding accounting policies</p> <p>In our view, the disclosures are not all critical judgements that management have applied regarding the Council's accounting policies.</p> <p>Management response</p> <p>The references to withdrawal from the EU and funding for local government have been removed, on basis that these are 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>	<p>Management updated the disclosures in the prior and current years.</p>
✓	<p>Material figures within the accounts require notes and appropriate disclosures</p> <p>We recommend that management amend the 18/19 accounts to ensure that all material figures within the accounts have supporting notes and the appropriate disclosures.</p> <p>Management response</p> <p>The accounts have been updated.</p>	<p>Management updated the disclosures in the prior and current years.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Exeter City Council's 2018/19 financial statements, which resulted in the following recommendations being reported in our 2018/19 Audit Findings report. We set out below the progress made against each of these.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Property valuations</p> <p>The Council's internal valuer completes the valuation of properties on a five yearly cyclical basis and will also revalue properties outside this rolling programme where there have been variances that the valuer considers to be material. The valuer uses a threshold of +/-10% for this exercise.</p> <p>Given the level of materiality that the Council uses when preparing its financial statements, this approach might not ensure that the property valuations are materially correct.</p> <p>Management response</p> <p>We will work with the in-house valuer regarding the valuation process for 2019/20 and subsequent years.</p>	<p>The Council completed a full valuation of circa 20% of its land and building assets in 2019/20, along with the top 4 highest value assets. A desktop review was undertaken by the Council's valuer for the remaining assets. As such, the valuer certified the value of 100% of the Council's land and building assets in 2019/20.</p> <p>In line with the Council's rolling programme and the DCLG Stock Valuation guidance, the Council valued all of its Council Dwellings at 31 March 2020 using a desktop process.</p> <p>In accordance with the CIPFA Code, all of the Council's Investment Properties were valued at 31 March 2020.</p>
✓	<p>Property valuations</p> <p>The Housing stock valuation was at 1 April 2019 rather than at the year end.</p> <p>Management response</p> <p>The in-house valuer will be asked to undertake all future valuations at the year end.</p>	<p>Council Dwellings were revalued as of 31 March 2020.</p>
✓	<p>Procurement</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>Management response</p> <p>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>	<p>Management update 2019/20</p> <p>Procurement procedures are now fully embedded and applied for all contract spend. A project to fully embed the use of purchase orders across the organisation has been prioritised in the Council's Organisation Development plan with full support of SMB. The pilot for this will commence in December 2020. Contract Management training and tools are being delivered across the organisation and this will enable better monitoring of the Councils contracts.</p>

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.

Misclassification and 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.

Disclosure	Detail	Auditor recommendations	Adjusted?
Minor disclosure improvements	Various minor disclosure changes to improve the financial statements	Update disclosures	✓
Group movement in reserves statement	Prior year figures for the categorisation of reserves had been amended. However, it had no impact on the total reserves disclosed	Update disclosure and add a note	✓
NDR appeals provision	The NDR appeals provision of £3.5m was shown as a short term creditor, rather than as a separate provisions disclosure. This was also corrected in the prior years and a prior period adjustment note was added to the accounts along with a third balance sheet column	Change the balance sheet disclosure and add notes to the accounts.	✓
Estimation uncertainty	Disclosure note to make clear the material uncertainty regarding the valuation of council Dwellings, land and buildings, investment properties and the investment properties held by Devon Pension Fund on behalf of Exeter City Council	Update the disclosure	TBC
Long term debtors	Included within Financial Instruments note only with no separate note	As a material figure on the balance sheet, we suggest adding a separate note to the accounts. Note that the Council updated the disclosure to include LT debtors in Note 19.	✓
Expenditure and Funding analysis (EFA)	The EFA should be completed on a total General Fund basis i.e. General Fund and Earmarked General Fund balances. This was originally prepared on a General Fund basis. The Movement in Reserves Statement should also have a 'total General Fund' column	Update the disclosure	✓
Property, Plant and Equipment	Disclosed impairments of £1.4m are actually downward revaluations	Update the description in the notes to the accounts	✓

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£54,423	TBC

Non-audit fees for other services	Proposed fee £
Audit Related Services	
Housing Benefit Subsidy return	17,298*
Pooling of Capital receipts return 2019/20	TBC

*proposed fee, our work has yet to begin on the Council's Housing Benefits Subsidy return for 2019/20.

Reconciliation of fees to the accounts (note: 20)	Disclosure £000
Audit	
Current year (as above)	54
Under-provision prior year	7
Additional fees not accrued for 2019/20	(9)
Per accounts – Note 20	52
Grant claims	
Housing Benefit Subsidy	17
Pooling of Capital receipts	4
Per accounts – Note 20	21
Total fees paid to auditors per accounts – Note 20	73

Fees

Audit fees	Proposed fee	Final fee
Council Audit per Audit Plan	54,423	54,423
Additional Fees (see note below)		TBC
Total audit fees (excluding VAT)	£54,423	£TBC

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with ISA1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We will be including an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Microsoft Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Audit opinion

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

DRAFT Independent auditor's report to the members of Exeter City Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Exeter City Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement, Notes to the Collection Fund Statement and Notes to the Group Accounts. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director (Chief Financial Officer) and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director (Chief Financial Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director (Chief Financial Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Director (Chief Financial Officer)'s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

Audit opinion

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and investment properties

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings, Council Dwellings and investment properties as at 31 March 2020. As disclosed in Note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the both the Council's land and buildings valuer's report and the investment property valuer's report. Our opinion is not modified in respect of this matter.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's Land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, [the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report. Our opinion is not modified in respect of this matter.

Other information

The Director (Chief Financial Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Audit opinion

Responsibilities of the Authority, the Director (Chief Financial Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 26, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director (Chief Financial Officer). The Director (Chief Financial Officer) 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director (Chief Financial Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director (Chief Financial Officer) is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2020.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit opinion

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Exeter City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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.

Jackson Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]



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