

Exeter City Council Audit Progress Report and Sector Update

Year ending 31 March 2022

February 2023



Contents

Section	Page
Introduction	3
Progress at February 2023	4
Audit Deliverables	10
Sector Update	11

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. 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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Introduction

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This paper provides the Audit & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at February 2023

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in January 2022, and interim audit in June and July. We began our work on your draft financial statements in November 2022.

The significant risks we identified within our plan were as follows:

- Management override of control
- Valuation of land and buildings
- Valuation of investment properties
- Valuation of net pension fund liability

The results of our work to date are included in this report.

We have presented a detailed audit plan to this Committee, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements.

In our plan we noted that DLUHC has set an indicative date of 30 November 2022 for audited local authority accounts (two months later than last year). Given the system-wide pressures previously discussed, we believed this unrealistic for 2021/22 audits (but as a firm we are fully supportive of this in a 'normal' year).

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment)

The Council are facing a unique and unprecedented set of challenges linked to the cost of living and the increase in inflation and interest rates. This has required the finance team to concentrate on ensuring that estimates for the 2023/24 budget are calculated on a realistic basis which has meant management have not been able to fully support the audit process. In agreement with management we paused the audit in January 2023 and have resumed our work in February 2023.

We initially proposed a target completion date for our audit fieldwork by January 2023, however, due to the level of work required to ensure our audit responsibilities are fully met, coupled with the additional time required by finance officers to focus on their budgetary responsibilities, our work will continue beyond the March 2023 Audit and Governance Committee date.

Our audit is currently in progress and we continue to work with the Council to determine a realistic and achievable timetable for providing an audit opinion on the 2021/22 statements which will subsequently be communicated to members. An update on the latest position with our significant risks is on the following pages.

Progress against significant risks

Significant risk (from audit plan)

Progress to date

Management override of control

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 Authority face 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 for the Council, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals, including undertaking a walkthrough of the process and controls. No issues were identified from completion of this
- obtained a full download of the general ledger alongside the trial balance and uploaded these onto our data analysis software, Inflo.
- Inflo undertakes a number of checks on the data such as unbalanced transactions, unbalanced user IDs and transactions with blank account descriptions. Where any differences were noted by Inflo, we followed these up with the Council and obtained sufficient explanations and corroborations for these.
- we have reviewed the manual journals within inflo to identify those deemed to be high risk to be selected for testing. We selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries and will complete our testing upon receipt of the supporting documentation.

Valuation of land and buildings

The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management use the services of an internal valuer to estimate the current value as at 31 March 2022.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2022 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation
- for each item within our sample we have requested detailed calculation sheets for the 2022 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. We continue to discuss this requirement with the Council.
- We have identified and shared our sample of other land and building assets and have been provided with evidence as to how these values have been calculated.

Progress against significant risks

Significant risk (from audit plan)

Valuation of land and buildings (Council Dwellings)

The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management use the services of an internal valuer to estimate the current value as at 31 March 2021.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Progress to date

Council dwellings represent a significant proportion (£264m) of the Council's asset base and in accordance with the CIPFA code, these assets are valued in line with the Stock valuation resource accounting 2016:guidance for valuers which has been provided by Central Government. We have reviewed the Council's approach to valuing these assets and we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- Reviewed the classification of beacon properties to ensure that these have been assigned in line with the stock valuation resource accounting guidance and that properties have been assigned to the appropriate beacon categories.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of Council Dwellings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2022 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation
- for each item within our sample we have requested detailed calculation sheets for the 2022 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations.
- For sample testing we have compared beacon valuations with similar properties to ensure that valuations are in line with market conditions and where variances outside of our parameters are identified we will request further information and support from management and the valuer.

Our work in this area is ongoing and we continue to discuss the above with Council Officers and will report any findings back to members upon completion of this work.

Progress against significant risks

Significant risk (from audit plan)

Valuation of Investment Property

The Council revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£56m) and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Valuation of net pension fund liability

The Council's pension fund net liability, as reflected in its 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 (£123m in its balance sheet) 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, which was one of the most significant assessed risks of material misstatement.

Progress to date

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of investment properties which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2022 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation
- for each item within our sample we have requested detailed calculation sheets for the 2022 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations.

We have:

- 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 evaluate the design of the associated controls. No issues were identified from completion of this.

Our remaining work in this area is outstanding at this stage.

Progress against other areas

Other Area

Progress to date

Group Accounts

Risks identified in the group accounts:

- Risk of management override of control is a non rebuttable risk for all organisations
- Risk of fraud in revenue recognition
- There is one line items within the components financial statements which is material to the group: Pension Fund net Liability.

We have:

- Discussed with the auditors of Exeter City Living the information we require in order to give us the assurances required for our group opinion
- as part of our work we are required to review the audit file of the Exeter City Living auditors and we are in the process of organising this to be undertaken.
- Considered the other subsidiaries within the group accounts to ensure that these are appropriately disclosed in the statement of accounts.
- We have identified that two assets, one relating to 2020-21 and one relating to 2021-22, which have been incorrectly consolidated in the group statements. Management have incorrectly netted these assets out of the balance sheet and therefore the group balance sheet is understated. We continue to discuss with management the correction needed for these disclosures.

Other balances within the financial statements

On receipt of the draft accounts we undertook a scoping review where we determined which items of the financial statements are within scope for the audit and the level of required work for each of these.

- we have made good progress working through the other areas of the financial statements and have selected and shared within the Council the majority of our samples selected for testing.
- all queries and information requests are being dealt with quickly by the Council.
- we have completed our work in a number of areas including cash flow, PPE additions, cash, borrowings, leases, housing benefits and depreciation.

Progress at February 2023 (cont.)

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor’s Annual Report in January 2023.

We also certify the Authority’s annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). The certification work for the 2020/21 return was completed on 3 February 2022. The certification work for the 2021/22 return is due to begin in October.

Other areas

Statutory Audit Powers

Under the Local Audit and Accountability act 2014 a local elector has rights to inspect the accounts and the books and records of the Council and can write to the external auditors to ask further questions about the accounts. They may also make an objection to the account asking that the auditor issue a report in the public interest or apply for a declaration that an item in the accounts is contrary to law.

We have received two objections during the public inspection period in relation to the 2021-22 accounts. Our work to consider these objections is currently in progress as part of our wider work on the financial statements. We will provide a further update to the Committee once our work has been concluded.

Certification of claims and returns

We certify the Authority’s annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). This work is ongoing and we have continued to discuss delivery dates with DWP. We will update the Committee members on any updates.

Meetings

We met with Finance Officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	July 2022	Completed
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	September 2022	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit and Governance Committee upon completion of our work.</p>	March 2023	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	March 2023	Not yet due
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	April 2023	Not yet due
2021/22 Audit-related Deliverables	Planned Date	Status
<p>Housing Benefit Subsidy – certification</p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	March 2023	Not yet due
<p>Pooling of housing capital receipts - certification</p> <p>This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.</p>	March 2023	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

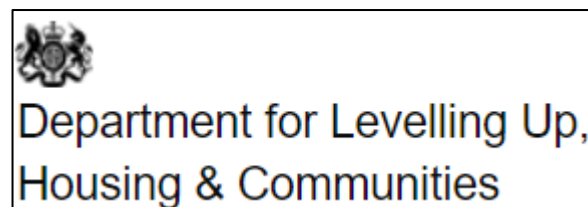
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



Levelling up White Paper – Department for Levelling Up, Housing and Communities (“DLUHC”)

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

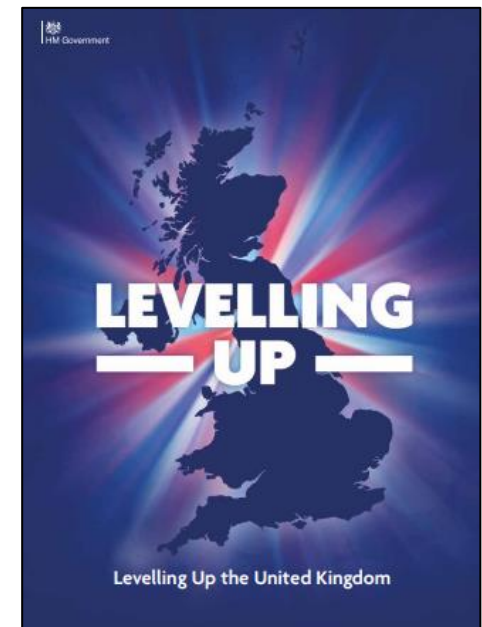
- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

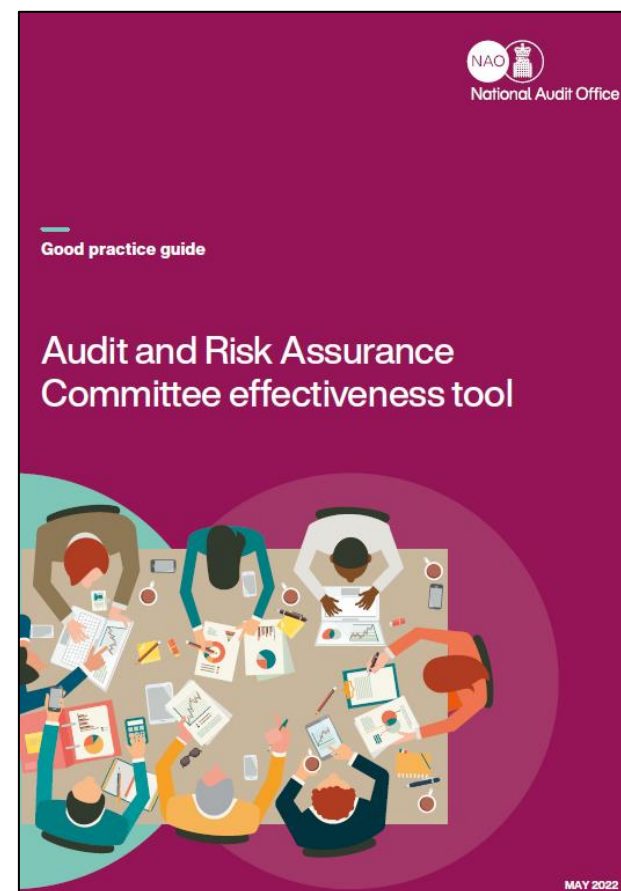
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:
[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



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