

The Audit Findings for Exeter City Council

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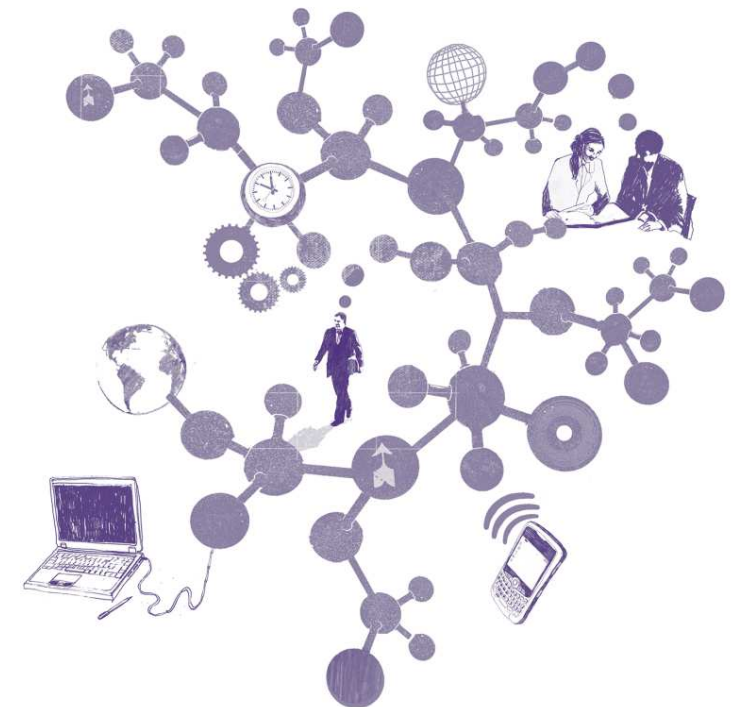
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2015

10 September 2015

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9 September 2015

Dear Members

Audit Findings for Exeter City Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Exeter City Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours faithfully

Geraldine Daly

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit Exeter City Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to the Audit and Governance Committee on 24 June 2015.

At the time we produced our plan we had not agreed the accounting treatment for Strata Service Solutions Limited; Exeter Canal and Quay Trust; Exeter Business Centre Ltd and the Exeter Science Park Ltd. During the course of our audit the accounting treatment for these bodies was concluded and further information can be found on page 12 of this report.

Our audit is substantially complete although we are finalising our work in a number of areas. In particular, we need to complete our work on the following:

- obtaining the final signed version of the Strata Ltd accounts;
- reviewing the final version of the financial statements, in particular the adjustments made re Strata (see page 13), the prior period adjustments, the cash flow statement and the capital and financing entries within the movement in reserves statement;
- completing our testing on your welfare expenditure (Housing Benefits);
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- completing our review of your Whole of Government Accounts return.

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

Key issues arising from our audit

Financial statements production

We worked with the Council in the year to help with de-cluttering its accounts. This involved removing any duplication and immaterial notes within the accounts. The move away from group accounting (see page 12) led to a reduction in disclosures and this, together with the de-cluttering exercise, led to a reduction in the Council's financial statements from 123 pages to 109. A further review, focussing on the formatting and layout of the financial statements could reduce this further.

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

There is only one unadjusted error within the Council's financial statements which relates to the accounting of the pension liability for Strata.

When the Council consolidated the figures for Strata into its own financial statements, it applied the statutory override to its share of Strata's pensions liabilities as well as to those of the Council itself; this additional override amounted to £1.136m. Our view is that this was not appropriate and the Council has not been able to provide us with a compelling case for applying this override.

There were also a number of other changes to the Council's financial statements following the audit of Strata. These issues are covered on page 13.

We did not identify any material errors within the Council's financial statements, although we did request that two prior period adjustments were presented differently.

We identified a small number of adjustments to improve the presentation of the financial statements, although none of these were particularly significant.

At the time of writing, we had commenced work on the Council's welfare expenditure testing. We identified an error regarding the parameters for the up-rating of certain state benefits. The system required the percentage increase to be entered e.g. 2.9%.

However, the Council entered the factor – in this case 1.029. The system assumed this to be 1.029% and therefore understated claimants' incomes and consequently overpaid them benefits. This did not affect every claimant as the up-rating is only used in certain circumstances, although there are 1,135 claims in total that will need to be checked.

The Council has estimated a 'worst case' scenario – assuming all of the 1,135 cases are wrong – and the total of this is approximately £85,000. The Council expects that the final error will be far less than this, but this cannot be confirmed until all of the cases have been reviewed. Once the cases have all been reviewed, we will be able to assess the impact, if any, on the amount of subsidy payable to the Council.

Further details of our financial statements audit are set out in section two of this report.

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

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

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

Roles and responsibilities

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

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

Findings

In our audit plan we again drew your attention to the fact that journals were not authorised before being processed. This was reported to the Council in 2012/13 and 2013/14. This issue still remains and we therefore bring this to the attention of Members through this report.

Further details are provided within section two of this report

The way forward

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

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

Acknowledgment

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

Grant Thornton UK LLP
September 2015

The way forward

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

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

Acknowledgment

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

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 24 June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 June 2015. On page 12 we set out our final group audit scope assessment which we have finalised since our plan was issued. We concur with the Council's assessment that Strata Service Solutions Limited should be treated as a joint operation and that group accounts are not required in 2014/15.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Exeter City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions] 	<p>As reported in our audit plan, we have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>A material weakness was again noted as there is no authorisation process for journals prior to their posting. This was previously reported to the Council.</p> <p>We have undertaken detailed testing on journal transactions in the year by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p> <p>Our audit work has not identified any evidence of management override of controls. We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated).	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • undertaken cut off testing and searched for unrecorded liabilities • substantively tested operating expenses incurred by the Council • substantively tested year end creditors. 	Our audit work to date has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • substantively tested payroll transactions undertaken by the Council • performed analytical procedures, including a trend analysis 	Our audit work has not identified any significant issues in relation to the risk identified. However, the original disclosure concerning senior employees required a minor amendment.

Group audit scope assessment

As noted earlier, at the time we produced our plan we had not completed our full assessment of the following components.

This work was completed prior to the commencement of our final accounts field work and our conclusions are set out below. As a result of our work we agree with the Council's view that Group Accounts are not required in 2014/15.

Component	Assessment
Strata Service Solutions Limited	<p>Exeter City Council, Teignbridge District Council and East Devon District Council are all shareholders in a company called Strata Service Solutions Limited.</p> <p>The company became operational from 1 November 2014 and provides IT services to the three Councils. There are no plans currently, for the Company to provide such services to any other councils, companies or third parties.</p> <p>We have worked closely with the three councils regarding the accounting treatment of Strata. The Councils are of the view that this is a joint operation and our assessment has concluded that this is appropriate. The financial statements of Strata have been included within the Councils' own single entity accounts.</p> <p>Accounting issues relating to Strata are covered in more detail overleaf on page 13.</p>
Exeter Canal and Quay Trust (ECQT)	<p>As noted in our audit plan, new group accounting standards have been introduced and the way in which ECQT was accounted for needed to be revisited. A key determinant of a subsidiary is control and a reporting authority controls an entity if, and only if, it has:</p> <ul style="list-style-type: none"> a) power over the investee; and b) exposure, or rights, to variable returns from its involvement with the investee; and c) the ability to use its power over the investee to affect the amount of the investor's returns <p>We reviewed the Council's assessment of the relationship with ECQT and concluded that test (a) was met - but not (b) and (c) - and that therefore there is (i) no control over ECQT by Exeter City Council and (ii) that group accounts are not required.</p>
Exeter Science Park Limited	<p>We have reviewed the Council's assertion that Exeter Science Park is not material to the financial statements of Exeter City Council. We have concluded, based on this assessment that Group accounts would not be required on the basis of Exeter Science Park.</p>
Exeter Business Centre Limited	<p>We have reviewed the Council's assertion that Exeter Business Centre is not material to the financial statements of Exeter City Council. We have concluded, based on this assessment that Group accounts would not be required on the basis of Exeter Business Centre.</p>



Accounting for Strata Service Solutions Limited (Strata)

In this section we report on our consideration of the accounting for Strata Service Solutions Limited.



Accounting area	Comments
Nature of relationship	<p>We have worked closely with Exeter City Council, East Devon District Council and Teignbridge District Council regarding the accounting treatment of Strata. The Councils are of the view that the Company is a joint operation and we concur with this view. The financial statements of Strata have been included within the Councils' own single entity accounts.</p>
Production of single entity accounts	<p>Strata produced draft financial statements for the period 1 November 2014 to 31 March 2015. The figures within these financial statements were allocated between the three Councils on the basis of their individual shareholdings and were subsequently included within the Councils' own financial statements for the year ended 31 March 2015.</p> <p>Strata has appointed its own External Auditors and when its financial statements were audited, they were found to contain a significant error. This related to the treatment of capital payments to Strata from each of the three Councils. This was originally treated as income in Strata's draft financial statements, but this was revised to reflect the fact that it related to subsequent capital expenditure. The impact on Strata's financial statements was to reduce its turnover by approximately £1.5m. This income reduction led to a commensurate increase in the reported loss for the period and a corresponding reduction in the Company's net assets. A number of other minor revisions were also made to the Company's draft accounts.</p> <p>On the basis of the significance of the errors identified, Exeter City Council decided that it was appropriate to amend its own financial statements to reflect its share of the changes to Strata's financial statements. We support this decision and currently await the final, audited financial statements for Strata and the revised statements for Exeter City Council. We expect to receive these by Friday 11 September 2015.</p>
Accounting for pensions	<p>When Strata began trading, staff transferred to the company from the three councils which control the Company under TUPE arrangements. Strata took over the full pensions liabilities relating to these staff, which in some cases may have been built up over decades of Council service. In many Local Authority companies, the Councils retain the historic pensions liabilities – with the Company assuming responsibility for any post trading liabilities. Some Councils choose to retain the full liabilities.</p> <p>The way in which pensions impact on the income and expenditure account is different between companies and Local Authorities. Companies charge any payments made to the pension fund to the income and expenditure account together with any movement in the pension liability for the year. In order to avoid any short-term detrimental impact on the General Fund – and thus Council Tax payers – Local Authorities are only required to charge the payments made in the year to the pension fund to the income and expenditure account, with any movement in the pension liability being ultimately charged to the pensions reserve. This is known as the pensions statutory override.</p> <p>When the Council consolidated the figures for Strata into its own financial statements, it also applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.136m. Our view is that was not appropriate and the Council has not been able to provide us with a compelling case for applying this override.</p> <p>We recommended that the Councils take legal advice about the guarantees provided by the Councils for the pension liabilities of Strata, with the ultimate aim of resolving this issue in 2015/16. Should the Council agree to support a guarantee this needs to be disclosed in the current year accounts as a liability.</p>

Accounting policies, estimates & judgements

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



Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's accounting policy is that customer and client receipts in the form of sales, fees, charges and rents are accrued for when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.	The Council's revenue recognition policy is clearly set out and is consistent with that of the previous year. The policy has been reviewed and assessed as being in accordance with CIPFA's requirements and in line with that adopted by other Local Authorities.	 Green
Estimates and judgements	In the financial statements, the Council has disclosed that the key judgements and estimates are in relation to: <ul style="list-style-type: none"> • Funding for Local Government (i.e. going concern) • Group accounts / joint operation • pensions liabilities • arrears • valuation of property, plant and equipment (PPE) and depreciation 	As noted overleaf, we are of the view that it is appropriate to prepare the Council's financial statements for the year ended 31 March 2015 on a going concern basis. Our Group audit scope assessment is on page 12. We agree with the Council's assessments that Strata Service Solutions Limited (Strata) is a joint operation and that group accounts are not required for 2014/15. We are satisfied that the Council's pensions liabilities and arrears are fairly stated. However, the financial statements contain an unadjusted error regarding the treatment of pensions for Strata. This is explored in more detail on page 13. We have been working with the Council's internal valuers throughout the year regarding PPE valuations, particularly those that were not formally revalued in the year. We are satisfied that the Council has adequate arrangements in place to ensure that all PPE is fairly valued at the balance sheet date. Our work on other key judgements and estimates has not identified any issues we wish to bring to your attention.	 Amber

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators (red)
-  Accounting policy appropriate and disclosures sufficient (green)

-  Accounting policy appropriate but scope for improved disclosure (amber)

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Council has advised us that it has a reasonable expectation that the services it provides will continue for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing its financial statements.	We have reviewed the Council's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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


	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A letter of representation has been requested from the Council. In particular, representations will be requested from management for not amending the financial statements for the item identified on page 20.
4.	Disclosures	Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	We obtained direct confirmations from the Public Works Loan Board (PWLB) for loans from that body, and requested from management permission to send confirmation requests to third parties for bank and other loan balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We also wrote to a firm of solicitors used by the Council during the year and, at the time of writing, have not received a response. We have asked the Council to help obtain a response.

Internal controls



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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above. We also considered and walked through the internal controls for welfare expenditure (Housing Benefits).

We identified one matter during the course of our audit regarding journal authorisation and we reported this in our audit plan. For completeness it is set out in the table below. This and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendation
1.	 Red	As reported in our audit plan, journals were not authorised before processing.	The Council should introduce a sample-based approach to journal review and authorisation covering all journals.

Assessment

-  Significant deficiency – risk of significant misstatement (red)
-  Deficiency – risk of inconsequential misstatement (amber)

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p>Extract from 2013/14 Audit Findings Report:</p> <p><i>As reported in our audit plan, a material weakness has again been noted as there is no authorisation process for journals prior to their posting. This was previously reported to the Council in 2012/13.</i></p>	<p>This weakness was still in place throughout 2014/15.</p> <p>The Council's response to the recommendation in our 2014/15 audit plan was that this would be resolved by 31 July 2015 (i.e. in 2015/16). We have not undertaken any testing on any transactions in 2015/16.</p>
2.	✓	<p>Extract from 2013/14 Audit Findings Report:</p> <p><i>Our IT auditors noted that security logs are not reviewed on a regular basis. Such reviews could mitigate the risk of unauthorised access through weak password controls.</i></p>	<p>Our IT auditors were satisfied with the Council's arrangements.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

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

Impact of adjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1	<p>As noted on page 13, Strata's draft financial statements for the period 1 November 2014 to 31 March 2015 were found to contain a significant error relating to the treatment of capital payments to Strata from each of the three Councils.</p> <p>The impact on Strata's financial statements was to reduce its turnover by approximately £1.5m. This income reduction led to a commensurate increase in the reported loss for the period and a corresponding reduction in the Company's net assets. A number of other minor revisions were also made to the Company's draft accounts.</p> <p>Exeter City Council decided that it was appropriate to amend its own financial statements to reflect its share of the changes to Strata's financial statements. We support this decision.</p>	Various	Various

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below. We have included this within our Letter of Representation.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 As noted on page 12, we do not agree with the Council's use of the statutory override for the pension liabilities relating to Strata Service Solutions Limited. The Council should disclose the fact that they have agreed to provide a guarantee for their share of the pension liability which currently stands at £1.136m. The Council have agreed to support a guarantee to the value of the pension liability at transfer and they should clearly disclose this liability in the 2014/15 accounts.	1,136	1,136	

Misclassifications & disclosure changes

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

Area`		Adjustment made
1	Prior period adjustment	The Council's financial statements contain two prior period adjustments which relate to a decrease in infrastructure assets (£2.2m) and an increase in the values of garages (£2.6m). These were originally adjusted for by amending the 2013/14 comparative figures. The Council subsequently agreed to make these adjustments by updating the opening balances for 2013/14 i.e. the introduction of a 'third balance sheet'.
2	Debtors classification	£273k was classified as 'other Local Authorities' whereas it related to Government Departments. NDR bad debt provision was included in sundry debtors rather than bad debts
3	Senior employees' remuneration	The note was updated to reflect the impact of redundancy payments on the total remuneration for the year
4	Housing Revenue Account (HRA) Capital Receipts	The note setting out the capital receipts in the year was originally understated by £173k.
5	Grant income	The note included an incorrect figure from the Council's working papers. 'Other grants' was originally stated as £13.620m whereas it should have been £1.453m. The Consolidated Income and Expenditure Statement was correct.
6	Finance leases (Council as lessor)	We compared the leases to the Council's fixed assets register and noted that the unguaranteed residual value was overstated by £198k
7	Property, Plant and Equipment (PPE) revaluations	We asked for the note to be clarified so that it reflected only those assets that were subject to a full revaluation in the year.

Section 3: Value for Money

01. Executive summary

02. Audit findings

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Value for Money

Value for money conclusion

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

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

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

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

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

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

The 2014/15 financial statements show that the Council was able to increase its useable reserves in the year by approximately £2.5m.

The Council's medium term financial plan shows that significant savings need to be delivered to reflect the anticipated fall in Central Government funding, although the Council does not plan to finance this fall in funding through reducing its General Fund balance.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council is open to new ways of working (e.g. the shared IT service with East Devon District Council and Teignbridge District Council) where it considers cost reductions and service improvements can be achieved. However, it is important for such developments to be closely monitored to ensure the expected savings and efficiencies are delivered in practice.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The 2014/15 financial statements show that the Council was able to increase its useable reserves in the year by approximately £2.5m and its medium term financial plan shows that the anticipated fall in Central Government funding will be managed without the need to reduce the Council's General Fund balance.</p> <p>The arrears in key areas such as Council Tax and NDR have risen and it is important that the Council introduces plans to tackle these.</p>	Green
Strategic financial planning	<p>The Council has:</p> <ul style="list-style-type: none"> adequately considered the main issues, both local and national, that it faces in agreeing its medium term financial plan adequately reflected the results of its medium term planning in its 2015-16 budget made reasonable and adequate planning assumptions in its medium term financial plan identified and taken account of funding cuts in its medium term financial plan <p>The Council needs to maintain this position by continuing to :</p> <ul style="list-style-type: none"> keep the medium term financial plan up-to-date and plan for a range of potential scenarios ensure that planned saving programmes are delivered. <p>Due to the scale of the financial challenge facing the Council and, in particular, the scale of the savings plans required, we have assessed Strategic Financial Planning as an 'amber' risk.</p>	Amber

Theme	Summary findings	RAG rating
Financial governance	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to make Members aware of financial matters, through timely and comprehensive reports adequate internal and external engagement in the budget setting process. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green
Financial control	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> robust efficiency plans in place, including timescales, which set out savings targets and how they will be delivered arrangements in place to deliver long-term sustainable savings rather than short-term efficiencies. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green
Prioritising resources	<p>The Council has adequate arrangements in place to:</p> <ul style="list-style-type: none"> challenge delivery methods and consider alternative options consult with key stakeholders when challenging delivery methods and alternative options inform and make key decisions on how to make savings to services understand the impact and outcome of decisions that it makes. <p>However, there is a need to monitor savings and efficiencies, particularly when they are planned to be achieved via partnerships, shared services or other alternative delivery models (ADMs)</p>	Green
Improving efficiency & productivity	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to understand its costs and inform its reviews of where cost savings in service delivery can be made sound IT systems and data quality arrangements in place. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services. Our certification work has not been completed. We will advise the Audit and Governance Committee of the final fee for this work.

Fees

	Per Audit plan £	Actual fees £
Council audit	77,183	77,183
Grant certification on behalf of Audit Commission*	10,890	* Indicative at present
Total audit fees	88,073	

Fees for other services

Service	Fees £
Audit related services	
Certification of pooled housing receipts return	TBC
Non audit related services	
We have invoiced the following amounts in 2014/15:	
Trade waste claim	£6,667
VAT advice	£1,800
	£8,447

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 Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters**

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should seek legal advice regarding the accounting for the pensions liability of Strata Service Solutions Limited and, in particular, whether a guarantee from the three Councils could remove the liability from Strata's financial statements. The Council should arrange for the guarantee to be put in place in relation to the pension liability in relation to this and account for this accordingly.	High	Agreed. The three Councils will look into the implications of the additional guarantee to establish whether it will work satisfactorily in a situation where there are three owners of the Company. – 31/03/2016 (DH)	31 March 2016 Dave Hodgson Assistant Director, Finance
2	Repeated from audit plan: The Council should introduce a sample-based approach to journal review and authorisation covering all journals.	Medium	Repeated from audit plan: As an alternative to introducing a sample based approach, our Systems Accountant has established that the Efinancials system has the functionality for journal authorisation to be introduced as a control and this is now subject to testing. We are currently seeking advice from the software supplier regarding whether the journal authorisation controls can be introduced for specific journal types, rather than applied to all journal types (e.g. interface journals). If this is not possible, we may consider reverting back to the recommended sample based approach.	Repeated from audit plan: 31 July 2015 Michelle White Technical Accounting Manager
3	The Council should review the formatting and layout of its financial statements to see if there is scope to further reduce their size	Low	Work has been undertaken in conjunction with Grant Thornton to de-clutter the accounts which resulted in the removal of duplication and immaterial notes, but consideration will also be given to the formatting and layout of the accounts to further reduce the number of pages	31 March 2016 Michelle White Technical Accounting Manager
4	Keep the financial and operational performance of Strata under review to ensure the expected savings and efficiencies are delivered in practice.	Medium	Agreed.	On-going Joint Executive Committee / Board
5	Develop a plan to address the increasing level of arrears and report progress against this to Members	Medium	Agreed. The Assistant Director, Finance and Assistant Director, Customer Access will develop an action plan and report against this to the Audit & Governance Committee.	31 December 2015 Assistant Director, Finance and Assistant Director, Customer Access

Appendix B: Audit opinion

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

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

We have audited the financial statements of Exeter City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure 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 and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Exeter City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the 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.

Respective responsibilities of the Assistant Director, Finance and auditor

As explained more fully in the Statement of the Assistant Director, Finance's Responsibilities, the Assistant Director, Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Exeter City Council as at 31 March 2015 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

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

We have nothing to report in these respects.

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

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Exeter City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

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

[
Geraldine Daly
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Bristol

25 September 2015



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