

The Audit Findings for Exeter City Council

Year ended 31 March 2019

Audit and Governance Committee 28 January 2020



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Your key Grant Thornton
team members are:

Peter Barber

Key Audit Partner

T: 0117 305 7897

E: peter.a.barber@uk.gt.com

David Bray

Senior Manager

T: 0117 305 7889

E: david.bray@uk.gt.com

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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 our work to date on the statutory audit of Exeter City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p>Financial Statements</p>	<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 inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our audit work was completed on site during August and September 2019. This was later than originally planned due to resourcing issues within Grant Thornton. We then prioritised the Council's own Housing Benefits certification work as there were financial implications for the Council if the deadline of 30 November was not achieved. We are appreciative of the cooperation provided to us by the Council in working to a later timeframe than was originally envisaged.</p>	<p>We commenced our post-statements in early August 2019. Due to resourcing issues within the audit team the completion of the audit work has taken longer than planned. We would like to thank the Council for its continued support in enabling us to complete this audit. As at 20 January 2020 our audit is substantially complete. Our findings are summarised on pages 5 to 18.</p> <p>We have identified three material adjustment to the draft accounts. Specifically:</p> <ul style="list-style-type: none">• Short term investments of £16.07m nearing the end of their fixed term had been incorrectly categorised as cash and cash equivalents.• The operating lease disclosure note incorrectly included the amounts due to the Council for finance leases (£74m in total) as well as those for operating leases (£82m in total) meaning that the total was overstated. This was a disclosure issue only and there was no impact on the primary financial statements.• The comparatives for short and long term borrowing in the draft financial statements did not agree to the audited financial statements for the previous year with short term borrowing being overstated by £10.029m and long term borrowing understated by the same amount. <p>We have also recommended a number of other adjustments to improve the presentation of the financial statements, including further notes for all material balances. These have been agreed with management, corrected in the updated financial statements and are detailed in Appendix C.</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>For un-adjusted non trivial items such as the Pension liability increase as a result of the McCloud case, we require specific management representation on such matters and have included this in the letter of representation that will require Audit and Governance Committee approval and sign off for prior to us issuing our audit opinion.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Subject to a number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 28 January 2020, as detailed in Appendix E.</p>
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Headlines (cont'd)

Value for Money arrangements

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').

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.

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 ascribed to us under the Act; and
- certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have been in communication with a member of the public who has asked us, as the appointed auditor, to look into grant monies paid to a community organisation in 2018/19.

We are currently considering this request. Given the sums involved and the small number of similar grant approvals we do not believe that this issue materially impacts on either our opinion on your financial statements or the VFM conclusion. We will, however, hold open our certificate confirming completion of the 2018/19 audit until we have concluded on this matter.

Acknowledgements

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.

Summary

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality, considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for Exeter City Living Ltd. Please see pages 8 and 10 of this report for further information in this respect.
- 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 not had to alter our audit plan, as communicated to you in March 2019, other than for the fact that the Council needed to prepare group accounts for the first time. Further information is included on pages 8 and 10 of this report. We have therefore added this as a risk.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 28 January 2020, as detailed in Appendix E. These outstanding items include:

- completion of short-term creditors and operating expenses testing;
- review of debts outstanding relating to 2018/19 in order to confirm the adequacy of the bad debts provision;
- review of the final set of financial statements; and
- receipt of management representation letter and consideration of subsequent events.

Summary

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 calculations remain the same as reported in our audit plan for the Council.

We detail in the table below our determination of materiality for the group and Exeter City Council.

	Group Amount (£)	Council Amount (£)	Comments
Materiality for the financial statements	£1,950,000	£1,800,000	<p>Materiality at the planning stage for the Council was set at 1.8% of the prior year's gross expenditure.</p> <p>At the final accounts stage, it was confirmed that group accounts were required and the same percentage (1.8%) was applied to the current year's expenditure for the group.</p> <p>As the Council's expenditure year on year was broadly consistent, we did not consider it necessary to update the Council's materiality on receipt of the 2018/19 financial statements as there would not have been a significant impact on the materiality level we had previously determined.</p>
Performance materiality	£1,267,500	£1,170,000	This is 65% of the materiality of the financial statements as a whole.
Trivial matters	£97,500	£90,000	This is 5% of the materiality of the financial statements as a whole.
Materiality for senior officer remuneration disclosures	£5,000	£5,000	<p>A lower level of materiality has been set for this area as it is a sensitive disclosure within the Council's financial statements.</p> <p>We have chosen this amount as the remuneration disclosures are in bands of £5,000.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Auditor Commentary

1

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.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, when producing our audit plan we determined that the risk of fraud arising from revenue recognition can be rebutted because:

- 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.

We therefore did not consider this to be a significant risk for Exeter City Council.

We reviewed this assessment during the course of our audit and no new information has come to light to change our original assessment. We requested that management provide a detailed analysis of the Council's revenue streams in accordance with IFRS15, which was introduced in 2018/19. There are no issues we wish to draw to the Audit and Governance Committee's attention.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

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

Our audit work did not identify any issues in respect of the management override of controls which we need to bring to your attention.

Significant findings – audit risks

Risks identified in our Audit Plan

Auditor Commentary

3

Group Accounts

At the time our audit plan was produced, the Council considered it likely that it would need to prepare group financial statements that consolidate the financial information of Exeter City Living Limited (ECL) as it considered the company is material when viewed alongside the City Council. This would be the first time that group accounts will be prepared by Exeter City Council.

The Council subsequently confirmed its view that Group accounts would be required.

We reviewed:

- the key agreements to gain an understanding of the arrangements put in place on the establishment of the company
- the level and nature of transactions of Exeter City Living Limited (ECL) in 2018/19
- management's assessment regarding the requirement for group accounts

We concur with management's assessment that group accounts were required in 2018/19.

We determined the scope of the work required in 2018/19 taking into account the opinion issued by ECL's External Auditor and the findings from their work.

Our audit work has not identified any issues in respect of management's consideration of the need for group accounts and we have obtained sufficient assurance over the key figures in the Company's financial statements.

4

Valuation of land and buildings

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c. £390 million at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

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 expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register and correctly reflected in the financial statements
- met with the valuer and reviewed a sample of revaluations in detail.

See pages 13 and 14 for our assessment of the estimations made in this area.

Management have amended the financial statements to ensure that they have clearly stated the assumptions made around the estimation uncertainty connected to property valuations.

We have not identified any issues in relation to the valuation of land and buildings that we wish to bring to your attention.

Significant findings – audit risks

Risks identified in our Audit Plan	Auditor Commentary
<p>5 Valuation of the pension fund net liability</p> <p>The Authority's pension fund net liability represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£114 million in the Authority's balance sheet at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Authority'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 Authority's pension fund valuation assessed the accuracy and completeness of the information provided by the Authority 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 undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report obtained assurance from the auditors of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Our audit work did not identify any issues in respect of valuation of the pension fund net liability, other than non-adjustment for the McCloud issue – see page 11. Our assessment of the estimations made in this area is set out on page 12 of this report.</p>
<p>6 Operating expenses</p> <p>Our interim audit work identified that 80% of all service expenditure is procured without the use of purchase orders. It is possible that orders (and the committal of the Council to the expenditure) are therefore not authorised until the point that invoices are received for payment.</p> <p>We are working with Council officers to fully understand the deficiencies in purchasing authorisations. This is likely to have a significant impact on our testing strategy.</p>	<p>We:</p> <ul style="list-style-type: none"> asked management to review the procurement process and identify any compensating controls that may be in place assessed the design and operational effectiveness of the Council's operating expenses system <p>As all expenditure is approved before any payment is actually made, we concluded that there was no risk regarding the occurrence of expenditure in the year. However, there was a risk regarding the completeness of expenditure within the financial statements.</p> <p>We therefore designed our audit programme to reflect this additional risk and undertook extended testing of the controls in place and extended our cut-off sample to test to include the payments made in April, May and June 2019 to ensure they were accounted for in the correct financial year.</p> <p>This testing did not identify any issues regarding the completeness of expenditure.</p>

Significant findings arising from the group audit

As noted on pages 5 and 8, Exeter City Council prepared group accounts for the first time in 2018/19.

This was necessary because of the relative significance of Exeter City Living Limited which would have a material impact on the group accounts.

Component	Component auditor	Findings	Group audit impact
Exeter City Living Limited	Francis Clark LLP	<p>Based on the audited financial statements for Exeter City Living Limited we are satisfied that it is appropriate for the Council to prepare group accounts.</p> <p>The Company's auditors issued an unqualified opinion on its financial statements on 17 July 2019 and there are no issues arising from their work that impacted on our audit strategy for Exeter City Council.</p>	<p>We have completed our work on the Council's group accounts and have obtained sufficient assurance over the key balances. There are no matters we wish to draw to the Audit and Governance Committee's attention.</p>

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities for Exeter City Council of £1.629m, and an increase in service costs for the 2019/20 year of £132k.</p> <p>Note that Exeter City Council's share of the liability relating to Strata is an additional £88k.</p> <p>Management's view was that the impact of the ruling was not material for Exeter City Council and will be considered for future years' actuarial valuations.</p>	<p>We reviewed the analysis performed by the actuary, and considered that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>We are of the view that there is sufficient evidence to indicate that a liability is probable. We have therefore suggested that management amend the accounts to include the revised amount.</p> <p>We have included this as an uncertainty within Appendix C.</p> <p>We have sought specific representation from management and those charged with governance regarding the non-amendment of this item.</p>

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
Net pension liability – £112m	<p>Please also see the findings on page 9 regarding the valuation of the pension liability.</p> <p>As part of our work in this area we:</p> <ul style="list-style-type: none"> assessed management's expert used our auditor's expert (PwC) to assess the actuary and the assumptions made by the actuary. The key assumptions underpinning the actuarial valuation are: 	 Green																								
<p>The Council's net pension liability at 31 March 2019 is £112m (PY £114m)</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon Pension Fund.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. 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>	<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>2.4%</td> <td>2.35% to 2.45%</td> <td> Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.4%</td> <td>2.4% to 2.45%</td> <td> Green</td> </tr> <tr> <td>Salary growth</td> <td>3.9</td> <td>3.1% to 4.35%</td> <td> Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.4 years & 24.1 years</td> <td>22.2 to 25.0 years</td> <td> Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.4 years & 26.2 years</td> <td>25.0 to 26.6 years</td> <td> Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35% to 2.45%	 Green	Pension increase rate	2.4%	2.4% to 2.45%	 Green	Salary growth	3.9	3.1% to 4.35%	 Green	Life expectancy – Males currently aged 45 / 65	22.4 years & 24.1 years	22.2 to 25.0 years	 Green	Life expectancy – Females currently aged 45 / 65	24.4 years & 26.2 years	25.0 to 26.6 years	 Green	
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	<p>We also:</p> <ul style="list-style-type: none"> assessed the completeness and accuracy of the underlying information used to determine the estimate checked the reasonableness of the Council's share of the Pension Fund assets assessed the reasonableness of the change in the estimate reviewed the adequacy of disclosure of estimate in the financial statements. 																									

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £121m	<p>Other land and buildings comprises of specialised assets such as Council depots and leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuers to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis.</p>	<p>Please also see the findings on page 8 regarding the valuation of land and buildings.</p> <p>As part of our work in this area we:</p> <ul style="list-style-type: none"> assessed management's expert reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate met with the valuer and reviewed a sample of revaluations in detail assessed the reasonableness of the movements in asset values using indices provided by our own valuer assessed those assets not revalued during the year and challenged management regarding how they satisfied themselves that these were not materially different to current value at year end assessed the adequacy of the disclosure of estimates in the financial statements. Note 4 to the accounts originally stated that the major estimation uncertainty for land and buildings valuations related to depreciation whereas our view is that the valuation itself is the key significant estimate. The disclosure in the Council's financial statements was updated. <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>In 2018/19 there were a large proportion of other land and buildings revalued and so we were able to obtain assurance that the assets not revalued were materially correct. We have made a recommendation for the Council to consider how it can ensure that 'other land and buildings' are materially correct in future years.</p> <p>Note 16 originally understated the value of the assets revalued in 2018/19 as it did not reflect the additional revaluations the valuer undertook outside the five-year rolling programme. The note was amended to increase the value of assets revalued from £25m to £49.5m.</p>	<p style="text-align: center;">  Yellow </p>

Assessment

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

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £264m	The Council owns 4,891 dwellings and is required to revalue these properties in accordance with MHCLG'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 Council has engaged its in-house valuers to complete the valuation of these properties. The year end valuation of Council Housing was £264m (2017/18 £261m).	<p>Please also see the findings on page 8 regarding the valuation of land and buildings.</p> <p>As part of our work in this area we:</p> <ul style="list-style-type: none"> assessed management's expert reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate met with the valuer and reviewed a sample of revaluations in detail assessed the reasonableness of the movements in asset values using indices provided by our own valuer assessed the consistency of the estimate against market information and Right To Buy sales in the year considered the adequacy of disclosure of estimate in the financial statements <p>The valuation date of the Council housing was at 1 April 2019 whereas it should have been the year end, 31 March 2019. We are satisfied that the valuation is materially correct and there are no other issues we wish to draw to the Audit and Governance Committee's attention.</p> <p>Management have agreed to change the valuation date to the 31 March going forward.</p>	 Green

Assessment

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

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter

Commentary

1

Prior period adjustment

Management made a prior period adjustment due to an error from the previous year they identified during the production of the 2018/19 financial statements.

This related to a home improvement loan programme which had previously been treated as a debtor but which management concluded should have been treated as REFUS as the monies are subject to an 'asset lock' and the Council had no rights to the assets of the company. The total included in the 2017/18 financial statements for this amount was £916k.

Auditor view

Prior period adjustments are only required when the amount is material. Our view is that this is not material and that the Council has made an unnecessary prior period adjustment.

Management have asserted that in their view this is material, although this is inconsistent with their view that the impact of the ruling on the McCloud issue (£1.629m), was not material for Exeter City Council. See page 11 for further information.

In our view, the error should have been corrected in 2018/19 rather than as a prior period adjustment. The closing balances for 2018/19 are unaffected by this management decision.

We have sought specific representation from management and those charged with governance regarding the non-amendment of this item.

Management also made an additional prior period adjustment which we concur with. As detailed on page 30, this related to short term investments which had been incorrectly categorised as cash and cash equivalents. The amount in 2017/18 was £17m.

Management response

The Code defines materiality as omissions or misstatements of items if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item could be a determining factor. Management applied judgement that this error was material to the users of the accounts due to its nature, in that it resulted in an actual reduction in the level of debtors to the authority.

Correction of errors must be distinguished from changes in accounting estimates and therefore separate consideration was given to whether the McCloud ruling was material to the users of the accounts. As this is a change of accounting estimate, the potential increase in pension liabilities of £1.7m (0.7% of total pension liabilities in the Balance Sheet at 31 March 2019) and an increase in the projected service cost for 2019/20 of £0.140m (2.2% of the service cost before consideration of the McCloud judgement) was not considered material.

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

Management have prepared the financial statements on a going concern basis and this is clearly set out in the financial statements.

The Chief Finance Officer provided a separate paper in January 2020 setting out in more detail his assessment of the appropriateness of the adoption of the going concern assumption. This highlighted that in his view:

- The Council has substantial reserves, well in excess of the minimum level set by the section 151 Officer;
- The Council’s latest budget monitoring statement demonstrates that the Council is on track to deliver its financial plans for 2019/20 within budget;
- The Council is able to propose a balanced budget for 2020/21, maintaining reserve levels above the minimum level set – this is applicable to both the General Fund and the HRA;
- The Council has recently borrowed, long term, from the PWLB and therefore has sufficient cash available to deliver its capital plans, as approved;
- The Council is able to borrow at any time, as is necessary, from the PWLB, if there was a significant and unexpected event, which required significant cash investment from the Council.
- The Council has steady and relatively certain, annual income streams. The Council Tax and Business Rates are statutory taxes, with over half paid by direct debit and collection rates well over 95% for both taxes. Alongside this, the Government provide a safety net to protect against significant losses in Business Rates.

Therefore, in his opinion, it is appropriate for Exeter City Council to prepare its accounts on a going concern basis with no material uncertainties.

Work performed

We discussed the going concern principle with management, reviewed the disclosures in the financial statements and have reviewed the separate paper from the Chief Finance Officer. We have triangulated his response with reference to the Council’s medium term financial plan which we reviewed as part of our work on the Council’s VFM conclusion – see page 21 of this report.

Based on our review of these documents we concur with the Chief Finance Officer’s assessment and that the use of the going concern basis of preparation is appropriate with no material uncertainties.

We have not identified any material uncertainties that may cast significant doubt on the Authority’s ability to continue as a going concern for the foreseeable future.

Concluding comments

CIPFA’s code of practice on local authority accounting for 2018/19 is clear that an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The issue is simply one around the disclosure within the Council’s financial statements.

On the basis of our work, it is appropriate to issue an unmodified audit opinion on going concern.

Other communication requirements

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	Commentary
① 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.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ 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 to date.
④ Written representations	A letter of representation will be requested from the Council and this is a separate agenda item for the Audit and Governance Committee on 28 January 2020. We have sought specific representations regarding McCloud (page 11) and the two Prior Period Adjustments (page 15).
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bankers and those organisations that the Council has loans and investments with. This permission was granted; requests were sent and all responses have been received.
⑥ Disclosures	We recommended a number of amendments to the disclosures within the accounts – particularly with regards to all material balances having supporting notes and necessary disclosures, financial instruments and the enhanced disclosures required as part of the implementation of IFRS9. We also asked the Council to consider the relevance of the 'subsequent events' and the 'critical judgements' disclosed in the financial statements and they were updated accordingly.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management to date has been provided and we have not encountered any significant difficulties in completing our work.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<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 inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies were identified that we wish to bring to the Audit and Governance Committee's attention.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers 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 • If we have applied any of our statutory powers or duties <p>We have completed our review of the Council's Annual Governance Statement and there are no issues we wish to bring to the Audit and Governance Committee's attention.</p> <p>As noted on page 4, we have been in communication with a member of the public who has asked us to look into grant monies paid to a community organisation in 2018/19.</p> <p>We are currently considering this request. Given the sums involved and the small number of similar grant approvals we do not believe that this issue materially impacts on either our opinion on your financial statements or the VFM conclusion. We will, however, hold open our certificate confirming completion of the 2018/19 audit until we have concluded on this matter.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<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>However, other than a submission to the NAO, no additional work is required as the Council does not exceed the threshold of £500m for either total assets (excluding PPE), total liabilities (excluding pension liabilities), total income or total expenditure.</p>
<p>4 Certification of the closure of the audit</p>	<p>We will not certify the closure of the 2018/19 audit of Exeter City Council until we have concluded on the item brought to our attention by a member of the public – see point two above.</p>

Value for Money

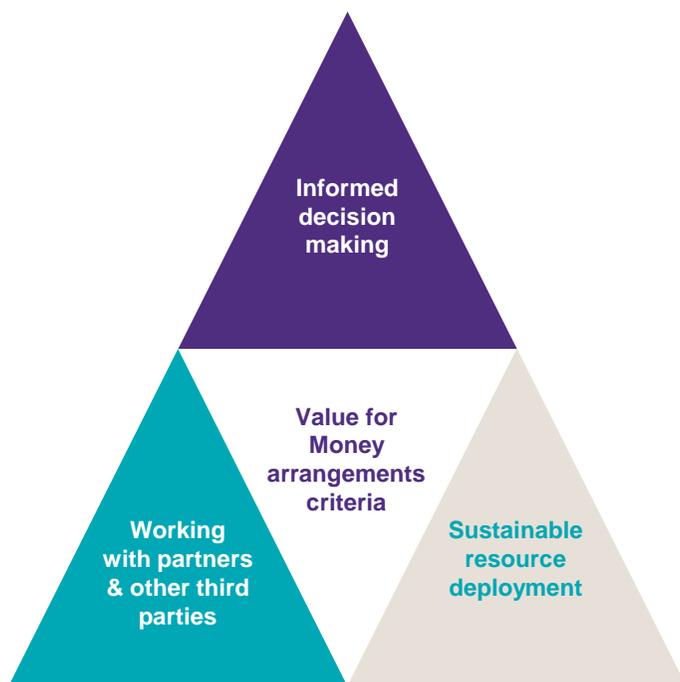
Background to our VFM approach

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 November 2017. 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 as part of our planning work and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in March 2019.

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. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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

- the Council's medium term financial plans
- the governance of Exeter City Group Limited
- the re-development of the bus station and the surrounding area

We also assessed the progress made by the Council in developing its procurement arrangements as the Council's previous External Auditors qualified the VFM conclusions in 2015/16, 2016/17 and 2017/18 in this area.

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

Overall conclusion

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

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk from the audit plan

Delivering a sustainable medium term financial plan

The medium term financial plan shows that significant savings are required to achieve financial balance with the Council planning a use of its reserves in 2018/19 in order to achieve its budget.

We will review the level of reserves and the plans in place to ensure an appropriate level of reserves is maintained and assess the arrangements in place to deliver savings in 2018/19 and from 2019/20 onwards, including those that have not yet been identified, in order to ensure they are realistic and deliverable.

Audit Findings

The outturn for 2018/19 per the draft financial statements showed that the General Fund balance reduced in the year by £296k (6% of the opening balance) to £4.691m, although this is still comfortably above the minimum level set by the Council of £3m. During 2018/19, the Council's earmarked reserves increased from £7.8m to £9.5m meaning that the Council's overall financial position strengthened in the year.

Looking ahead, the Council approved its most recent medium term financial plan in February 2019 which covers the 2019/20 financial year and looks ahead to 2022/23 (i.e the current year plus three additional years).

Whilst the funding available in the latter years is uncertain across the whole of Local Government, the Council's medium term financial plan shows that savings totalling approximately £2.4m will be required across that period as follows:

	2019/20	2020/21	2021/22	2022/23
Savings required (£,000)	1,963	210	293	0

As can be seen, there is a peak in 2019/20 and the Council has developed plans to deliver the required savings in that year. The Council has the safety net of available reserves to cover any shortfall, although it recognises this is not sustainable into the long term and ultimately it needs to balance the books year on year.

The Council has a good track record of delivering its savings targets and although the projected outturn for 2019/20 cannot yet be known with any certainty, the Council is of a view that the savings for 2019/20 will be delivered on a recurrent basis.

Conclusion

While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk from the audit plan

Governance of Exeter City Group Limited

The Council established a significant subsidiary company in the year which is likely to have material transactions outside the Council's direct control.

We will assess the governance arrangements in place for the new company.

Audit Findings

During 2018/19 the Council established Exeter City Group Ltd (the holding company) and Exeter City Living Ltd (a housing development company), which are 100% owned by the City Council.

The main purpose of the group is to build homes to help tackle housing need in Exeter, to help reduce the pressures on the Council's housing waiting list and to improve the lives of those residents currently living in poor quality homes. The Council provided a 25 year loan of £2.2m on 11 January 2019 in order to implement the Year 1 business plan to Exeter City Living Ltd and a further £2.15m loan was advanced in April 2019.

Before the companies were formed there was considerable engagement with Members, with discussions at scrutiny, Executive and Full Council levels.

The City Council also obtained independent legal advice regarding the establishment of the companies and has appointed its own external auditors.

As part of the initial considerations, a business case was produced which supports the initial loans for £4.35m to referred to above. The Business case covers the strategic case, market context, delivery issues, the regulatory framework, access to finance, objectives (for the group and each company), a delivery plan, a financial plan, governance and operational procedures, key performance indicators and the risks to all parties.

With the Company likely to seek around £14.1m from the Council over its first three years, the risk to the Council should the company fail is set out, meaning Members have made an informed decision and the minutes suggest there was challenge and a range of questions were raised by Members.

The business plan is in the process of being updated and the expectation is that this will be reviewed annually prior to approval by full Council.

Performance will be reviewed at least twice a year against the business case and will be reported to Members.

Conclusion

Based on our review of this area, the governance arrangements in place for the new company appear to be adequate.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk from the audit plan

The re-development of the bus station and surrounding area

This is a significant project over two years and the capital programme will need to be managed effectively if it is to deliver the expected benefits on time and within budget.

We will assess the arrangements and information provided to enable the Council to make an informed decision and the capital monitoring arrangements to ensure the project is delivered on time and to budget. Procurement issues identified by the Council's previous auditors may also impact on this project.

Audit Findings

The Council has established a Sub-Committee of the Executive (the Leisure Complex and Bus Station Programme Board) to monitor progress on this significant project for the Council which has a budget of over £50m. The Board includes seven Members of the City Council to ensure politically balanced.

The Board has been meeting since July 2015 and meets every three to four months. The terms of reference were agreed at the first meeting and include:

- To agree and oversee the Strategic direction of the Project including the design and build of the new Swimming Pool and Leisure Complex;
- To approve all future spend decisions in respect of the projects' agreed budget as approved by Full Council from time to time;
- To approve the Project Programme throughout its various stages including approving the planning, design, operator/operation, commercial agreements and construction route;
- To evaluate the business case on an ongoing basis;
- To monitor the project risks, quality and the timing of the Programme;
- To own and take responsibility for the Programme Board Risks;
- To resolve any conflicts arising between the needs/requirements of the programme;
- To monitor the business plans, feasibility and option appraisal and progress;
- To approve the appointment of the Project Managers and agree the scope of the Project Manager's objectives and responsibilities.

We reviewed the minutes for 16 meetings from 2015 to April 2019 and noted the regular engagement by the Council's Chief Executive & Growth Director and the fact that key decisions go through the Programme Board, Executive and then to Full Council.

The latest monitoring report (as at 19 August 2019) states that progress is currently as planned and that the budget is on track.

At that time, the budget for the Leisure Complex was £43.7m, with spend to date of £8.65m and the budget for the Bus Station was £8.025m, with spend to date of £1.595m. The project is expected to be funded by the New Homes Bonus (£18m), Community Infrastructure Levy (£8m), Capital Receipts (£6.2m) with the balance (approximately £18m) from external borrowing which will result in ongoing costs to the Council.

Conclusion

Based on our review of this area, the decision making arrangements in place for the new development appear to be adequate.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk from the audit plan

Procurement: follow-up work

Your previous auditors reviewed the progress made by the Authority against its procurement action plan and concluded that there had been some progress, such as developing a strategy, starting the process of appointing staff to the procurement department, and self-assessing the Authority's arrangements against the national procurement strategy to identify areas of improvement. However, the timing of these improvements and the need still for additional progress to be made meant that they were unable to conclude that sufficient improvement has been achieved in strengthening the Authority's procurement arrangements and they issued an 'except for' qualification in 2017/18 for a third year.

We will follow up on the progress made by on the issues raised by your previous auditors regarding the Council's procurement processes.

Audit Findings

The Council was unable to provide us with an action plan setting out the way in which it has responded to the previous recommendations and the lack of an action plan setting out what need to be done, by who and when probably continued to an 'except for' qualification being issued for three consecutive years.

We therefore undertook an overview of the procurement arrangements in place at the Council and found that:

- The Council has updated its procurement and contract procedures and now has appropriate procedures in place. These form part of the Council's constitution and are available on its website;
- Training has been rolled out to all those officers involved in procurement to ensure they are aware of the new procedures and why they should be adhered to;
- The Council has reviewed and retendered its large contracts as appropriate, so that the majority are now compliant with its procurement and contract procedures.

The Council's Internal Auditors have completed a recent review of the procurement arrangements and they concluded that they provided 'satisfactory assurance'. Internal Audit made a number of recommendations, but none were assessed by them as being 'high risk'.

Conclusion

We have concluded that sufficient progress has been made to conclude that adequate arrangements are in place. However, the Council should continue to embed effective procurement arrangements and should develop an action plan against which progress and remedial action can be taken as required. Progress against Internal Audit's recommendations should be monitored.

Management Response – Management agree with the findings relating to VfM, which are balanced and fair

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services are expected to be undertaken later in the year and we have set out the threats to our independence and the safeguards that have been applied to mitigate these threats.

	Expected Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing benefits return	£17,298	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 expected fee for this work is estimated at £17,298 in comparison to PSAA's indicative fee for the audit of £44,573 and in particular relative to Grant Thornton UK LLP's 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.
Certification of Housing capital receipts return	£3,000	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 expected fee for this work is £3,000 in comparison to PSAA's indicative fee for the audit of £44,573 and in particular relative to Grant Thornton UK LLP's 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.			

These services are consistent with the group's policy on the allotment of non-audit work to your auditors
All services have been approved by the Audit and Governance Committee. None of the services are subject to contingent fees.

Action plan

We have identified the following recommendations as a result of issues identified to date during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. 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.

Assessment	Issue and risk	Recommendations
1 ● Red	<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>The Council should review its disclosure relating to estimates in 2019/20 to ensure that they are complete and only cover areas where there is a significant risk of a material adjustment being required in the previous year.</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>
2 ● Red	<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>The Council should review its critical judgements in 2019/20 to ensure that they are appropriate and do have a material impact on the Council's accounts.</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>
3 ● Red	<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>The Council should continue to review the Code and accounting standards requirements to ensure that the accounts are fully compliant.</p> <p>Management response</p> <p>The accounts have been updated.</p>

Risk rating

- High – Significant effect on control system (Red)
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

Action plan (cont'd)

	Assessment	Issue and risk	Recommendations
4	 Red	<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 should engage with the in-house valuer to ensure that the approach being followed is sufficient to ensure that 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>
5	 Amber	<p>Property valuations</p> <p>The Housing stock valuation was at 1 April 2019 rather than at the year end.</p>	<p>The Council should ensure that all assets are valued 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>
6	 Amber	<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>The Council should continue to embed effective procurement arrangements and should develop an action plan against which progress and remedial action can be taken as required. Progress against Internal Audit's recommendations on procurement should be monitored.</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>

Risk rating

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

Follow up of prior year recommendations

The following issues were reported by your previous External Auditors in their 2017/18 Audit Findings report. We have reviewed the progress made by the Council in addressing the issues identified in 2017/18.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>Severance Policy</p> <p>Create and approve a severance policy that defines the Council's expectations regarding severance packages.</p> <p>This should include, for example, a clear articulation of the expected stance on potential discretionary enhancements to severance packages, the need to specifically highlight any proposed deviations from the approach expected under the policy and the decision making process that should be followed in approving packages.</p>	<p>Management Response</p> <p>The introduction of a severance policy remains outstanding. We have been and continue to be short staffed. However, the team have been tasked to update and revamp all of our HR policies and this work includes introducing new policies such as severance pay and alcohol and drug testing on their list of priorities to be actioned next year.</p> <p>Responsible Officer City Solicitor & Head of HR Services</p> <p>Implementation Deadline 31 December 2020</p>
2 ✓	<p>Purchase matching</p> <p>Ensure that all departments are aware of the details of procurement process and how to follow the procurement process. They should ensure that all documents have been received and matched prior to making payments.</p> <p>A purchase order should not be adjusted to agree to the invoice, if a goods received note is retained it would account for any adjustments between the purchase order and the purchase invoice received.</p>	<p>Management Response - The ABS system requires POs to be amended if there is a variation from the GRN/invoice. At this stage any amendment requires additional authorisation. The system works exactly as it has been designed to and it is not in our gift to amend the way that the system deals with changes. We believe that the additional authorisation stage provides appropriate protection.</p> <p>That being said, we are looking at the way the purchase order process works at the Council with a view to extending its use albeit within the limitations of the systems available.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (cont'd)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3 ✓	<p>Payroll Appropriate segregation of duties should be in place and there should be an additional layer who reviews the payroll report and particularly the exception report prior to payroll being sent for processing. The starters and leavers forms should have the name and surname of the authorising line manger to ensure that this is legible and the authorisation is evidenced.</p>	<p>Management Response</p> <p>We have changed our internal processes; the Payroll Services Officer and the Transactional Services Advisers (x3) undertake the inputting of all the payroll data. The team then independently check each other's input payroll data, once the payroll has been run.</p> <p>The Payroll Services Officer is responsible for checking the exception report to correct any errors. Once satisfied, this is examined by the Transactional Services Manager, who signs off the payroll run.</p> <p>Moving forward, the service is introducing employee self-service where the input is entered by the employee and authorised by their manager online. Payroll is currently establishing the process for validating the data prior to signing off the payroll run.</p> <p>Responsible Officer City Solicitor & Head of HR Services</p> <p>Implementation Deadline 31 December 2020</p>

Assessment

- ✓ Action completed
- X Not yet addressed

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.

Impact of adjusted misstatements

The adjusted misstatements that have been agreed to date with management are included below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Short term investments nearing the end of their fixed term of £16.07m had been incorrectly categorised as cash and cash equivalents and cash equivalents to short-term investments. A prior period adjustment £17.022m was also necessary to correct the previous year's financial statements.	0	0	0
2 The operating lease disclosure note originally included the amounts due to the Council for finance leases (£74m in total) as well as those for operating leases (£82m in total) meaning that the total was overstated. This was a disclosure issue only and there is no impact on the primary financial statements.	0	0	0
3 The comparatives for short and long term borrowing in the draft financial statements did not agree to the audited financial statements for the previous year with short term borrowing being overstated by £10.029m and long term borrowing understated by the same amount. The accounts were subsequently amended.	0	0	0
Overall impact	0	0	0

Audit Adjustments (cont'd)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes agreed with management.

Area	Detail	Adjusted?
Subsequent events	<p>The draft financial statements included a number of items described as subsequent events (e.g. Brexit and Local Government funding) which would not affect the Council's accounts for the year ended 31 March 2019.</p> <p>The accounts should only include adjusting and non-adjusting subsequent events that would actually have an impact on the Council's financial statements.</p>	✓
Critical judgements	<p>A number of issues were described as 'critical judgments' which, in our view, should not have been classified as such.</p> <p>We have recommended that the Council should review its critical judgements in 2019/20 to ensure that they are appropriate and actually have a material impact on the Council's accounts.</p> <p>Further detail is included on page 26.</p>	✓ (in part)
Asset revaluations	<p>Note 16 understated the value of the assets revalued in 2018/19 as the valuer undertook additional revaluations outside the five-year rolling programme. The value of assets revalued increased from £25m to £49.5m.</p>	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit 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 will update this on the conclusion of our work and will provide a final Audit Findings Report to the Audit and Governance Committee.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 As noted on page 15 of this report, our view is that the Council has made an unnecessary prior period adjustment as the amount involved is not material.	None.	None.	None.	Management have applied judgement and taken into consideration both the nature and size of the error in determining whether it is a material item. As it results in a reduction in the actual level of debtors to the authority, as opposed to a change in accounting estimate, it has been treated as important to the reader's understanding of the Council's financial position.

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Unadjusted items

Detail

Potential impact of the McCloud judgement

The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.

Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.

The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1.629m, and an increase in service costs for the 2019/20 year of £132k.

We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.

Reason for not adjusting

The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services in 2018/19. All fee adjustments need to be approved by Public Sector Audit Appointments Ltd.

Audit Fees	Fee per audit plan (£)	Expected Fee (£)	Per Accounts (note 35) (£)	Commentary
Council Audit	44,573	44,573	45,000	This scale fee was set by Public Sector Audit Appointments Ltd.
Pensions – IAS 19		1,500		The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.
PPE Valuation – work of experts		1,500		As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.
Assessing the impact of the McCloud ruling		1,500		The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have been considering the impact on the financial statements along with any audit reporting requirements.
Group Accounts		1,500		Since the original fee was determined by Public Sector Audit Appointments, the Council has needed to produce group accounts for the first time and this required additional audit work.
Harbour Accounts		950		We have agreed a separate Letter of Engagement and are required to issue a separate opinion on the Council's Harbour Accounts.
Total	44,573	52,523	45,000	The Council's audit fee in 2017/18 was £57,887; the expected fee for 2018/19 is 11% less than this.
2018/19 Grant Certification				
Certification of Housing benefits return	17,298	17,298	16,000	This work was completed in November 2019. We will present our certification report to the next scheduled meeting of the Audit and Governance Committee.
Certification of Housing capital receipts return	3,000	TBC	3,000	This work will be completed in February 2020 and we will provide an update to the next scheduled meeting of the Audit and Governance Committee.
Total audit fees (ex VAT)	£64,871	£TBC	£64,000	

Non Audit Fees

No non-audit related services have been undertaken for the Council.

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Exeter City Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement in the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Expenditure and Funding Analysis, Explanatory Notes to the Core Financial Statements, Explanatory Notes to the Group Accounts, Explanatory Notes to the Housing Revenue Account and Explanatory Notes to the Collection Fund. 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 2018/19.

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 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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.

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 Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance 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.

Audit opinion

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Chief Finance Officer's 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)' 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 Chief Finance Officer's 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 Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 19, 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 Chief Finance Officer. The Chief Finance 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance 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 Chief Finance 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 Governance 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 November 2017, 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 2019.

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 November 2017, 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 2019.

Audit opinion

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.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an correspondence with a local authority elector. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

Peter Barber
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol



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