

Audit Progress Report and Sector Update

Exeter City Council
Year ending 31 March 2021

September 2021



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Introduction

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This paper provides the Council with a report on progress in delivering our responsibilities as your external auditors.

Members of the Council can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

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

Progress at September 2021

Financial Statements Audit

Our audit plan, which was taken to the July Audit and Governance Committee, set out our proposed approach to the audit of the Council's 2020/21 financial statements.

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

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

In our plan we noted that MHCLG has set an indicative date of 30 September 2021 for audited local authority accounts (two months earlier than last year). Given the system-wide pressures previously discussed, we believe this is highly unrealistic for 2020/21 audits (but as a firm we are fully supportive of this in a 'normal' year).

We therefore initially proposed to target completing our audit fieldwork in September, however due to the level of work required to ensure our audit responsibilities are fully met, in accordance with the high quality expectations of our firm and our regulators, we have discussed the latest audit progress with Council officers and expect to formally conclude our audit in October.

Our audit is currently underway and an update on progress is set out on pages 5-7.

We have virtual meetings with Finance Officers on a weekly basis to help ensure the audit process is smooth and effective.

At the time of writing there are no significant issues we wish to report to the Council and we would like to thank finance officers for their responsive and supportive approach to the audit team and audit queries.

Value for Money

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.

As noted in our audit plan, our risk assessment regarding your arrangements to secure value for money identified one area of risk of significant weakness.

- Financial sustainability – risk to the delivery of the financial plan

We will be completing our work on the value for money commentary once the financial statements audit is complete.

Progress against significant risks

Significant risk (from audit plan)

Management override of control

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

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

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 (£463m as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority 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 therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.

Progress to date

We have:

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

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revaluated in year for further testing. In doing this we considered those assets whose valuers at 31 March 2021 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation
- for each item within our sample we have received detailed calculation sheets for the 2021 revaluation exercise and are currently working through these
- we have also instructed the use of an auditors expert to support our work in this area. The auditors expert is a registered RICS valuer who has reviewed the Council's instructions to the valuer and the valuers report and has raised some challenge questions which we are currently in discussion with the Council about.

Progress against significant risks

Significant risk (from audit plan)

Valuation of Investment Property

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 (£53m as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority 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 therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.

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Valuation of net pension fund liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£135m liability in the Authority's balance sheet as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.

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

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Progress to date

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of investment properties which have been revaluated in year for further testing. In doing this we considered those assets whose valuers at 31 March 2021 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation
- for each item within our sample we have received detailed calculation sheets for the 2021 revaluation exercise and are currently working through these
- we have also instructed the use of an auditors expert to support our work in this area. The auditors expert is a registered RICS valuer who will be reviewing the Council's valuation report for investment properties and considering the detailed calculations behind some of the significant investment properties held by the Council. We will share the comments from our expert with the Council once we have these.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. No issues were identified from completion of this.

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

Progress against other areas

Other Area

Progress to date

Group Accounts

Risks identified in the group accounts:

- Risk of management override of control is a non rebuttable risk for all organisations
- Risk of fraud in revenue recognition
- There are two line items within the components financial statements which are material to the group: Inventory and Cash.

We have:

- shared our group instructions with the auditors of Exeter City Living earlier in the year and are in regular dialogue with the auditors to receive the information we have requested in order to give us the assurances required for our group opinion
- as part of our work we are required to review the audit file of the Exeter City Living auditors and we are in the process of organising this to be undertaken.

Other balances within the financial statements

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

- we have made good progress working through the other areas of the financial statements and have selected and shared within the Council the majority of our samples selected for testing.
- all queries and information requests are being dealt with quickly by the Council.
- we have completed our work in a number of areas including financial instruments, income and expenditure disclosures, collection fund and related parties.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Full Council setting out our proposed approach in order to give an opinion on the 2020/21 financial statements.</p>	July 2021	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will cover the findings on our financial statements audits.</p>	September 2021	Delayed – see slide 4 for more detail.
<p>Auditors Report</p> <p>This is the opinion on your financial statements and annual governance statement.</p>	September 2021	Delayed – see slide 4 for more detail.
<p>Auditor's Annual Report</p> <p>This summarises the work undertaken as part of our Value for Money assessment.</p> <p>The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given, although we will endeavour to complete this sooner than that.</p>	November 2021	Not yet due

