Grant Thornton

The Audit Findings for Exeter City Council

Year ended 31 March 2021

Exeter City Council

March 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents will be discussed with management and the Audit and Governance Committee

Julie Masci

Name : Julie Masci
For Grant Thornton UK LLP
Date : 28 February 2022

1. Headlines

This table summarises the key findings and other matters arising from 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 2021 for those charged with governance.

Financial Statements

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 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.

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.

Our audit work commenced in August 2021 and was completed remotely. Our findings are summarised on pages 5 to 25. We have not identified any significant adjustments to the financial statements. We have raised recommendations for management as a result of our audit work in Appendix A.

Our work is complete subject to the following:

- Review of the final set of financial statements; and
- Confirmation of post balance sheet events for the Council and Group, to the date of signing.

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.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by April 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of Financial Sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

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
- to certify the closure of the audit.

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements and Whole of Government Accounts submission.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 will be discussed with management and the Audit and Governance Committee.

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 Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that we required specific procedures on material balances to be performed by the component auditor
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have completed our audit of your financial statements and subject to finalising our concluding procedures, we anticipate issuing an unqualified audit opinion, as detailed in Appendix D.

Acknowledgements

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

Signed :

2. Financial Statements

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	2.1 million	2 million
Performance materiality	1.58 million	1.57 million
Trivial matters	0.1 million	0.1 million

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in July 2021.

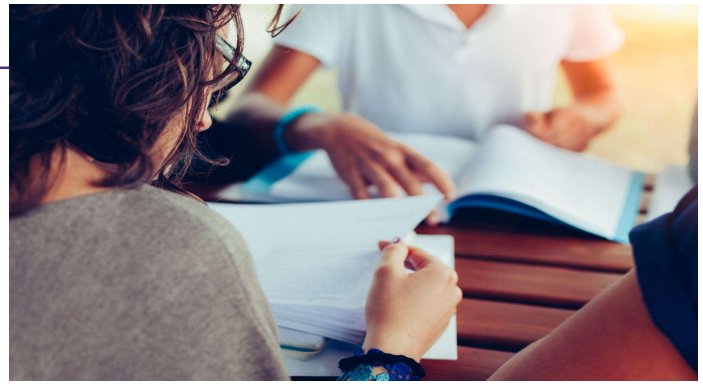
We detail in the table our determination of materiality for Exeter City Council

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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: - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <u>Findings</u> In our testing of high risk and unusual journals, we did not identify any inappropriate postings and were able to obtain sufficient corroboration evidence to support these. We did identify two control issues within Journals system controls which we have reported later in this report and recommendations regarding these have been agreed by management. In our review of accounting estimates and critical judgements we did not identify any areas of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for Exeter City Council, 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 have not rebutted the risk of revenue recognition in our group audit for the income relating to Exeter City Living Ltd.	Our risk assessment of the risk of revenue is deemed to continue to be appropriate. As per our group audit scope set out in the audit plan, we did not rebut the risk of fraud in revenue recognition for the group audit due to the main income streams relating to house sales and this being outside of the normal nature of income received by Council. Our review of the component auditors file, including the work completed on the revenue recognition risk and management override of control has been completed and we obtained sufficient assurance over the work completed by the component auditor. On review of the component auditors audit findings report we noted the completion of non audit services by the component auditor for Exeter City Living Ltd including; accounts preparation, preparation of corporation tax computations and corporate finance services relating to forecasting. We considered whether the provision of these services has any impact on our reliance on the work of the component auditors, in particular considering the ethical requirements of AGN 01. We were able to conclude that appropriate safeguards were in place and there were no significant independence issues and we are able to rely on the work of the component auditors.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Authority revalues its land and buildings using a full revaluation method on a rolling five-yearly basis., although all land and buildings are subject to a desktop review each year, 20% are subject to full revaluation. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£437m including Housing Revenue Account as at 31 March 2020) 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.	We: • 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 • wrote 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 have been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these are not materially different to current value. • engaged our own valuer to assess the instruction to the Authority's valuer and the Authority's valuer's report. For Land and Building assets our auditors expert reviewed the terms of engagement of the valuation and the overall valuation report and raised a number of questions and challenges to the Council on this. We were able to obtain satisfactory responses to these. Our detailed testing of a sample of items involved reviewing the valuation calculations for the asset and obtaining corroborating evidence for each element within the calculation including; areas, building costs, fees, adjustments for obsolescence and yield adjustments amongst others. We reperformed the accounting entries for each of these e.g. have the correct movements been posted to the income and expenditure statement or revaluation reserve in line with accounting principles. We also considered the assumptions underpinning the valuation of these assets including the measurement basis and whether this was appropriate, checking the calculation used to produce the valuation and ensuring this was appropriate, testing assumptions in respect of obsolescence and build rates. On completing these various streams of testing we were able to conclude on the appropriateness of the estimate for each of the items within the sample and concluded that we obtained appropriate and sufficient evidence to conclude these are appropriate. For HRA assets we considered the processes and controls in place for the Council's beacon approach to valuing HRA assets. We challenged the valuer on the data used for the valuations, how the condition of properties has been considered in the valuation of the beacons, how often beacons are reviewed overall and what checks are completed annually including where there are modifications to properties or new builds created and how the number of beacons is appropriate for the authority. For a sample of beacons, we corroborated the valuations to available market data. Overall, we were able to obtain appropriate and sufficient evidence to support the valuations of the HRA properties. Findings: We have finalised our work in this risk area and have no issues to report to management.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The Authority revalue its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£53m as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of the Council's internal valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We: • 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; • wrote 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; • engaged our own valuer to assess the instruction to the Authority's valuer, the Authority's valuer's report and the assumptions • tested revaluations made during the year to see if they have been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these are not materially different to current value. • engaged our own valuer to assess he instruction to the Authority's valuer, the Authority's valuer's report and to review the assumptions which underpin the material investment properties held by the Council. Given the size of the Council's investment portfolio and the varied types of properties within it, we obtained support from our auditors expert who reviewed the valuation methodologies and assumptions for nine investment properties held by the Council which were material at year end. A number of challenge questions were raised regarding the approaches taken and elements of the detailed calculations of these. In order to conclude on these, we required more detailed explanations from the Council's valuer to understand the approaches undertaken. For one particular asset, the Bus Station, our expert disagreed with the appraisal used by the Council as part of the valuation due to this being outdated (2015 appraisal). Following further discussions, the Council were able to update the valuation using a more current appraisal and provide further evidence to confirm the value of the asset was appropriate in the statement of accounts. Overall we were able to conclude that the valuations were appropriately supported however we have made 2 recommendations for improvements in this area going forward. Our detailed testing of a sample of all investment properties involved reviewing the valuation calculations for the asset and obtaining corroborating evidence for each element within the calculation including; areas, rent figures to rental agreements, rate calculations and yields used amongst others. We reperformed the accounting entries for each of these e.g. have the correct movements been posted to the income and expenditure statement or revaluation reserve in line with accounting principles. We also considered the assumptions underpinning the valuation of these assets including the measurement basis and whether this was appropriate, checking the calculation used to produce the valuation and ensuring this was appropriate, testing assumptions in respect of obsolescence and build rates. On completing these various streams of testing we were able to conclude on the appropriateness of the estimate for each of the items within the sample and concluded that we obtained appropriate and sufficient evidence to conclude these are appropriate. Findings: Our work on investment properties, in particular the review of material investment properties by our auditors expert identified a number of areas where we required further information from the Council's valuer in order to understand the valuation approach's and key assumptions used to underpin the valuations. Through further discussions with both our Auditors Expert and the Council's Valuer we were able to conclude that the Council's valuation properties are materially stated within the financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in it's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£135 million liability in the Authority's balance sheet at 31.3.21) and the sensitivity of the estimate to changes in key assumptions. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rate. We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement due to the assumptions used in the calculations.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • 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 assurances from the auditor of the 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. • assessed the accounting treatment of an up front payment which was made in 2020/21 for 3 years past service deficit amounts. Findings: We have finalised our work in this risk area and have no issues to report to management.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Exeter City Council	Grant Thornton UK LLP	Included within this report.	No issues identified which impact on the Group Audit.
Exeter City Group Limited (including Exeter City Living Limited)	PKF Francis Clark	We issued group auditor instructions to PKF Francis Clark who have responded with all the required information to inform our group audit. We undertook a file review of the component auditors audit file and were able to obtain the required level of assurance from the work completed by the component auditors for our group opinion. On review of the component auditors documents, we noted that the auditor had undertaken non-audit services for Exeter City Group Limited. Due to the Financial Reporting Council's revised Ethical Standard (December 2019) the audit team considered whether the non-audit services provided would have any impact on the independence at the group level. We were able to conclude this did not have an impact and therefore were able to rely on the work of the component auditors.	No issues have been noted in respect to the group audit opinion.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation • Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	We have reviewed the accounting policies for the Council to gain assurance that unadopted accounting standards have been appropriately disclosed within the statement of accounts.	No issues noted.
Recognition and Presentation of Grant Income • The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	We have undertaken detailed sample testing for COVID grants, other grant income and grants received in advance, considering the agent / principal judgements, any outstanding conditions, terms that would indicate any capital, ringfenced or non specific grant income and the statutory accounting requirements for the grants.	Our work is now complete in this area and we found no discrepancies in the council's treatment of grant income and the accounting of this in the statement of accounts.
IT Control deficiencies • From our review of journal controls we identified a control deficiency regarding super users.	The council has a large number of system superusers (13). This is significantly higher than we would expect for a Council of Exeter's size. The greater the number of people with system administrator accounts, the higher the risk of the accounts being used inappropriately.	Our view is that the Council has too many superusers giving the size of the Council. We have made a recommendation within the action plan regarding this.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £126 million	The Council undertakes it's revaluation on its land and buildings on a rolling five-yearly basis with assets subject to a full revaluation over the five year cycle. All assets which are not part of the full revaluation have been subject to a desktop revaluation as at 31 March 21. This means all assets within land and buildings are subject to some form of revaluation each year, be it a full revaluation or a desktop revaluation. The total year end valuation of land and buildings was £126m, a net decrease of £1.6m from 2019/20 (£128m).	There are no issues to report, we were able to conclude that land and buildings are materially correct.	● Light purple

Assessment

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

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment property valuations – £53 million	The Council revalue it's investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. The Council has a significant investment portfolio covering a number of different classes of properties, the most significant being retail and office. The total year end valuation of investment properties was £53m, a net decrease of £1m from 2019/20 (£54m).	Our work on investment properties, in particular the review of material investment properties by our auditors expert identified a number of areas where we required further information from the Council's valuer in order to understand the valuation approach's and key assumptions used to underpin the valuations. Through further discussions with both our Auditors Expert and the Council's Valuer we were able to conclude that the Council's valuation properties are materially stated within the financial statements.	● Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £135 million	The Council's net pension liability at 31 March 2021 is £135m (PY £106m) – comprising of the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddington to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in the 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. There has been an increase of £28m in the net actuarial loss during 2020/21 The Council opted to make an up front payment of 3 years past service deficit amounts during 2020/21.	We reviewed the detail of your assessment of the estimate, considering the: • assessment of your management's expert, Barnett Waddington; • completeness and accuracy of the underlying information used to determine the estimate; • reasonableness of the Council's share of LGPS assets; • reasonableness of the overall increase in the estimate; and • adequacy of the disclosure of the estimate in the financial statements. • review of the accounting treatment and support of the up front payment made by the Council External auditors are provided with assurance in the form of an auditor's expert report from PwC to assess the assumptions made by the Actuary, the table below sets out the key assumptions	● Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.04%	●
Pension increase rate	2.80%	2.80% - 2.85%	●
Salary growth	3.8%	3.80% - 3.85%	●
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.6 years Non-pensioners: 24.0 years	21.9 - 24.4 20.5 – 23.1	●
Life expectancy – Females currently aged 45 / 65	Pensioners: 23.9 years Non-pensioners: 25.4 years	24.8 – 26.4 23.3 – 25.0	●

Our work in this area is complete and no issues have been identified.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for bad debts	The Council makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. The Council adopts a calculation methodology based upon past experience and the age of debts to make an allowance for the non-collectable amount of the reported debts. Management has reviewed the amounts collected in year against the provision at 31 March 2021.	We have reviewed the Council's methodology and recalculated the provision. We have challenged the movements in the provisions since the prior year and have concluded managements approach to this is reasonable.	● Light purple
Land and Buildings – Council Housing - £264 million	The Council has a large portfolio of Council dwellings made up of 4,793 properties, 15 shared ownership properties and 823 garages. The Council's housing stock was last fully valued as a whole on 1 April 2019 with a desktop revaluation taking place each year, the latest as at 31 March 2021. The Council use the beacon methodology to value Council dwellings and there are 25 beacons used by the Council.	We have reviewed the Council's methodology of using beacon approach to revaluation of Council dwellings and have concluded that managements approach to this is reasonable.	● Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation £81.278 million	The Council has received material COVID grants in 2020/21 and has undertaken a detailed exercise to determine the accounting treatment for these e.g. whether the Council are an agent or principal for each of the different grant streams and weather there are any conditions / restrictions to the grants.	The audit team obtained the Council's working paper detailing the judgements on accounting treatment of the COVID grants, reviewed the rational and undertook detailed sample testing. Our sample testing of COVID grant income covered both grants where the council determined they were acting as an agent and principal to ensure grants had been correctly included or excluded from the accounts. The Council was able to support its principal / agent judgements for the grants we selected for testing and the treatment of the grants deemed to be reasonable. We also considered whether there we any conditions / restriction to grants and we were able to obtain sufficient evidence to support the conclusions. The accounting entries of the grants within the statement of accounts were also considered to ensure the classification and statutory accounting requirements were correct. We have finalised our work on COVID grants and there are no issues to report to management.	● Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £0.979m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £0.979 million, a net increase of £0.286 million from 2019/20. The Council's minimum revenue policy sets out the Council's approach to reclaim prior year voluntary revenue provision. The Council made voluntary payments totalling £5.02 million from 2013/14 – 2018/19 and is reclaiming the total amount over a three year period covering 2019/20 – 2021/22. We have undertaken work to give us sufficient assurance that the voluntary payments were made as detailed above and that it is appropriate for the Council to reclaim these based on the statutory guidance. We were able to conclude the approach taken by the Council is in line with the statutory guidance and reasonable. The Council's calculation approach to MRP was deemed to be prudent and calculated in line with requirements other than one area noted further below. The Council do not provide for MRP on capital loans to third parties. Grant Thornton's interpretation of the regulations is that this is a requirement. Whilst we acknowledge the Council are reducing the CFR with the annual loan payments, this is over a long period of time and therefore the Council are not setting aside funds for capital expenditure paid and still outstanding. Although in year, and cumulatively, this does not have a material impact on the MRP, going forward this will become material and the Council will need to consider the impact on budget setting going forward.	• The approach taken by the Council to reclaim prior year voluntary payments is reasonable. • The Council are not providing MRP for capital loan payments to third parties. Our view is this is not in line with the regulations • Other than the above point, the Council's MRP is deemed to be prudent. Management Response: *Not agreed. Whilst the section 151 Officer understands why the recommendation has been made, it is his professional opinion that the recommendation if followed would provide for an MRP that over provides and therefore is not prudent. This is because the loan repayment fully provides for the amount required to be set aside in line with the Council's policy to repay debt in line with the relevant assets useful life. If the Council set aside this amount from revenue as well it would, by the time the loan was repaid, have locked away twice as much as required resulting in a positive capital financing requirement and a waste of taxpayers funds. The section 151 Officer does not believe this is the intention of either the Government or External Audit, whose roles (in relation to this) partly exist in order to protect taxpayers. Indeed conversations with the Government over the consultation have indicated that they will rework the proposals in respect of capital loans.* *It is important to note that MRP exists to replace proper accounting practice in respect of depreciation, amortisation and movement in market values, where Councils have a statutory override in place that removes these transaction. There is proper accounting practice in place for capital loans and this should be enforced properly instead.*	● Grey

Assessment

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

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	Declarations of interest were only made by two senior officers in 2020/21. The system used to make declarations does not require senior officers to complete a declaration where this is a nil disclosure. There is a risk that related parties are not declared by all senior officers.	See page 28 for the recommendations within the action plan.
●	On a small number of occasions, finance staff have used their superuser ID to post journals into the system. It is the Councils policy that the superuser ID should not be used for this purpose. There is a risk of misappropriate use of superuser ID.	See page 28 for the recommendations within the action plan.

Assessment

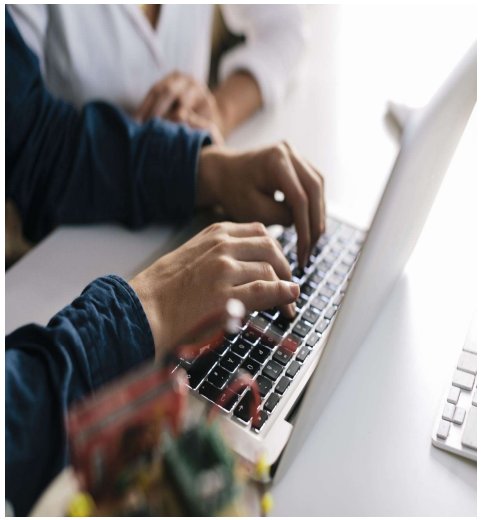
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment institutions. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation. We requested from management permission to send confirmation requests to those solicitors who worked with the Council during the year. All requests have now been returned with no significant matters to report.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

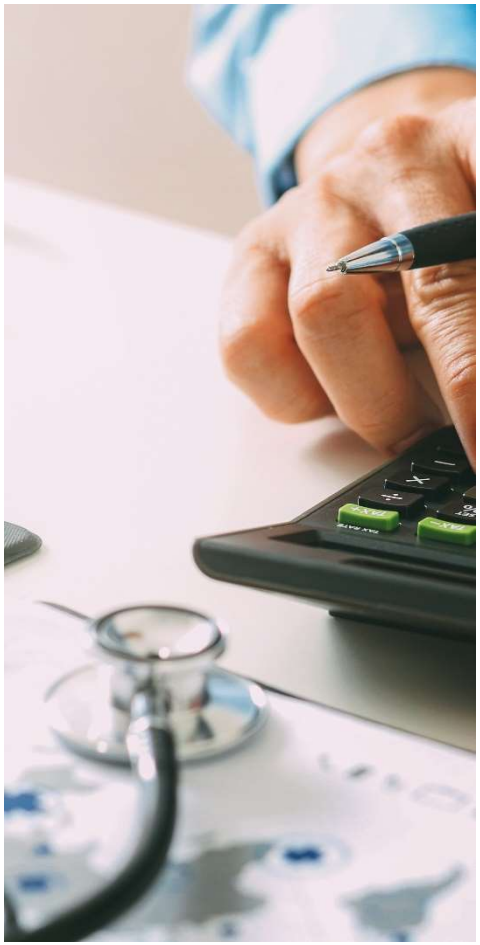
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. We have reviewed managements assessment of going concern and have concluded that managements use of the going concern assumption in the preparation and presentation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. There are no other matters to report.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	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. • Note that detailed work is not expected to be required as the Council in unlikely to be above the threshold, however the threshold for 2020/21 has not been confirmed at this stage.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Exeter City Council in the audit report, as detailed in Appendix E, due to the delay in the completion of the value for money work and final Whole of Government Accounts procedures.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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 improvements in 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by April 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the following risk in our audit plan – Financial Sustainability, risk to the delivery of the financial plan. No further significant risks have been identified at this stage.

5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

On review of the component auditors audit findings report we noted the completion of non audit services by the component auditor for Exeter City Living Ltd including; accounts preparation, preparation of corporation tax computations and corporate finance services relating to forecasting. We discussed the nature of these services with the Council and the component auditor and considered whether the provision of these services has any impact on our reliance on the work of the component auditors, in particular considering the ethical requirements of AGN 01. We were able to conclude that appropriate safeguards were in place and there were no significant independence issues and we are able to rely on the work of the component auditors.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. Independence and ethics

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 group. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	£6,000	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 fee for this work is £6,000 in comparison to the total fee for the audit 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	£17,298 (estimated fee)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,298 in comparison to the total fee for the audit 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Audit of the Harbour Accounts	£950	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £950 in comparison to the total fee for the audit 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.
		Self review (because GT provides audit services	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council as a result of issues identified 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 2021/22 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
●	Declarations of interest were only made by two senior officers in 2020/21. The system used to make declarations does not require senior officers to complete a declaration where this is a nil disclosure. There is a risk that related parties are not declared by all senior officers.	• We recommend all senior officers should be required to submit an annual declaration of interests, including where this is a nil disclosure **Management response** Agreed. Senior officers will be asked to submit an annual declaration of interests, including a nil disclosure, if appropriate.
●	The Council has a large number of finance staff with superuser access to the system. There is a risk of misuse of these access and this not being picked up due to the large number.	• We recommend the Council review the user accounts identified with administration privileges and revoke those that do not require this. **Management response** Agreed. A review of super users has been performed and officers that are no longer deemed super users due to a change in their role have had their access permissions updated. An annual review of all super users will be undertaken.
●	On a small number of occasions, finance staff have used their superuser ID to post journals into the system. It is the Councils policy that the superuser ID should not be used for this purpose. There is a risk of misappropriate use of superuser ID.	• We recommend the Council ensure no further journal postings are made via superuser IDs. **Management response** Agreed. A reminder has been sent to officers with super user access to highlight that journals should not be posted when logged in as a super user, as this access right is for system administration purposes only.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	The Council does not provide MRP for capital loan payments to third parties. This is not deemed to be in line with the regulations. There is a risk that going forward, MRP will be materially understated.	• We recommend the Council reassess the treatment of MRP on capital loans to third parties. **Management response** Not agreed. Whilst the section 151 Officer understands why the recommendation has been made, it is his professional opinion that the recommendation if followed would provide for an MRP that over provides and therefore is not prudent. This is because the loan repayment fully provides for the amount required to be set aside in line with the Council's policy to repay debt in line with the relevant assets useful life. If the Council set aside this amount from revenue as well it would, by the time the loan was repaid, have locked away twice as much as required resulting in a positive capital financing requirement and a waste of taxpayers funds. The section 151 Officer does not believe this is the intention of either the Government or External Audit, whose roles (in relation to this) partly exist in order to protect taxpayers. Indeed conversations with the Government over the consultation have indicated that they will rework the proposals in respect of capital loans. It is important to note that MRP exists to replace proper accounting practice in respect of depreciation, amortisation and movement in market values, where Councils have a statutory override in place that removes these transaction. There is proper accounting practice in place for capital loans and this should be enforced properly instead.
●	Where the Council are using supporting data and assumptions within investment property valuations, such as land appraisals, they should ensure the latest and most up to date available information is being used as part of the valuation calculations.	• We recommend the Council ensure the latest available information is used by the valuer to support valuation calculations for investment properties. **Management response** Agreed. The Council already endeavours to use the most up-to-date available information, but the recommendation is noted and we will review our practices accordingly. In addition, the Council is seeking to outsource some of its valuation work in respect of certain asset valuations.
●	Where judgements are being made by the valuer regarding yields in the valuation calculations for more complex investment properties, the valuation report and supporting calculations should document the justification and explanation of the support taken by the valuer.	• We recommend the Council request this information is provided as part of the valuation outputs. **Management response** Agreed. This is already documented, but we will seek to provide as part of the valuation outputs.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

There are no adjusted misstatements to report.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
The collection fund adjustment account shows a significant movement year on year due to the extent of reliefs giving to businesses during the pandemic	We recommend a comment is added to the note to explain the reason for the movement to aid users of the accounts understanding giving the significance of the movement. Management response Agreed. A note has been added to explain the reason for the significant increase in the Collection Fund Adjustment Account compared to the prior year.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements to report.

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements to report.

C. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£62,073	£69,173
Additional work on Value for Money (VFM) under new NAO Code	£9,000	TBC
Additional fee in respect of review of subsidiary company Exeter City Group Limited	£3,500	£3,500
Total audit fees (excluding VAT)	£74,573	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	£21,198	TBC
Total non-audit fees (excluding VAT)	£21,198	TBC

Audit related fees includes a £950 fee for the audit of the harbour accounts which was not included within the audit plan.

The fees reconcile to the financial statements. with a £6k difference due to the council accruing for additional expected fees for housing benefits based on prior experience of the actual fees.

Final Audit Fees for 2020-21

We confirm below our proposed final fees for the 2020-21 financial audit to be considered by PSAA. Our final fee for VFM work will be confirmed following the issue of our Annual Auditors Report at by April 2022.

Audit fees	2019-20 Final Fee	2020-21 Planned fee	* 2020-21 Final fee
Scale Fee published by PSAA	44,573	44,573	44,573
Raising the bar / regulatory factors	2,500	2,500	2,500
Enhanced audit procedures for Property, Plant and Equipment and Investment Properties	1,750	1,750	6,750
Use of valuation auditor's expert to support work on PPE	-	5,000	7,100
Enhanced audit procedures for Pensions	1,750	1,750	1,750
Increased audit requirements of revised ISA's (540 / 240 / 700)	1,500	6,500	6,500
Additional work due to Covid-19 impact	7,680	-	-
Additional work due to technical accounting issues associated with prior period adjustment	500	-	-
Total Council financial audit fees	60,253	62,073	69,173
Additional fee in respect of review of subsidiary company Exeter City Group Limited	1,500	3,500	3,500
Total Council and Group financial audit fees (excluding VAT)	£61,753	£65,573	£72,673

*The final fee variation is subject to approval by PSAA.

Audit fees still to be confirmed	2019-20 Final Fee	2020-21 Planned fee	* 2020-21 Final fee
Additional work on Value for Money (VFM) under new NAO Code	-	9,000	TBC

D. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group 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 on financial statements

We have audited the financial statements of Exeter City Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2021, 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, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement in the Housing Revenue Account, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

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 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's

D. Audit opinion

financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements. 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters 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, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

D. Audit opinion

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.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 27, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group'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 and the group 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

D. Audit opinion

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Local Government and Housing Act 1989.

• We enquired of senior officers and the Audit and Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, management estimates and judgements and transactions outside the normal course of business.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
- journal entry testing, with a focus on high risk journals
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, council dwellings and investment property valuations and defined benefit pensions liability valuations;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and investment property valuations and defined benefit pensions liability valuations.

D. Audit opinion

• Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditors

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority and group including:
- the provisions of the applicable legislation
- guidance issued by CIPFA, LASAAC and SOLACE
- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

• For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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.

D. Audit opinion

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 Exeter City Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

• our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,

• the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

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.

Signature:

Julie Masci, Key Audit Partner

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

Bristol

Date

E. Audit letter in respect of delayed VFM work

Chair of the Audit and Governance Committee
Civic Centre
Paris Street
Exeter
Devon
EX1 1JN

Dear Chair of the Audit and Governance Committee

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

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than April 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Julie Masci

Director

Grant Thornton

grantthornton.co.uk