

# Interim Audit Findings for Exeter City Council

**Year ended 31 March 2022**

March 2024



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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 have been discussed with management

Name : Julie Masci

For Grant Thornton UK LLP

Date : 6 March 2024

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# 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 2022 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), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

This report sets out an update on the findings from our work on the Council's 2021-22 financial statements. A final report will be issued at the conclusion of our work. Our findings are summarised on pages 2 to 22. To date, we have identified one adjustment to the financial statements that has resulted in a £2.45m adjustment to the Group's Comprehensive Income and Expenditure Statement and there is no impact on the entity accounts. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is well progressed and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- ~~Completion of journal testing~~
- ~~Completion of substantive transaction testing for debtors, creditors, fees and charges, grant income, cut off testing and HRA dwelling agreements~~
- ~~Review of the updated IAS19 pensions adjustments following the outcomes of the triennial pension's valuation~~
- ~~Review of the going concern assessment~~
- ~~Review of the Minimum revenue provision calculation~~
- ~~Completion of group review~~
- receipt of updated management representation letter; and
- review of the final set of financial statements.

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

Value for money work is complete and the Auditor's Annual report is to be presented at the March Audit and Governance Committee. The NAO have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 2021-22 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

We have undertaken and prepared a joint report of 2021-22 and 2022-23 arrangements in order to give members the most relevant and timely reporting. A summary of our findings is set out in section 3

## 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 subject to formal conclusion of two elector objections on the 2021-22 financial statements.

## Significant Matters

We did not identify any significant matters arising during our audit. We recognise that management are operating in a challenging financial environment and as such are required to provide and report an appropriate budget which fully reflects the financial challenges facing the Council prior to the start of the financial year on 1 April. This requires resources being made available and these resources are also those on which we rely for assisting with the audit process through provision of working papers and responding to queries raised. As a result of this resource conflict we agreed with management to withdraw from the audit process in January and February 2023 and resumed our work in March 2023.

# 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 have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Exeter City Living was required, which was completed by PKF Francis.
- 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 substantially completed our audit of your financial statements and subject to outstanding queries being resolved. These outstanding items are listed on page 3.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 18 of our audit plan presented to the Audit and Standards Committee in July 2022, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity, access to key data from Council staff. This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

## 2. Financial Statements



### 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.

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

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,100,000	2,000,000	
Performance materiality	1,575,000	1,500,000	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	100,000	100,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties





## 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 override of controls is present in all entities. The Authority face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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

We have:

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

~~Our work in this area is ongoing and~~ We have identified one issue in relation to one member of the finance team having super user access. We identified that the team member had posted 25 journals in the year and from this three were further reviewed to ensure these have been appropriately transacted. The superuser has the ability to add and remove staff members from the general ledger which gives a wider scope for manipulation of data. Testing of journals included those posted by the super user and no further issues have been identified. ~~Our work in this area is ongoing and we will report any further findings to management and members~~



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### The Revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council we have determined that the risk of fraud arising from revenue recognition can be rebutted because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable

We have not identified any issue in our work in relation to revenue and therefore consider that the rebuttal is still appropriate.

#### Risk of fraud related to expenditure recognition PAF Practice Note 10

In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)

For expenditure recognition we will

- Evaluate the groups accounting policy for recognition of expenditure for appropriateness;
- Gain an understanding of the Council's system for accounting for expenditure and evaluate the design of the associated controls;
- Agree, on a sample basis, amounts recognised as expenditure in the financial statements to supporting documents
- Identify and test a sample of transactions received post year end to ensure these have been classified to the correct year

We have not identified any issues in our work in relation to expenditure.



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### Valuation of land and buildings

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

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

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

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2022 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation
- for each item within our sample we have requested detailed calculation sheets for the 2022 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. We continue to discuss this requirement with the Council.
- We have identified and shared our sample of other land and building assets and have been provided with evidence as to how these values have been calculated.
- Reviewed those assets not revalued in year to ensure there is not a material variance between the market value and the carrying value

We have not identified any issues in relation to the valuation of land and buildings in the work completed to date.

### Valuation of Investment Property

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

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

We have:

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

We have not identified any issues in relation to the valuation of investment property.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of land and buildings (Council Dwellings)

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

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

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

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

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

We have not identified any issues in relation to this work.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in the 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 (£99 million liability in the Council's balance sheet at 31/03/22) and the sensitivity of the estimate to changes in key assumptions.

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

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. Evaluate 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
- Undertaken 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; and
- Obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

All unsigned audits for 2021-22 were paused at the 31 March 2023 to consider the impact of publication of the results of the triennial actuarial review of pensions valuations. This resulted in changes in member numbers within pension funds and has led to a material adjustment in the pension liability disclosures for the Council as at 31 March 2022. This has required management to commission a new actuarial valuation and adjust the accounts accordingly. The Council has prepared revised financial statements reflecting the new actuarial assumptions relevant to 31 March 2022. This has resulted in an overall reduction to the Council's net pensions liability of £9.9m.

We have performed additional audit procedures to ensure the revised pension valuation has been adjusted appropriately within the financial statements, as we performed additional member data testing on the inputs used to inform the actuary's triennial valuation of the fund as a whole. Furthermore, we have reviewed the revised actuarial assumptions used by the actuary in preparing its revised valuation and we are satisfied that these revised assumptions are within expected tolerances as set out by our consulting actuary (as auditor's expert). This additional work will require an increase to our audit fees as set out in Appendix D.

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

Component	Component auditor	Findings	Group audit impact
Exeter City Council	Grant Thornton	<p>See pages 7 to 11 for significant risks work undertaken and any issues identified in relation to significant risks.</p> <p>As part of our work we have reviewed the consolidation process including intercompany transaction elimination. This work identified that the Council have purchased a number of assets from Exeter City Living to the value of £2,450k (£900k in prior year) and have subsequently removed these assets from their balance sheet as part of the consolidation process.</p> <p>Review of the process identified that the £2,450k has not be removed from the Council's CIES, in line with consolidation processes, and that the assets have not been recognised in the Balance Sheet. This has been discussed with management and the accounts have been subsequently amended.</p>	There is no impact on the group audit opinion.
Exeter City Living	PKF Francis	<p>Full scope UK statutory audit performed by Exeter City Living auditors, PKF Francis. The nature, time and extent of our involvement in the work included a discussion on risks and meeting with appropriate members of management. A review of the relevant aspects of the subsidiary auditor's audit documentation is to be carried out and we will report any findings to the Committee.</p>	<p>As part of our review of the group accounts we have undertaken a review of the component auditors work to ensure that key risks have been addressed and that no issues would impact on the group opinion had been identified.</p> <p>Our work has not identified any issues in relation to the audit of the component</p>

## 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 – £119.5m	<p>Other land and buildings is comprised of specialised assets such as leisure centres, which are required to be valued at depreciated cost (DRC) at year end, reflecting the modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council revalues its land and buildings on a rolling programme with a maximum period of five years between revaluations. This is a mixture of full revaluations and a desktop exercise using indices. The Council has engaged its internal valuer to complete the valuation of properties as at 31 March 2022 and 48% of land and building assets were subject to a full revaluation during 2021-22.</p> <p>Management has considered the year end value of non-valued properties, and the potential value change in the assets revalued at 31 March 2021 by applying indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties values.</p> <p>The total year end valuation of land and buildings was £119.5m, a net decrease of £6.9m from 2021-22 (£126.4m)</p>	<p>We have reviewed the detail of your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>The assessment of the Council's in-house valuers</li> <li>The completeness and accuracy of the underlying information used to determine the estimate</li> <li>The reasonableness of the overall decrease in the estimate</li> <li>The adequacy of the disclosure of the estimate in the financial statements</li> <li>The sensitivities used by the valuer to assess completeness and consistency with our understanding and</li> <li>Consistency of the estimate against Gerald Eve reported indices</li> </ul> <p>Testing of the valuer's assumptions requires that sufficient evidence be provided to support any underlying assumptions or indices used to calculate a revaluation. Management have been able to provide appropriate audit evidence to support these underlying assumptions.</p> <p>Where assets are not revalued in the financial year, assurance is required that these are not materially different to the current value at year end. From discussion with management the Terms of Engagement with the valuer require that those assets not included in the full valuation process are assessed for any material valuation fluctuations and a desktop exercise is undertaken. The valuer's report states which assets have been fully revalued and which have been subject to a desktop review. As such all assets revalued in the year have been given a certified valuation at 31 March 2022. We have included all assets in our work and this has concluded that land and building assets are not materially misstated in the balance sheet.</p>	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
Investment Property Valuation - £56m	<p>The Council 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</p> <p>The Council's commercial investment portfolio consists of a mixture of assets comprising both industrial and commercial usage.</p> <p>The Council has engaged JLL, as an external expert, to complete the 2021-22 valuation of these investment properties.</p> <p>The Council engaged its internal valuer to undertake the valuation of the remaining investment properties.</p> <p>The total year end valuation of investment properties was £56m, a net increase of £2.6m from 2020-21 (£53.4m)</p>	<p>We have reviewed the detail of your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>The assessment of the Council's internal valuers and management's expert JLL</li> <li>The completeness and accuracy of the underlying information used to determine the estimate</li> <li>The reasonableness of the overall increase in the estimate</li> <li>The adequacy of the disclosure of the estimate in the financial statements</li> <li>We have used an auditor's expert to review the work undertaken by both the external valuer.</li> </ul> <p>Our work requires that we review and gain assurance over the assumptions and any indices used and our work has not identified any issues.</p>	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																								
<b>Net pension liability – £123.4m</b>	<p>The Council's net pension liability as 31 March 2022 is £99.3m, following the triennial review (PY £134.7m) comprising the Local Government and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes</p> <p>A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2022. A roll forward approach is used in the intervening periods, which utilises key assumptions such as a life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pensions fund liability small changes in assumptions can result in significant valuation movements.</p> <p>There has been a decrease of £35.4m in the net actuarial deficit during 2021-22</p>	<ul style="list-style-type: none"> <li>We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. No issues were identified from our review of the controls in place.</li> <li>We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made:</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value 2019 valuation</th> <th>Revised Actuary Value 2022 Valuation</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.6%</td> <td>2.6%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.2%</td> <td>3.2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.2%</td> <td>CPI + 1% = 4.2%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24/22.7</td> <td>23 / 21.7</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.4/24</td> <td>24.3/22.9</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identified any inconsistencies.</li> <li>The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view</li> </ul>	Assumption	Actuary Value 2019 valuation	Revised Actuary Value 2022 Valuation	Assessment	Discount rate	2.6%	2.6%	●	Pension increase rate	3.2%	3.2%	●	Salary growth	4.2%	CPI + 1% = 4.2%	●	Life expectancy – Males currently aged 45 / 65	24/22.7	23 / 21.7	●	Life expectancy – Females currently aged 45 / 65	25.4/24	24.3/22.9	●	Light Purple
Assumption	Actuary Value 2019 valuation	Revised Actuary Value 2022 Valuation	Assessment																								
Discount rate	2.6%	2.6%	●																								
Pension increase rate	3.2%	3.2%	●																								
Salary growth	4.2%	CPI + 1% = 4.2%	●																								
Life expectancy – Males currently aged 45 / 65	24/22.7	23 / 21.7	●																								
Life expectancy – Females currently aged 45 / 65	25.4/24	24.3/22.9	●																								

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £290.5m	The Council owns 4,777 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged JLL to complete the valuation of these properties. The year end valuation of Council Housing was £290.5m, a net increase of £26.5m from 2020/21 (£264m).	<p>Council dwellings represent a significant proportion (£290.5m) of the Council's asset base and in accordance with the CIPFA code, these assets are valued in line with the Stock valuation resource accounting 2016:guidance for valuers which has been provided by Central Government.</p> <p>We have assessed the Council's valuer to be competent, capable and objective.</p> <p>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report.</p> <p>The valuation method remains consistent with the prior year and no issues have been identified</p> <p>We have selected a sample testing of beacon properties to test the reasonableness of the beacon applied and no issues have been identified.</p> <p>We have undertaken a review of the values against the Gerald Eve trends to ensure that there is not a material variance between the fair value and the market value.</p> <p>We have agreed the HRA valuation report to the Statement of Accounts.</p>	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- £37.2m	<p>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.</p> <p>There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code</p>	<ul style="list-style-type: none"> <li>We have reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts</li> <li>We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed</li> <li>We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these</li> <li>We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for.</li> <li>We have reviewed the Council's assessment as to whether they are acting as principal or agent in the treatment and recognition of grant revenue, and specifically covid grant funding, and considered that this is appropriate</li> </ul> <p>We have not identified any issues in relation to this area.</p>	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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £957k	<p>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</p> <p>The year end MRP charge was £957k, a net decrease of £22k from 2020-21.</p> <p>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 £5.02m from 2013-14 to 2018-19 and is reclaiming the total amount over a three year period covering 2019-20 to 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 that the approach taken by the Council is in line with the statutory guidance and is reasonable.</p> <p>The Council's calculation approach to MRP was deemed to be prudent and calculated in line with the requirements other than one area noted below</p> <p>The Council do not provide for MRP on capital loans to third parties. Grant Thornton's interpretation of the regulation is that this is a requirement. Whilst we acknowledge the Council is reducing the capital financing requirement with the annual loan payments this is over a long period of time and therefore the Council are not setting aside sufficient funds for capital expenditure paid and still outstanding. The Council have subsequently reviewed the future viability of Exeter City Living Ltd (ECL) and have discontinued significant elements of ECL's trading services. This will have a direct impact on loans provided by the Council and subsequent repayment by ECL. The cumulative impact up to and including 2022-23 is not material and management will need to re-evaluate their MRP in light of any future loan recovery implications on the financial statements.</p>	<ul style="list-style-type: none"> <li>The approach taken by the Council to reclaim prior year voluntary payments is reasonable</li> <li>The Council are not providing MRP for capital loan payments to third parties. Our view is that this is not in line with the regulations</li> <li>With the exception of the above comment the Council's MRP is deemed to be prudent.</li> </ul> <p><b>Management response</b></p> <p>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 to protect taxpayers. Indeed the Government has recognised this issue and have included proposed changes in the new statutory guidance on MRP in respect of capital loans.</p> <p>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 transactions. There is proper accounting practice in place for capital loans and this should be enforced properly instead.</p>	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

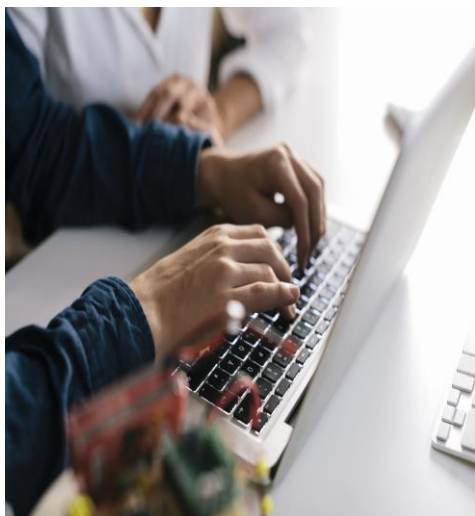
Assessment	Issue and risk	Recommendations
●	Declarations of interest were only made by two senior officers, as in 2020-21. The system used does not require senior officers to complete a declaration where this is a nil disclosure. There is a risk that related parties are not declared by all senior officers	See pages 27 -28 for the recommendations within the action plan.
●	An IT review undertaken in previous years identified that there were 8 members of finance staff with superuser IDs of which one is a senior member of finance. This would allow the user to amend key data and should be limited to staff supporting ICT operational functions and not those with finance responsibilities. Whilst testing in 2021-22 has not identified any inappropriate usage the access level has not been fully addressed and there remains a risk of manipulation of data and financial information	See pages 27 - 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 & 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. Our testing identified the following control issue in relation to related parties: <ul style="list-style-type: none"> <li>• Declarations of interest were not received from all officers</li> </ul> Our work has not identified any further issues.
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.
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have yet to receive confirmation for four investment balances and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Audit & Governance Committee.  We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. This confirmation has been provided and no further issues have been identified.
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided.  We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.



## 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	<p>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:</p> <ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> <li>The impact of management's decisions to reduce service provision by Exeter City Living Ltd</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required at Exeter City Council as they do not exceed the threshold required for the completion of this work.</p>
Certification of the closure of the audit	<p>We expect to certify the completion of the audit upon the completion of our work subject to formal conclusion of two elector objections on the 2021-22 financial statements.</p>



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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

Value for money work is complete and the Auditor's Annual report is to be presented at the March Audit and Governance Committee

NAO have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 2021-22 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

As a firm, we have taken a decision to prepare a combined VFM report covering both the 2021-22 and 2022-23 arrangements in order to give members the most relevant and timely reporting and ensure this reflects the most up to date arrangements at the Council.

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. The table below details the weaknesses identified and the work undertaken which have resulted in two key recommendations.

Significant weakness identified during Audit	Procedures undertaken	Key Recommendations
<p>During 2021/22 and 2022/23 the Council was involved with a number of subsidiaries. The Governance arrangements for all subsidiaries was considered and identified the following issues:</p> <ul style="list-style-type: none"> <li>• No consistent approach or policy in place setting out what governance arrangements should be adopted</li> <li>• Lack of clear objectives against which performance could be effectively monitored</li> <li>• Lack of reporting of progress/performance monitoring and member oversight</li> <li>• Lack of clarity over who is acting as the shareholder representative</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed governance arrangements in place to assess suitability</li> <li>• Reviewed meeting minutes and performance monitoring</li> <li>• Held discussions with officers to further understand what arrangements are in place</li> </ul>	<p>The Council should review the alternative delivery models with which it is involved and assess if continuing with these arrangements is appropriate and provides the best value for money. Where it is appropriate to continue the Council should strengthen the governance arrangements as follows:</p> <ul style="list-style-type: none"> <li>• Determine who will act as the shareholder representative or Council lead</li> <li>• Agree the objectives or benefits expected through partnership working so that performance can be effectively monitored</li> <li>• Introduce periodic financial and performance monitoring reports which are reviewed by members within public meetings</li> </ul>
<p>Throughout 2020/21, 2021/22 and 2022/23 and up to the time of reporting the Council has not reported performance against its strategic priorities as set out in the Corporate Plan. The Council does not have a performance management framework and does not have a corporate view on its performance</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• Review the Corporate plan and considered performance monitoring against the strategic priorities</li> <li>• Considered the adequacy of the overall Council performance framework</li> </ul>	<p>The Council should ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the Executive or Full Council on a quarterly basis. Directorate and service performance monitoring should support and be linked to the Council's strategic priorities. A robust performance management framework should clearly set out the approach required</p>

# 4. 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.

## 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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## 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 which were charged from the beginning of the financial year to, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

We have made enquiries of component auditors and have confirmed their independence from the Council and Group and that they are not providing any non audit services that would impact on the group independence

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 of £82,548 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 unlikelyhood 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 Subsidy return	27,500	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 £27,500 in comparison to the total fee for the audit of £82,548 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 unlikelyhood 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.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# Appendices



# A. Action plan – Audit of Financial Statements

We have identified 4 recommendations for the group 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
Medium	Management has incorrectly excluded assets from the Council's balance sheet as a result of the consolidation process. Housing assets purchased by the Council from Exeter City Living should be included in the balance sheet and failure to do so could lead to the risk of a material misstatement within the financial statements.	<p>Management should ensure that the consolidation process for producing group accounts is appropriately followed and that all intercompany transactions are correctly disclosed in the statement of accounts</p> <p><b>Management response</b></p> <p>All intercompany transactions are eliminated during the consolidation process but agree that this does not apply to asset transactions. It is agreed that when assets are exchanged only the unrealised profit or loss on the transaction needs to be dealt with</p>
Medium	The Council has a senior member of the finance staff with superuser access to the system. There is a risk of misuse of this access and this not being picked up due to the access rights provided to a superuser.	<p>We recommend the Council review the user accounts identified with administration privileges and revoke those that do not require this.</p> <p><b>Management response</b></p> <p>Agreed. Super user access permissions will be reviewed</p>

## 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
<p><b>Medium</b></p>	<p>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.</p>	<p>We recommend the Council reassess the treatment of the MRP on capital loans to third parties</p> <p><b>Management response</b></p> <p>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 to protect taxpayers. Indeed the Government has recognised this issue and have included proposed changes in the new statutory guidance on MRP in respect of capital loans.</p> <p>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 transactions. There is proper accounting practice in place for capital loans and this should be enforced properly instead.</p>
<p><b>Low</b></p>	<p>From the work performed within remuneration disclosures, we agreed the declarations obtained from the monitoring officer and have found that where there is a nil return officers are not completing declaration forms. Whilst we acknowledge this is in line with Council policy it is Audit opinion that there is a risk that declarations of interest will not be properly declared and that governance procedures will not be properly followed.</p>	<p>A declaration of interest should be completed by all senior officers including nil returns to provide assurance that no potential conflict of interests have been omitted and that appropriate governance arrangements have been followed</p> <p><b>Management response</b></p> <p>We are satisfied that the Strategic Management team have complied with the obligations on them as prescribed in the officers code of conduct. However, in order to improve our process, the Strategic Management team (the Chief Executive and Directors) shall be reminded annually of the need to declare any interest they may have and where no such declaration is needed, they will be required to complete a nil return. On this basis, they will be renewing their declarations annually even where there is nothing new to report.</p>

## Controls

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

## B. Follow up of prior year recommendations

We identified the following issues in the audit of Exeter City Council's 2020/21 financial statements, which resulted in 6 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	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 have again identified that only two senior officers have made declarations. We have raised a recommendation in relation to this issue.
X	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.	Whilst the Council has reduced this number to one individual it is the opinion of audit that no members of finance should have superuser access levels. We have, therefore, raised a recommendation in 2021-22.
✓	On a small number of occasions, finance staff have used their superuser ID to post journals into the system. It is the Council's policy that the superuser ID should not be used for this purpose. There is a risk of inappropriate use of superuser ID.	Testing of journals in 2021-22 has not identify any instances of finance staff with superuser access posting inappropriate journals. We therefore consider this issue has been addressed.
X	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.	Management have not amended their approach to the calculation of MRP and therefore we consider that this issue and risk remains. We have raised a recommendation for management to address
✓	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.	Review of investment property assumptions have not identified any issues and therefore we consider this issue has been addressed.
✓	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.	Review of investment property assumptions have not identified any issues and therefore we consider this issue has been addressed.

### Assessment

- ✓ Action completed
- X Not yet addressed

# C. 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

We have not identified any misstatements in the Council's primary statements. Review of the consolidation process identified a material misstatement which is set out in detail below along with the impact on the key group statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
In 2020-21 and 2021-22 the Council has purchased assets from Exeter City Living to the value of £900k and £2,450k respectively. As part of the consolidation process the Council has not eliminated the revenue and expenditure from the group CIES and has failed to recognise the asset in the group Balance sheet.	Cr Exeter City Living Expenditure (2020-21) (900) Cr Exeter City Living (2021-22) (2,450)	Dr PPE (2020-21) 900 Dr PPE (2021-22) 2,450 Cr Usable reserves (2020-21) (900) Cr Usable reserves (2021-22) (2,450)	0
<b>Overall impact</b>	<b>£3,350</b>	<b>£0</b>	<b>£0</b>

## 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?
A small number of amendments were made to the Accounting Policies to more accurately reflect	Our review and audit of the draft accounts identified a small number of presentational changes to enhance the clarity of the accounts for the reader. We have shared the areas for presentational amendments and these will be reflected in the revised accounts.	✓

## Impact of unadjusted misstatements

There are no unadjusted misstatements identified in 2021-22 and no unadjusted misstatements were identified in 2020-21.

# D. Fees

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

<b>Audit fees</b>	<b>2022-23 Planned fee</b>	<b>2022-23 Proposed fee</b>
Council Audit fee per audit plan	£82,548	£94,549
<b>Total audit fees (excluding VAT)</b>	<b>£82,548</b>	<b>£94,549</b>

#### Details of variations in final fees from the proposed fee per the audit plan

- fees per financial statements £82,548
- Additional fees for Group audit £7,500
- Additional IAS19 work required in relation to the triennial pensions valuation £6,000
- total fees per above £94,549

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Audit Related Services</b>		
Certification of Pooling of Housing Capital receipts	£6,000	£6,000
Certification of Housing Benefit Claim	£27,500	£27,500
<b>Total non-audit fees (excluding VAT)</b>	<b>£33,500</b>	<b>£33,500</b>

# Audit fees – detailed analysis

Scale fee published by PSAA	£49,073
Raising the bar/regulatory factors	£3,125
Enhanced audit procedures for Property, Plant and Equipment	£5,688
Enhanced audit procedures for Pensions	£688
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540	£2,100
Additional audit requirements relating to journals and grants testing	£3,000
Additional local risk factors – Group audit work	£7,875
Additional local risk factors – Additional VFM risk work	£3,000
Remote working	£5,000
Additional IAS19 procedures following the revised triennial pensions valuation (as explained on page 11)	£6,000
<b>Total proposed audit fees 2021/22 (excluding VAT)</b>	<b>£94,549</b>





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