

# The Audit Findings for Exeter City Council

Year ended 31 March 2023



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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.

Name: Julie Masci  
For Grant Thornton UK LLP  
Date: 15 November 2024

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.

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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 2023 for the attention of 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 remotely during November 2023 and we have a small number of queries and final review to close off. We will update the committee verbally on these. Our findings are summarised from page 8 onwards. We have not identified any adjustments to the financial statements in relation to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix E. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix D.

We identified some delays in receiving evidence and working papers to support the 2022/23 financial statements. This was in part due to the on-going 2021/22 audit which meant both audit years were running alongside each other. The Council also needs to ensure that sufficient staff capacity is available to support the timely completion of audit work. We would like to work closely with the Council going forward to ensure the process runs more smoothly in future years.

Subject to the completion of the remaining audit procedures set out on page 6, we anticipate issuing an unqualified audit opinion as set out in appendix E.

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 financial statements audit report opinion will be unmodified.

Our work on the Council's value for money (VFM) arrangements is complete and reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). Further details are set out overleaf. We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

# 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 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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified two significant weaknesses in the Council's arrangements in respect of governance and improving economy, efficiency and effectiveness. Therefore we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (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.

Under the Local Audit and Accountability Act 2014, a local elector has the rights to inspect the accounts and books and records of the Council and write to the external auditors, to ask questions about the accounts. They may also object to the Council's accounts asking that the auditor issue a report in the public interest (under Section 24 and paragraph 1 of Schedule 7 of the Local Audit and Accountability Act 2014) or apply for a declaration that an item in the accounts is contrary to law.

We received two written objections during the public inspection period for the 2021-22 accounts.

Having carefully considered the grounds for both objections and further information highlighted by both correspondents, we have concluded that these are matters to be considered by the auditor, in part through our financial statements work and in part through our value for money assessment. We have worked through the specific aspects of the matters raised and in conclusion, we have made specific recommendations and requested updates to the 2021-22 and 2022-23 financial statements to clarify the Council's key judgements to its stakeholders.

This work is additional work required as part of our responsibilities as auditors and will be subject to a separate fee. Whilst we have concluded our work to be satisfied that there are no unresolved material matters within the financial statements, we are currently our provisional views for each of the two objections received are currently progressing through clearance and legal review processes. Final fees at the conclusion of our work will be discussed and agreed with management and require final approval by PSAA.

We are satisfied that we have conducted sufficient work to reach our final conclusions for the financial statements opinion. Whilst this will allow us to issue our opinion on the financial statements, our certificate of closure of the audit will be certified upon formal conclusion of the elector objections received on the 2021-22 financial statements, once these have been issued as final.

## Significant matters

We did not encounter any significant difficulties arising during our audit. We identified the classification of the Guildhall Shopping Centre a significant matter and have concluded on this on page 14 of the report.

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# 1. Headlines

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## National context – audit backlog

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Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Council for their support in working with us on the 202/23 audit.

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## National context – level of borrowing

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All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

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## 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 component 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 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 substantially completed our audit of your financial statements and subject to outstanding areas being finalised, we anticipate issuing an unqualified audit opinion by the end of March, following reporting to the Audit and Governance Committee meeting on 27 November 2024, as detailed in Appendix H. These outstanding items include:

- any follow up queries resulting from our final quality control review

### Acknowledgements

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



## 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 from September 2023.

We set out in this table our determination of materiality for Exeter City Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,710,000	2,690,000	This is equivalent to approximately 2% of the gross expenditure of the Council ./Group for the financial year and is the same percentage and measure as the previous year
Performance materiality	2,032,500	2,017,500	No change in senior management and key reporting personnel, low number of misstatements and recommendations in the prior year audit,
Trivial matters	135,000	134,500	Set at 5% of materiality.



## 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
<p><b>Management override of controls</b></p> <p><b>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.</b></p>	<p>For the Council we;</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>We have identified the following issues in relation to our work on the Council in respect to this risk</p> <ul style="list-style-type: none"> <li>a number of super users were identified who have ability to add and remove staff from the General Ledger which gives a wider scope for manipulation of data. We undertook specific focused testing in this area as part of our journals testing and did not identify any inappropriate journal entries because of this</li> <li>we identified 2 journals where the incorrect effective date had been entered into the system. Although this did not impact the validity of the journals, we recommend journal poster are reminded of the need to ensure this is inputted correctly.</li> </ul> <p>The Council need to continue to look to strengthen their control environment in respect to the points raised above. The findings from our testing of journals did not identify and issues with the appropriateness of the journals.</p> <p>For all journals reviewed we concluded that they were appropriate transactions.</p>



## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Improper revenue recognition

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

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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.

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 normal nature of income received by the Council.

We consider the rebuttal at the Council level to continue to be appropriate. We did not identify any issues in relation to revenue recognition at the group audit level.

#### 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

- evaluated the groups accounting policy for recognition of expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for expenditure and evaluate the design of the associated controls
- agreed, on a sample basis, amounts recognised as expenditure in the financial statements to supporting documents
- identified and tested 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 relation to expenditure for the Council or Group.

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

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

The Council revalues its land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

The Council's portfolio of Council Dwellings is revalued five-yearly, with an indexation exercise applied in intervening years in accordance with the "Beacon" methodology .

We have

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation
- reconciled the data provided to the valuer to year end council dwelling listings
- confirmed the valuation method for sub-archetype Council Dwellings is appropriate
- tested revaluations made during the year to see if they had 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 has satisfied themselves that these are not materially different to current value at year end.

#### Valuation of Council Dwellings

Through our review and challenge of valuations performed for HRA Council Dwellings, we are satisfied that the beacon approach has provided a materially accurate and reasonable valuation estimate as at 31 March 2023. Our conclusions are set out in more detail on page 17.

#### Valuation of Land and Buildings

Through our review and challenge of valuations undertake for Land & Buildings, we noted one property where a calculation error in the valuation led to an undervaluation of the property of £1.1 million. We were able to isolate the error to this property and no other similar issues were identified. Overall, we were able to obtain sufficient assurance over the material accuracy of the valuation of land & buildings. Our conclusions are set out in more detail on page 17.

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
<p><b>Valuation of Investment Property</b></p> <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. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£56m at 31/03/22) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of an external valuer to estimate the current value as at 31 March 2023.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuations were carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.</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> <p>We undertook some specific detailed work on the Council's purchase of the Guildhall Shopping centre including</p> <ul style="list-style-type: none"> <li>reviewing the appropriateness of the accounting entries</li> <li>challenging the classification of the asset as an Investment property.</li> </ul> <p>We were able to conclude that the Guildhall Shopping Centre accounting treatment and classification were appropriate. Please see page 14 for more information regarding the challenge of the classification.</p> <p>Overall we were able to obtain sufficient assurance over the material accuracy of Investment Property valuations.</p>

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

#### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£28.9m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.

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 rates, where our consulting We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

### Commentary

We have

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and 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
- 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
- obtained 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.
- Considered whether the onerous funding commitment that is reflected in the draft 2023/24 statement of accounts would impact on prior years.

The Council requested an IFRIC 14 assessment by their actuary to understand if there was an onerous funding commitment in the 2021/22 and 2022/23 financial years. The Council does have an onerous funding commitment in 2023/24. The actuary confirmed the 2021/22 and 202/23 years would not be affected by this. We have reviewed the actuary's assessment and are satisfied with their conclusion.

We have completed the work required to gain assurance over the valuation of the pension fund net liability as at 31 March 23 and no issues have been noted in completion of this work. Our findings in relation to this are set out in more detail on page 18.

## 2. Financial Statements – Significant matters discussed with management

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.

Issue	Commentary	
<p><b>Exeter City Living Ltd (ECL)</b></p> <p>A decision was made in October 2023 to scale down the operations of ECL with the company being retained for the limited purpose of holding and managing property (6 Guildhall flats).</p> <p>Although this decision was made after the end of the 2022/23 financial year, we have considered whether this decision has impact on areas including going concern, post balance sheet events and the impact on the carrying value of loan receivables from ECL to the Council and whether this has any impact on the 2022/23 position.</p>	<p>In October 2023 a decision was made to significantly reduce the operations of Exeter City Living Ltd which means the Loans Exeter CC has given ECL will not all be paid back to the Council. We therefore challenged the Council on whether this needs to be reflected in the calculation of the expected credit loss given this new information changes the future economic conditions of the loans and the expected repayment of these.</p>	<p>We are able to conclude that there were no indicators of impairment at the balance sheet date.</p>
<p><b>St Sidwells Point</b></p> <p>St Sidwells Point Leisure centre was completed in 2022/23. The value of the asset held at 31 March 2023 was reported to be £7.047 million less than the cost to build. The Council consulted with us to seek our views on its approach to the valuation. We engaged an auditor's valuation expert to review the basis of the valuation and raised a number of challenge questions for the council to consider.</p>	<p>In 2022/23 St Sidwells Point leisure centre was transferred from assets under construction to property, plant and equipment recognising the asset came into use in the year. The leisure centre has been built to passivhaus environmental standards. We engaged our auditors valuation expert to review the Councils proposed approach for valuing this asset.</p> <p>Our auditors valuation expert raised a number of questions which the Council's valuer responded to. We were able to conclude that the valuation approach taken by the Council for St Sidwells point Leisure centre is appropriate.</p>	<p>We are able to conclude that the valuation approach used to value St Sidwells Points as at 31 March 2023 is appropriate.</p>

## 2. Financial Statements – Significant matters discussed with management

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.

Issue	Commentary
<p><b>Guildhall Shopping Centre</b></p> <p>We have considered the accounting treatment of this acquisition and the Council's classification of the asset as an Investment Property.</p>	<p>During the 2022/23 financial year, the Council purchased the long leasehold interest relating to the Guildhall Shopping centre and has taken back full control of the asset bringing the asset back onto the Council's balance sheet. The Council has held the asset as an Investment Property on the balance sheet as at 31 March 2023.</p> <p><u>Accounting treatment of the purchase of the Guildhall</u></p> <p>The Council provided us with an accounting paper to support the accounting entries of the purchase of the Guildhall. Given the Council purchased the long leasehold interest and took back control of the asset, the accounting for this is more complex. In particular we considered the treatment of the early termination of the finance lease and the deferred capital receipt which would no longer be realised in the future.</p> <p><u>Classification of the Guildhall Shopping Centre</u></p> <p>On review of the information provided by management, our initial view was this asset should be accounted for as Property, Plant and Equipment. This is because the CIPFA code (which adapts IAS 40) requires investment properties to be solely for the purpose of earning rentals or capital appreciation. Furthermore, the property was funded using PWLB borrowings which is rewarded on the condition that Council's do not use the funding for investment assets brought primarily for yield. On review of the Council's report presented to Executive and Council in October 2021 'Acquisition of property to support the delivery of Liveable Exeter', it was noted that the purchase of the Guildhall was part of a wider regeneration and housing strategy for the City.</p> <p>We therefore challenged management on this and management provided us with further detailed paper summarising the factors which informed their view including:</p> <ul style="list-style-type: none"> <li>• In considering the acquisition of the asset, the Council did consider the contribution this would make to its objectives for regeneration, but at the reporting date the Council's objectives for holding the asset are currently restricted to maximising rental income in order to fund regeneration projects.</li> <li>• Rental income achieved from the asset will be ringfenced for regeneration projects</li> </ul> <p>We considered management's view and given the judgements involved, we undertook further consultation within Grant Thornton to conclude on the matter. We were able to conclude that this is an area of accounting judgement and although there is clear evidence to support classifying the property as Property, Plant and Equipment, it is not unreasonable that the Council has come to the view that this is an Investment Property. We therefore requested management to expand its disclosures in the financial statements in relation to this with a Critical Judgement disclosure to ensure it is clear to the reader of the accounts the basis on which they are currently holding the asset and the judgements involved.</p> <p>Given the material nature of the acquisition and the intention for the asset to be part of wider regeneration and housing plans as part of the Liveable Exeter vision, we are required bring this critical judgement made by the Council to the attention of those charged with governance.</p> <p>We are able to conclude that the accounting treatment and classification of the Guildhall Shopping Centre as an Investment property is appropriate as at 31 March 2023.</p> <p>Given we have deemed this to be a key judgement area, the Council has included a 'critical judgement' within the financial statements to explain the judgement and the reasonings behind holding the asset as an Investment property.</p>



## 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 8 to 12 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 eliminations. We have not identified any issues in relation to this work.</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. Given the timing of the audit being undertaken prior to our commencement of the 2022/23 group audit we have not discussed our risks and planning with the component auditors prior to them undertaking their work. Therefore, we will consider as part of our review of the component auditors work, whether there are any further procedures we will need to undertake to obtain sufficient assurance for the Group opinion.</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 in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £154.133m	<p>The Council revalue 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 desktop reviews. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£154.133m) 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.</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 changes to property values.</p> <p>The total year end valuation of land and buildings was £154.133m, a net increase of £36.3m from 2021/22 (£119.52m).</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 2023. 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> <p>We identified an asset where the valuation calculation was incorrect leading to an under-valuation in the asset of £1.1 million. We were able to isolate the error and did not find any further errors of this nature. The error was due to a calculation error rather than an error in the key judgements or estimates.</p>	<p>●</p> <p>Light Purple</p>

### 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
Investment Property Valuation - £98.561m	<p>The Council revalues 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 total year end valuation of investment properties was £98.651m (prior year £56.034m)</p> <p>The significant increase in the valuation of investment properties from the prior year was due to the Council ending the lease of the Guildhall Shopping Centre during 2022/23 following the Council's acquisition of the leasehold interest, returning full ownership back to the Council. This was therefore shown as an addition to investment properties in 2022/23.</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> <p>We determined the classification of the Guildhall to be a key judgement. We have reported our consideration of this on page 14.</p>	<p>●</p> <p>Light Purple</p>
Land and Buildings – Council Housing - £316.272m	<p>The Council owns over 4700 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 the beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has 25 beacon properties.</p>	<p>Council dwellings represent a significant proportion (£316.272m) 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 values which has been provided by central guidance. The approach taken by the Council is a full revaluation every five years with desktop reviews in the intervening four years. 2022/23 was an intervening year and therefore a desktop review was undertaken where the Council's valuer applied an index to the portfolio of dwellings. We challenged the valuer on the suitability of this index and also the suitability of the beacon approach taken by the Council including how the Council ensure the beacons are up to date and reflective of the portfolio. Overall we were able to obtain sufficient audit evidence to support the Council's valuation of Council dwellings.</p>	<p>●</p> <p>Light Purple</p>


### 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 – £28.935m</b>	<p>The Council's net pension liability at 31 March 2023 is £28.935m comprising the Devon Pension Fund Local Government defined benefit pension scheme.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed at 31 March 2022. Given the significant value of the net pension fund liability (surplus), small changes in assumptions can result in significant valuation movements. There has been a £70m net actuarial gain/loss during 2022/23.</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> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>4.8%</td><td>4.5%-4.8%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.95%</td><td>2.65%-2.95%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.95%</td><td>CPI+1% = 3.95%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45/65</td><td>23.1/21.8</td><td>20.9-23.4 / 19.5-22.1</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45/65</td><td>24.4/22.9</td><td>24.3-25.9 / 22.9 – 24.5</td><td>●</td></tr> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.8%	4.5%-4.8%	●	Pension increase rate	2.95%	2.65%-2.95%	●	Salary growth	3.95%	CPI+1% = 3.95%	●	Life expectancy – Males currently aged 45/65	23.1/21.8	20.9-23.4 / 19.5-22.1	●	Life expectancy – Females currently aged 45/65	24.4/22.9	24.3-25.9 / 22.9 – 24.5	●	<p>● Light Purple</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	4.8%	4.5%-4.8%	●																								
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Salary growth	3.95%	CPI+1% = 3.95%	●																								
Life expectancy – Males currently aged 45/65	23.1/21.8	20.9-23.4 / 19.5-22.1	●																								
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<b>Assessment</b> <ul style="list-style-type: none"> <li>● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated</li> <li>● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</li> <li>● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious</li> <li>● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious</li> </ul>		<ul style="list-style-type: none"> <li>The Council updates the employer's contributions in the pension note to the actual (actuary uses estimated). This reduces the overall liability reported by £272,000 compared to the actuary figures.</li> <li>we have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate</li> <li>we have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and</li> <li>we have reviewed the adequacy of disclosure of the estimate in the financial statements.</li> </ul>																									

## 2. Financial Statements: Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £4.54m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required. This calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VAO) and previous success rates. The provision has increased by £0.098m in 2022/23	<ul style="list-style-type: none"> <li>no issues were identified with the appropriateness of the underlying information used to determine the estimate</li> <li>a new valuation takes effect on 1 April 2023. The rateable valuation 2017 list is closed after this date and further appeals can only be made in limited circumstances up to 30 September 2023. This reduces the need for provisions for un-lodged appeals as at 31 March 2023. The Council has therefore not made any provision for unlodged appeals. We deem this to be an appropriate approach to take.</li> <li>there are no other changes to the way the Council determines its provision for NNDR appeals since the prior year</li> <li>the method is in line with industry practise adjusted to reflect the specific circumstances of the Council</li> <li>the disclosure of the estimate in the financial statements is adequate</li> <li>management has increased the amount set aside against the majority of its provisions, however we note that the increase in the provision is not reflective of the amount of provision used, which is generally lower than the increase. This indicates that the Council is taking a cautious approach to the recognition of provisions.</li> <li>we are satisfied that the current levels of provisions for NNDR appeals are reasonable.</li> </ul>	 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
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-  [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- £37.3m	<p>The Council receives a number of grant and contributions and is required to follow the requirements set out in sections 2.23 and 2.6 of the Code. The main consideration 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 correct 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 the Council is acting as the principal or agent which would determine whether the Council recognises the grant at all</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>• completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income</li> </ul> <p>We have not identified any issues in relation to this area.</p>	<p>●</p> <p>Light Purple</p>

### 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
Minimum Revenue Provision - £1.909m	<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 Council made a year-end minimum revenue provision of £1.9m and reclaimed £1.48m of prior year voluntary overpayments.</p>	<p>The Council's MRP policy was agreed at the February 2022 Executive meeting and sets out the councils approach to calculating MRP.</p> <p>Key points of the policy:</p> <ul style="list-style-type: none"> <li>the amount set aside is matched against the useful life of assets with the only exception writing off historic debt which is being undertaken over 50 years</li> <li>the Council adopt either the asset life (equal instalment) or the asset life (annuity) method</li> </ul> <p>We reviewed the Council calculations to ensure all expected assets and debt had been included in the calculation and challenged those where 50 years were used as the basis of the MRP given the statutory guidance states the useful life should normally not exceed a maximum useful of 50 years. Note the Council did not make a provision for the Guildhall Shopping centre. This is in line with the statutory guidance which states MRP can be postponed until the financial year following the one in which the asset becomes operational.</p> <p>The Council previously made voluntary overpayment of MRP from 2013/14 – 2018/19. This is where the Council pay more MRP than they consider prudent and the statutory guidance allows for previous year's overpayments to be offset against the current year's prudent provision. The Council made voluntary overpayments totaling £5.6m and are offsetting these over a number of years to smooth the required MRP. In 22/23 the amount reclaimed was £1.48 million. We have reviewed the Councils process and calculations for these and are able to conclude there approach is appropriately evidenced.</p> <p>On review of the Council's calculation of MRP on historical debt it was noted that the Council had been providing MRP for some assets where these have been financed through other means. Furthermore the working papers to support the MRP calculated on historical debt were challenging to follow and therefore we recommend the Council review the supporting working papers for historical debt to ensure there is a clear audit trail and MRP is only charged on the assets funded through borrowing. Overall we are satisfied with the material accuracy of the MRP on historical debt.</p> <p>As reported in prior years, 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.</p>	<p>●</p> <p>Blue</p>

## 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
eFinancials	ITGC assessment (design and implementation effectiveness only)					Management Override of Controls	We identified a control weakness whereby six (6) Super Users have User Accounts that allows them to change access rights of other users including themselves. This puts an additional risk on the segregation of duties and the whole internal control system of ECC. Due to this, we increased the risk profile within our journals risk assessment to reflect the heightened risk.
ASH – Debtors System	ITGC assessment (design, implementation and operating effectiveness)					N/A	N/A
CivicaPay - Income Management System	ITGC assessment (design and implementation effectiveness only)					N/A	N/A

### Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

## 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 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 for bank and investment balances. This permission was granted and the requests were sent. We have received all the responses. 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.
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 was provided. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the audit.
Subsequent events review	As part of our review of subsequent events we noted a decision was made in May 2024 to agree a conversion of the Council's outstanding loan to with Exeter Science Park to equity. The Loan was due for repayment in January 2025. The total amount of debt owed by Exeter Science Park to the Council is £1.2m (principal plus interest). At the reporting date 31 March 2023, the Council was aware of the likely difficulties in the loan being repaid but no decision was made at that stage of how to resolve the issue. As there was reasonable and supportable evidence at year end to impair the loans, this is an adjusting post balance sheet event. However, as the value of the total debt is below materiality, the Council has not adjusted or disclosure this information within the financial statements on the grounds of materiality. We concur with this assessment.

## 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.</p> <p>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> </ul> <p>Given the decision to discontinue significant aspects of the operations of the Council's housing development company Exeter City Living Ltd in October 2023, we must also consider whether this has any impact on the Group's ability to be prepared as a going concern. The 2023/24 financial statements for Exeter City Living Ltd have been prepared on a going concern basis and we have sufficient evidence to confirm that the group continues to be a going concern.</p> <p>On the basis of this work completed to date, 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. We plan to issue an unmodified opinion in this respect – refer to Appendix I</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We are able to conclude that:</p> <ul style="list-style-type: none"> <li>• the Annual Governance Statement does comply with disclosure requirements and is not misleading or inconsistent within information of which we are aware from our audit</li> <li>• we have not applied any of our statutory powers or duties</li> <li>• we have reported significant weaknesses in respect of our value for money work. See page 28 for more details.</li> </ul>





## 2. Financial Statements:

# Other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• note that work is not required as the Council does not exceed the threshold.</li> </ul>
<b>Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2022/23 audit until such time as the certificate for the 2021/22 audit has been issued. This will be finalised once the final statements of reasons have been issued for both objections received on the 2021/22 financial statements. We have undertaken sufficient work on these matters and adjustments to the accounts have been prepared by management to assure us that there are no unresolved material matters.</p>

# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

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

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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 risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix I.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
A risk of significant weakness was identified in respect of the Council's unidentified savings and/or funding gaps in financial planning for 2022/23.	We considered how the Council Plan to bridge its funding gaps and identify achievable savings	No significant weaknesses in arrangements identified, but improvement recommendations remain outstanding from 202/21	No statutory recommendations or key recommendations made in respect of this.
A risk of significant weakness was identified in relation to Exeter City Living governance arrangements.	We considered whether effective processes and systems are in place in relation to significant partnerships	One significant weakness in arrangements identified, one key recommendation made, and five improvement recommendations raised.	Key recommendation: 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: <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>
No risks of significant weakness were identified	We considered how the Council governs its subsidiaries and ADMs.	One significant weakness in arrangements identified and one key recommendation made.	Key recommendation: 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.

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# 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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

## 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 [Grant Thornton International Transparency report 2023](#).

# 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 which were charged from the beginning of the financial year to February 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Capital receipts grant	6,000	Self-Interest (because this is a recurring fee)  Self-review (because GT provides audit services)	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.  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 Subsidy return	30,500	Self-Interest (because this is a recurring fee)  Self-review (because GT provides audit services)	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 £30,500 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.  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.

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

# 5. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements



# Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Management Letter of Representation
- H. Audit opinion

# A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

## Distribution of this Audit Findings report




Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

## B. Action Plan – Audit of Financial Statements




We have identified 5 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 2023/24 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
 <b>Medium</b>	As noted in the past two years, we have continued to identify issues with the Council's declaration of interests as not all declarations were received for all officers. The declaration of interest is an important control to ensure impartiality, openness and transparency in decision making. Where this is nothing to declare, nil returns should be required from senior officers.	<p>Declaration of interests should be completed by all officers including nil returns.</p> <p><b>Management response</b></p> <p>This is not agreed. There is no suggestion that any officer has failed to comply with the officers code of conduct which states only that there is an obligation to disclose interests in contracts under section 117 of the Local Government Act 1972. There is no obligation to disclose any other interest an employee may have. In the event that the Auditors consider that the officer's code of conduct should be amended, then they are invited to set out how and why</p>
 <b>Medium</b>	The Council has 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. The review of user permissions is due to be undertaken as part of the Council's planned move to a new finance management system, from eFinancials to CloudFinancials. The project is due to start in April 2024 and 'go live' in April 2025</p>

### Controls

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

## B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
 <b>Medium</b>	<p><u>Minimum Revenue provision</u></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. The Council should consider this going forward in respect to any future capital loans</p> <p>The Council should review it's working papers to support it's MRP on historical debt to ensure there is a clear audit trail and MRP is only charged on the assets funded through borrowing</p>	<p>We recommend the Council reviews it MRP process for capital loans to third parties going forward.</p> <p>We recommend the Council review its working papers which support MRP calculated on historical debt.</p> <p><b>Management response</b></p> <p>See appendix C for this.</p>
 <b>Medium</b>	<p>The Council did not keep a record of the transaction reports to support card payments for a number of car parks.</p> <p>The Council should ensure the transaction reports are held by the Council in order to ensure a clear audit trail from the original transactions to the weekly summary spreadsheets collated by the Council.</p>	<p>The Council should ensure the transaction reports are held by the Council in order to ensure a clear audit trail from the original transactions to the weekly summary spreadsheets collated by the Council.</p> <p><b>Management response</b></p> <p>Agreed. Officers have liaised with the merchant acquirer for car park card payments and arranged access to necessary reports.</p>
 <b>Medium</b>	<p>The Guildhall shopping centre is a material asset for the Council which involved critical judgement in dertermining it's classification. Given its role in the Council's future regeneration and housing plans, there may be triggers which would impact on the judgement.</p>	<p>As part of the closedown process, the Council should produce a paper to support the classification judgement of the shopping centre as at each year end.</p> <p><b>Management response</b></p> <p>Agreed. Management will continue to consider the appropriate asset classification of the Guildhall Shopping Centre and produce a supporting paper for this critical judgement.</p>

### Controls

- High – Significant effect on financial statements
  - Medium – Limited Effect on financial statements
  - Low – Best practice
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# C. Follow up of prior year recommendations

We identified the following issues in the audit of Exeter City Council's 2021/22 financial statements, which resulted in recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	In 2021/22 management incorrectly excluded assets the Council's balance sheet as a result of the consolidation process. We recommended that management should ensure the consolidation process for producing group accounts is appropriately followed	No issues were identified in our audit work on the group consolidation in 2022/23.
X	The Council has a number of individuals within the finance team with superuser access to the system. We recommend the Council review the user accounts and revoke those that do not require this.	This recommendation remains in place in 2023/24. Note this recommendation was also made in the 2020/21 audit and therefore has been outstanding for 2 years.
X	Not all officers made declarations. A declaration of interest should be completed by all senior officers including nil returns.	This recommendation remains in place in 2023/24. Note this recommendation was also made in the 2020/21 audit and therefore has been outstanding for 2 years.

## Assessment

- ✓ Action completed
- X Not yet addressed

# D. 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

At this stage, we have not identified any adjusted misstatements to the Council or the Group financial statements.

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 financial statements to enhance the clarity of the accounts to the reader including an update to the figures within the capital commitments note.	These will be reflected in the final revised accounts.	✓
A non-adjusting post balance sheet event has been added into the financial statements to reflect the decision in October 2023 to significantly reduce the capacity of its housing development company.	This has been reflected in the final revised accounts	✓
Disclosure amendments required to the Senior officer remuneration note to clarify the terms of the senior officer secondments to Exeter City Futures Ltd	This has been reflected in the final revised accounts	✓
A critical judgement note has been added to the financial statements to reflect the Council’s judgement on the classification of the Guildhall Shopping Centre as an Investment Property.	This has been reflected in the final revised accounts	✓

Impact of unadjusted misstatements

We identified 1 unadjusted misstatements to the Council or the Group financial statements.

Detail	Comprehensive Income and Expenditure Statement £’000	Statement of Financial Position £’000	Reason for not adjusting?
A calculation error in the valuation schedule for an ‘Other, Land and Building’ property led to an undervaluation in the property of £1.1 million		Dr Other Land and Buildings £1,100 Cr Unusable reserves £1,100	Not material.
Overall impact		£1,100	

## E. Fees and non-audit services

We set out below a schedule of our current audit fees to date. Some aspects of our fees are still to be finalised and will be subject to agreement by management. All fee variations proposals are subject to approval by PSAA.

Audit fees	Proposed fee	Final fee
Scale fee published by PSAA	£53,949	£53,949
Group Audit – Additional work	£6,325	£6,325
Property, Plant and Equipment - engagement of auditor's expert	£5,000	TBC*
Additional work on Value for Money (VfM) under new NAO code	£9,000	£9,000*
Increased audit requirements of revised ISA540	£2,100	£2,100
Increased audit requirements in relation to Grants and Journals	£3,000	£3,000
Increased audit requirements of revised ISA315	£3,000	£3,000
Increased audit requirements in relation to change in circumstances testing	£500	£500
Increased audit requirements in relation to Collection Fund testing	£750	£750
Other Local Risk Factors	£4,500	TBC*
Additional fees in relation to public objections and other correspondence received on the financial statements		TBC*
<b>Total audit fees (excluding VAT)</b>	<b>£88,124</b>	<b>TBC*</b>

\*Several aspects of our 2022-23 audit fees are still to be finalised following additional work required across a number of areas of the financial statements and VFM audits, including:

- Accounting for St Sidwell point and consultation with Auditor's valuation expert
- Accounting for Guildhall shopping centre
- Additional group procedures relating to the curtailment of activities delivered by Exeter City Living
- Consideration of impact of public objections and further member and public correspondence in relation to the statement of accounts
- Additional risk based work and VFM significant weakness arising in relation to the Council's group structures and associated governance arrangements

We will prepare a final fees proposal to management at the conclusion of our work.



# E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	36,500	TBC – work in progress
Total non-audit fees (excluding VAT)	£36,500	TBC

## Audit fees reconciliation to fees included within Statement of accounts:

Fees payable in respect of external audit services per statement of accounts £94k. Difference of £6k to audit fee due to the Council closing the accounts on an estimated audit fee for 2023/24. Trivial difference.

Fees payable in respect of certification of grant claims and returns per statement of accounts £38k. Difference of £1.5k to non-audit fees due to Council closing the accounts on an estimate of the non-audit fees for 2023/24. Trivial difference.

None of the above services were provided on a contingent fee basis

This covers all services provided by us and our network to the group, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	<p>The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:</p> <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	<p>Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.</p>
Professional scepticism	<p>The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	<p>The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.</p> <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	<p>The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	<p>The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.</p>

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# H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report.

OPINION WORDING TO FOLLOW

