



# Annual Audit Letter 2017/18

**Exeter City Council**



August 2018



A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing the heads and shoulders of several people. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. A woman with dark hair is on the right, looking down. They are all wearing business attire. The background is out of focus.

**Section one**

# Summary for Audit and Governance Committee

# Summary for Audit and Governance Committee

This Annual Audit Letter summarises the outcome from our audit work at Exeter City Council (“the Authority”) in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

## Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 25 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £2 million which equates to around 1.9 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit and Governance Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £95,000 for the Authority.

We identified one audit adjustment with a total value of £10 million, reflected the final accounts published by the Council. This adjustment resulted in a no change in the reported surplus on provision of services.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific matters arising relating to this audit;
- **Valuation of PPE** – As part of our audit work, we assessed the processes the Authority has in place for valuations and confirmed that these were appropriate and that the valuations of property assets were made using reasonable assumptions, including those assets not subject to revaluation in the year. We have evaluated the expertise of the preparer of the valuation report to ensure that they are sufficiently skilled and appropriately qualified such that we can rely on them for the provision of audit evidence;
- **Pensions Liabilities** – The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure completeness and accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation. We liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls that they operate; and
- **Faster Close** – The timetable for the production of local authorities financial statements was significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We reviewed the closedown plan for accounts production and monitored progress against these deadlines. We are pleased to confirm that we received draft accounts in advance of the revised deadline and were able to issue our opinion prior to the 31 July deadline.

## Section one:

# Summary for Audit and Governance Committee (cont.)

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

## Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

## Value for Money conclusion

We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 25 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources except for the matter identified below in relation to procurement.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

## Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, all Authority's are having to make additional savings beyond maintaining those from prior years and also pursue income generation strategies. We reviewed the processes in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration relevant factors and sensitivity analysis. We also considered the way in which the Authority identified, approved, and monitored both savings plans and income generation projects and how budgets were monitored throughout the year. The Council has a clear understanding of these pressures in the medium term, and has plans in place to address them. However it will be important for the financial resilience of the Council to be monitored by members as it will continue to remain under pressure in the coming years; and
- **Procurement** – We have reviewed the progress made by the Authority against its procurement action plan and have concluded that there has been some progress, such as developing a strategy, starting the process of appointing staff to the procurement department, and self-assessing the Authority's arrangements against the national procurement strategy to identify specific areas of improvement. However, the timing of these improvements and the need still for additional progress to be made, as evidenced by our testing this year, means that we are not yet able to conclude that sufficient improvement has been achieved in strengthening the Authority's procurement arrangements to prevent a continuation of the except for qualification for a third year. The need for improvement in this area therefore remains vital. Members should monitor progress closely to ensure continued and timely improvements to the Council's procurement arrangements are made.

## High priority recommendations

We raised one high priority recommendations as a result of our 2017-18 work.

- Create and approve a severance policy that defines the Council's expected regarding severance packages. This is detailed in Appendix 1 together with the action plan agreed by management.

## Section one:

# Summary for Audit and Governance Committee (cont.)

## Certificate

We issued our certificate on 25 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

## Audit fee

Our fee for 2017-18 was £57,887, excluding VAT (2017: £57,887). Further detail is contained in Appendix 3.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.



# Appendices



## Appendix 1:

# High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Details of lower risk recommendations can be found in our *ISA260 Report 2017-18*.

Risk	Issue & Recommendation	Management Response
1	<p><b>Severance policy</b></p> <p>As part of the review of a senior officer severance package we have identified that the Council does not have severance policy in place, which sets out its expectations for determining severance packages. The Council's practice is to pay a package based on a redundancy calculator and where relevant a pension strain payment. This is done on a case by case basis, and is appropriately approved. Such a policy would set out the Council's stance on whether or not potential discretionary elements of any redundancy or severance package (such as pay in lieu of notice, gardening leave etc.) would ordinarily be included, or not, and therefore allow decision makers to be clear on such matters when considering proposed severance packages. This would not necessarily prevent deviations from the policy, but would reinforce the need for such exceptions to be clearly highlighted and justified, and for this to be specifically considered through the decision making process.</p> <p><b>Risk</b></p> <p>There is a risk that severance decisions may be reached inconsistently or without specific consideration of any discretionary items that are being proposed.</p> <p><b>Recommendation</b></p> <p>Create and approve a severance policy that defines the Council's expected regarding severance packages. This should include, for example, a clear articulation of the expected stance on potential discretionary enhancements to severance packages, the need to specifically highlight any proposed deviations from the approach expected under the policy and the decision making process that should be followed in approving packages.</p>	<p>Agree with the recommendation. The HR team is in the process of updating all of its policies and a new severance policy will be implemented as part of that work.</p> <p><b>Responsible Officer</b></p> <p>City Solicitor &amp; Head of HR Services</p> <p><b>Implementation Deadline</b></p> <p>31 March 2019</p>

## Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. Although the Authority has taken actions to address the issues that we have previously highlighted through high priority recommendations, related to procurement, it is still a work in progress, as shown from our VFM audit this year.

## Appendix 2:

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit Committee pages on the Authority's website at [www.exeter.gov.uk](http://www.exeter.gov.uk).

### Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

### External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements, and to support the VFM conclusion.

### Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

### Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

### Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October



## Appendix 3:

# Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

### External audit

Our final fee for the 2017-18 audit of the Authority was £57,887, which is in line with the planned fee.

### Certification of grants and returns

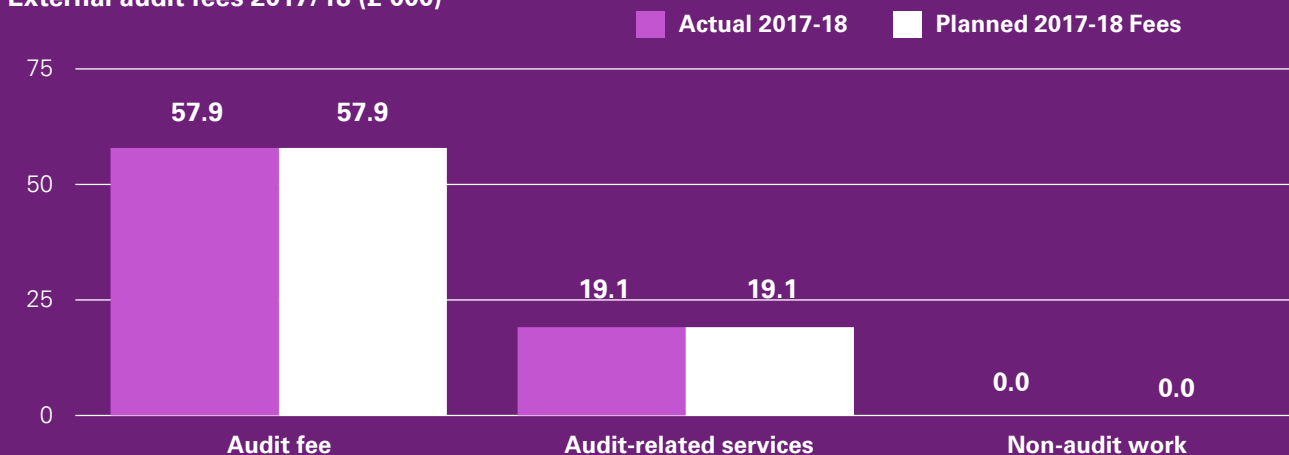
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The planned fee for this work is £16,100 and the final fee will be confirmed through our reporting on the outcome of the work in November 2018.

We charged £3,000 for additional audit-related services for the certification of the Housing Pooling of Capital Receipts return, which is outside of Public Sector Audit Appointment's certification regime.

### Other services

We did not charge any additional fees for other services.

### External audit fees 2017/18 (£'000)





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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