



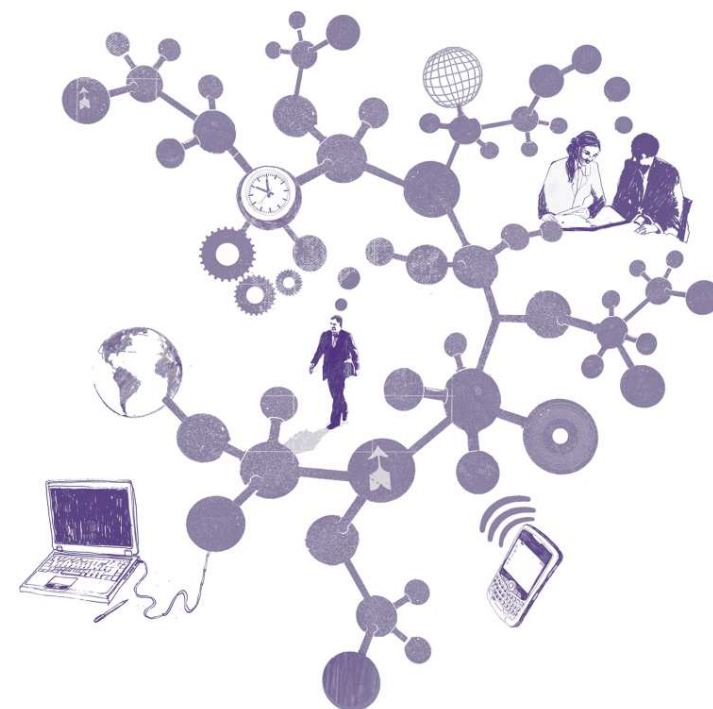
The Annual Audit Letter for Exeter City Council

Year ended 31 March 2015

October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Exeter City Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit and Governance Committee on 24 June 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 September 2015 to the Audit and Governance Committee. The key messages reported were:

- We did not identify any material errors within the Council's financial statements, although we did request that two prior period adjustments were presented differently.
- There was only one unadjusted error within the Council's financial statements which relates to the accounting of the pension liability for Strata – see overleaf.

We worked closely with Exeter City Council, East Devon District Council and Teignbridge District Council regarding the accounting treatment of Strata Service Solutions Limited (Strata). The Councils are of the view that the Company is a joint operation and we concur with this view. The financial statements of Strata have been included within the Councils' own single entity accounts.

Key messages continued

Financial statements audit (including audit opinion) continued

Strata produced draft financial statements for the period 1 November 2014 to 31 March 2015 which the Councils used to produce their own draft accounts. Strata's External Auditors found that these draft accounts contained a significant error relating to the treatment of capital payments to Strata from each of the three Councils. This was originally treated as income in Strata's draft financial statements but in the audited Strata accounts it was revised to reflect the fact that it related to subsequent capital expenditure. The Council reflected the changes to the draft Strata accounts in its own accounts.

When Strata began trading, staff transferred to the company under TUPE arrangements and Strata took over the full pensions liabilities relating to these staff, which in some cases may have been built up over a number of years of Council service. The way in which pensions impact on the income and expenditure account is different between companies and Local Authorities. When the Council consolidated the figures for Strata into its own financial statements it applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.136 million. Our view is that this was not appropriate and the Council has not been able to provide us with a compelling case for applying this override. We have recommended to the Council through the Audit and Governance Committee in our presentation on 23rd September 2015, that they obtain legal advice about the guarantees provided by the Councils for the pension liabilities of Strata, with the ultimate aim of resolving this issue in 2015/16.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 25 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

| | |
|---|--|
| Value for Money (VfM) conclusion | <p>We issued an unqualified VfM conclusion for 2014/15 on 25 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p> |
| Certification of housing benefit grant claim | <p>Our work on the certification of the Housing Benefits claim is on-going.</p> <p>During our audit of the Council's financial statements we identified an error regarding the parameters for the up-rating of certain state benefits. The system required the percentage increase to be entered e.g. 2.9%.</p> <p>However, the Council entered the factor – in this case 1.029. The system assumed this to be 1.029% and therefore understated claimants' incomes and consequently overpaid them benefits. This did not affect every claimant as the up-rating is only used in certain circumstances, although there are 1,135 claims in total that will need to be checked.</p> <p>The Council has estimated a 'worst case' scenario – assuming all of the 1,135 cases are wrong – and the total of this is approximately £85,000. The Council expects that the final error will be far less than this, but this cannot be confirmed until all of the cases have been reviewed. Once the cases have all been reviewed, we will be able to assess the impact, if any, on the amount of subsidy payable to the Council.</p> <p>The key messages from our certification work will be reported in our certification report, once all work has been completed at the end of November.</p> |
| Audit fee | <p>Our fee for 2014/15 was £77,183, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.</p> |

Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2014/15 audit.

| No. | Issue and recommendation | Priority | Management response/ responsible office/ due date |
|-----|---|----------|--|
| 1. | <p>Accounting For Strata's Pension Transactions</p> <p>Recommendation: The Council should seek legal advice regarding the accounting for the pensions liability of Strata Service Solutions Limited and, in particular, whether a guarantee from the three Councils could remove the liability from Strata's financial statements. The Council should arrange for the guarantee to be put in place in relation to the pension liability in relation to this and account for this accordingly.</p> | High | <p>Agreed. The three Councils will look into the implications of the additional guarantee to establish whether it will work satisfactorily in a situation where there are three owners of the Company.</p> <p>Responsible officer: Assistant Director, Finance Due date: March 2016</p> |
| 2. | <p>Journal Authorisation</p> <p>Recommendation: The Council should introduce a sample-based approach to journal review and authorisation covering all journals.</p> | Medium | <p>As an alternative to introducing a sample based approach, our Systems Accountant has established that the Efinancials system has the functionality for journal authorisation to be introduced as a control and this is now subject to testing. We are currently seeking advice from the software supplier regarding whether the journal authorisation controls can be introduced for specific journal types, rather than applied to all journal types (e.g. interface journals). If this is not possible, we may consider reverting back to the recommended sample based approach.</p> <p>Responsible officer: Technical Accounting Manager Due date: December 2015</p> |

Appendix A: Key issues and recommendations (cont'd)

| No. | Issue and recommendation | Priority | Management response/ responsible office/ due date |
|-----|--|----------|---|
| 3. | <p>Performance of Strata</p> <p>Recommendation: The Council should keep the financial and operational performance of Strata under review to ensure the expected savings and efficiencies are delivered in practice</p> | Medium | <p>Agreed</p> <p>Responsible officers: Joint Executive Committee / Board</p> <p>Due date: From 1 October 2015</p> |
| 4. | <p>Arrears</p> <p>Recommendation: The Council need to develop a plan to address the increasing level of arrears and report progress against this to Members.</p> | Medium | <p>Agreed. The Assistant Director, Finance and Assistant Director, Customer Access will develop an action plan and report against this to the Audit & Governance Committee.</p> <p>Responsible officers: Assistant Director, Finance and Assistant Director, Customer Access</p> <p>Due date: December 2015</p> |

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

| | Per Audit plan £ | Actual fees £ |
|---|---------------------|------------------|
| Council audit | 77,183 | 77,183 |
| Housing benefit grant certification fee | 10,890 | *TBC |
| Total audit fees | 88,073 | TBC |

* The indicative fee published by Audit Commission for grant certification work required in 2014/15 for the Council is £10,890. As the work has not yet been completed on the grant certification, we cannot confirm the final fee.

Fees for other services

| Service | Fees £ |
|--|---------------|
| Audit related services | |
| Certification of pooled housing receipts return | TBC |
| Non audit related services | |
| We have invoiced the following amounts in 2014/15: | |
| Trade waste claim | £6,667 |
| VAT advice | £1,800 |
| | £8,447 |

Reports issued

| Report | Date issued |
|-----------------------|---------------------------|
| Audit Plan | June 2015 |
| Audit Findings Report | September 2015 |
| Annual Audit Letter | October 2015 |
| Certification Report | Expected November 2015 |



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