



Oversight and Governance

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AUDIT AND GOVERNANCE COMMITTEE – SUPPLEMENT PACK TWO

Monday 11 May 2020
3.00 pm
Virtual Meeting

Members:

Councillor Parker-Delaz-Ajete, Chair
Councillor Kelly, Vice Chair
Councillors Carson, P Smith and Stevens.

Independent Members:

Mr Shipperley and Mr Stewart

Please find attached additional information relating to agenda item 6.

This meeting will be broadcast live and will be available on-line for playback once the meeting has concluded. By joining the meeting, councillors are consenting to being filmed during the meeting and to the use of the recording for online viewing. The Council is a data controller under the Data Protection Act. Data collected during this webcast will be retained in accordance with authority's published policy.

Members are invited to attend the above meeting to consider the items of business overleaf.

Tracey Lee
Chief Executive

Audit and Governance Committee – Supplement Pack Two

6. 2019/20 Audit Plan

(Pages 1 - 40)

External Audit Plan

Year ending 31 March 2020

Plymouth City Council

30 April 2020



Contents



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Section	Page
1. Introduction & headlines	3
2. Audit Quality – National and Local Context	5
3. Key matters impacting our audit	6
4. Group audit scope and risk assessment	8
5. Significant risks	9
6. Other matters	15
7. Materiality	16
8. Value for Money arrangements	17
9. Audit logistics & team	19
10. Independence & non-audit services	20

Page 2

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 Authority 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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Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Plymouth City Council (the Authority) for those charged with governance.

Respective responsibilities

The National Audit Office (the NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Plymouth City Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts

The Authority is likely to be required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings, for the first time this year. The Council are currently completing a detailed review of relationships and the impact on the Group.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Revenue Recognition – Rebutted in all areas apart from Government Grants
- Valuation of Land and buildings including the valuation of investment properties at year end
- Valuation of net pension fund liability
- Financial Instrument disclosures
- Group accounts, consolidation and reporting
- Financial statements risk - impact of the reduction of the Council's pension fund liability through Miel Ltd.
- Financial statements risk - impact of COVID-19

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £6.665m (PY £9.775m) for the Authority, which equates to 1.33% of your forecast gross expenditure for the year. Further commentary regarding the reasoning behind the change in materiality is detailed on slides 5 and 16. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £300k (PY £489k). A separate materiality level of £100k for the remuneration disclosure has been set.

Introduction and headlines (continued)

Value for Money arrangements

- Financial sustainability; and
- The Council's response to the financial impact of the COVID-19 virus.

Audit logistics

Our initial audit planning and interim work has taken place in February and March and our final visit will take place between July and September.

Our key deliverables are this Audit Plan our Audit Findings Report, the Audit Opinion and the Annual Audit Letter.. Our audit approach is detailed in Appendix A.

Our fee for the audit is currently being discussed with management. All fee increases have to be agreed by Public Sector Audit Appointments (PSAA). Details of the proposed fee and a breakdown of individual elements that make up the proposed fee are included in our Audit Scope Letter dated 27 April 2020 which is also on this Committee's agenda.

Independence

We have complied with 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..

Audit Quality – National and local context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings? Our Role as Auditors and the Firm

In response to the FRC's findings, the firm is responding vigorously and with purpose. We are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis. This has resulted in a reduction in materiality at all our major audits to a maximum of 1.5%.

The impact on our audit and Plymouth City Council

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you will see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you will see engagement teams having to exercise even greater challenge of management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, valuation of PPE, Pension fund liabilities, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit and governance committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected. We have also reduced audit

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

All of these items have been discussed between the audit firms and PSAA.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Plymouth City Council, these pressures are particularly relevant for Adults' and Children's' services, where increasing demand pressures are leading to overspends against the budget.

Britain has now left the EU but the future trade relationship is still uncertain. There is also uncertainty on future European Funding and how / if this will be replaced. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and businesses.

At a global level, COVID-19 continues to provide uncertainty, with this being a relatively new risk factor, it is challenging to prepare for the impact. The Authority will need to ensure it remains dynamic in this unprecedented time, in order to support the people most affected.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Repayment of the Council's Pension Fund Liability.

The Council has also developed a unique and innovative solution to pay off the Council's pension deficit through the acquisition of a share in an investment company – Miel Ltd. The 'invest to save' scheme has allowed the Council through the investment company to purchase assets worth £72 million in the Local Government Pension Scheme (LGPS). Reducing the Council's pension fund deficit by a similar amount.

This investment will reduce the Council's costs significantly over the next fifty years as the Council will no longer have to make an annual contribution to the fund the deficit. The acquisition took place during October 2019 and is therefore relevant to our financial statements audit work in 2019/20.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and we will review the arrangements in place for the medium term financial sustainability of the Council regarding COVID—19.
- We will review your arrangements regarding Brexit, as appropriate in the current environment.

As a firm, we are absolutely committed to meeting the expectations of the FRC as detailed in slide 5. We have to have regard to audit quality and local government financial reporting. Our proposed work and fee as set in our audit scope letter and is being discussed with the Director of Finance.

The role of PSAA is to ensure that audit quality is delivered by the audit firms. PSAA also provide an overview of audit fees and will discuss any increases proposed, ultimately making a decision on future audit fees proposed by the firms.

All of the issues raised by the FRC and the resultant impact on audit time, resources and fees have been and will continue to be discussed with PSAA on an ongoing basis.

- As part of our audit work in 2018/19 we made a series of recommendations to both Management and Those Charged with Governance regarding the transaction. The recommendations were communicated in our Audit Finding Reports for July, September and December 2019 and April 2020. The recommendations made specifically concentrated on the review and use of advisers, regard for due diligence and adequate and informed review by members ahead of the transaction taking place. We will follow up on our recommendations as part of our work in 2019/20.
- We will review the accounting treatment for the transaction and associated disclosures and notes to the accounts. We have classified this as Financial Statements risk.

Key matters impacting our audit (continued)

Factors

Impact of Covid -19 on financial statements & other matters The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1. Our work across audits in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. As a result of the FRCs comments, our audit work on these areas requires further improvement and increased challenge and scrutiny - with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny. The FRC have mandated Covid 19 as a significant risk.

Our response

We have revised our initial risk assessment as part of our ongoing planning for the 2019/20 audit. We have added a new significant risk for the COVID-19 event and classed this as a financial statement risk – (this is a different risk to that which has been identified under our Value for Money duties). At present, we expect the COVID-19 event to increase our work across the following areas:

- significant estimates and assumptions
- valuation of PPE
- valuation of investments
- provisions such as bad debt and accruals
- Group and Authority going concern.

Further details and the impact on our work on PPE and the Pension Liability is shown on slides 9 & 10.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

We are currently of the view, especially given the drop in our materiality that Group accounts are likely to be required for 2019/20. The Council are currently undertaking a detailed piece of work to assess whether this is in fact the case.

It is essential that the Council perform a detailed assessment of subsidiary relationships and associated finances across income and expenditure and balance sheet items. We are currently unable to plan our audit of the Group and its subsidiaries until this is completed. Our audit plan will therefore have to be updated and re submitted to Members for review.

There are a number of requirements placed on the auditor of a Group, particularly in the first year, that requires time and careful planning. In most instances this requires liaison and discussion with other auditors and review of other auditor work. The Group auditor has a specific responsibility to issue an opinion on the Group and the Audit and Governance Committee has a specific duty to ensure that the Group accounts are completed in accordance with accounting guidance and that the relevant main financial statements and disclosure notes give a true and fair view of the Group as a whole.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Plymouth City Council	Yes			Full scope UK statutory audit performed by Grant Thornton UK LLP
CatereD	To be assessed	To be assessed	To be assessed	To be assessed
DELT	To be assessed		To be assessed	To be assessed
Plymouth Investment Property Ltd	To be assessed		To be assessed	To be assessed
Plymouth Science Park	To be assessed		To be assessed	To be assessed

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in the majority of income streams because:</p> <ul style="list-style-type: none"> • 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 Plymouth City Council, mean that all forms of fraud are seen as unacceptable <p>However, as a result of our findings relating to the accounting for Government Grants in 2018/19 and 2017/18 we will test the accounting treatment for Government Grants under this risk.</p>
Management over-ride of controls	Authority	<p>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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land and Buildings - Including Investment Property	Authority	<p>The Authority 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. Additionally, management will need to ensure the carrying value in the Authority's 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>We therefore identified valuation of land and buildings, and Investment Properties particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>Energy from Waste Plant</p> <p>The Council also part own the Energy from Waste Plant which should be valued on an annual basis and the valuation of this asset is undertaken by a third party valuer.</p> <p>Tamar Bridge</p> <p>The Council own 50% of the Tamar Bridge and 50% of the asset value is held on the Council's Balance Sheet as Infrastructure – valued at Depreciated Cost. The Bridge's rolling programme of full valuation requires a full valuation take place on 1 April 2020. In our audit work for 2018/19 we recommended that management undertake a full valuation of the bridge in 2019/20 and that the basis of the valuation of the bridge be reconsidered. Management have since engaged a valuer to undertake a full valuation of the bridge and to review and consider the basis of the valuation.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work for both the internal and external valuers. • evaluate the competence, capabilities and objectivity of the valuation experts used by the Council across all categories of assets • write to the valuers to confirm the basis on which the valuations have been carried out. • Review the data and assumptions made regarding the year end valuation of the Council's Investment property portfolio • Employ our own specialist internal valuer to review the assumptions made by management regarding the valuation of the Tamar Bridge • Employ or own valuer - Wilks Head and Eve, to review the instructions issued by management to valuers and the assumptions made by valuers for the valuation of Property, Plant and Equipment and the Council's portfolio of Investment Properties. • challenge the information and assumptions used by the valuers to assess completeness and consistency with our own understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • Test the year end closing balance for property, plant and equipment • evaluate 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. • Evaluate of the impact of COVID-19 on valuations – particularly investment properties held by the Council

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Net Pension Fund Liability	Authority	<p>The Authority'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£562 million in the Authority's balance sheet) at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update 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 • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test 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 • undertake 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 • Review the assumptions made by management and the actuary relating to the Mc Cloud and GMP estimates provided in 2018/19 and whether there is a further requirement to assess this value in 2019/20. • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Reduction of the net pension fund liability through the use of Miel Ltd.	Authority	<p>As noted on the previous page, the Authority's pension fund net liability represents a significant estimate in the financial statements.</p> <p>The Authority has used a separate vehicle (Miel Ltd) to pay a £70m off of its Pension Fund liability amount. This transaction took place in early October 2019.</p> <p>This type of transaction is both material and unusual and has therefore been assessed as a Financial Statements significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the Council's response to the series of recommendations that we have made in our Audit Findings Reports throughout 2018/19, in particular to - assess the due diligence undertaken by the Authority review the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate assess the arrangements the Authority has in place to assess whether it considers the transaction to reduce the pension fund net liability to be financially sound. review the Authority's proposed accounting treatment to ensure it is compliant with CIPFA's Code and the relevant accounting standards.
Group Accounts	Group/ Authority	<p>There is a requirement in the CIPFA Code and International Accounting Standards to consider the need for group accounts if, across the group, any individual category of income, expenditure, assets and liabilities are above materiality. There is also a requirement to consider the need for group accounts on a qualitative basis. Given the level of transactions at some of the Council's subsidiaries, there is likely to be a requirement to produce Group accounts for the first time in 2019/20. This will be a new accounting requirement for the Council, who will also be reliant upon data from other organisations. Provision of group accounts can be complex and consolidation of individual entity balances can be time consuming and prone to possible error.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the controls and processes that the Council will put in place to prepare Group Accounts Review the Council's processes for consolidation of subsidiary accounts and the arrangements in place for the review of the validity of the financial information and data Review the accounting treatment Undertake a detailed risk assessment in accordance with auditing standards to establish an audit approach and strategy for seeking assurance of any other auditors work Where appropriate, liaise directly with any subsidiary auditors and review working papers Provide an audit opinion on the Group financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in September 2020.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Financial Instrument Disclosure notes	Authority	<p>Accounting standards and the CIPFA Code require detailed disclosure notes to be published in the accounts regarding financial instruments held by the Council. These financial instruments can be in the form of loans and borrowings as well as assets and investments. Arriving at the fair value of financial instruments is usually complex and requires specialist support as part of the valuation process for these items.</p> <p>In 2018/19 the Council's draft financial statements did not include the required detail or disclosures relating to all financial instruments held by the Council. Further detailed work had to be performed by the Council and its advisers to ensure that the financial instrument notes were in accordance with regulation and guidance.</p> <p>As this is a complex area and requires specialist support and advice, it is susceptible to possible error.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the Council's processes implemented to establish the correct valuations of all financial instruments held. • Test disclosures for financial instruments back to the figures within the main financial statements • Test the disclosures in accordance with the CIPFA Code and accounting and auditing guidance • Review the work of the Council's experts in this area.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in September 2020.

Significant risks identified – Covid-19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a financial statements significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter for the Authority.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In response to the FRC, the firm have reduced the starting benchmark for the calculation to 1.5% of gross expenditure. (the prior year's starting benchmark was 2%) . We have applied a percentage of 1.33% for our audit which equates to £6.665m (PY £9.775m). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for senior officer remuneration for Senior officer remuneration.

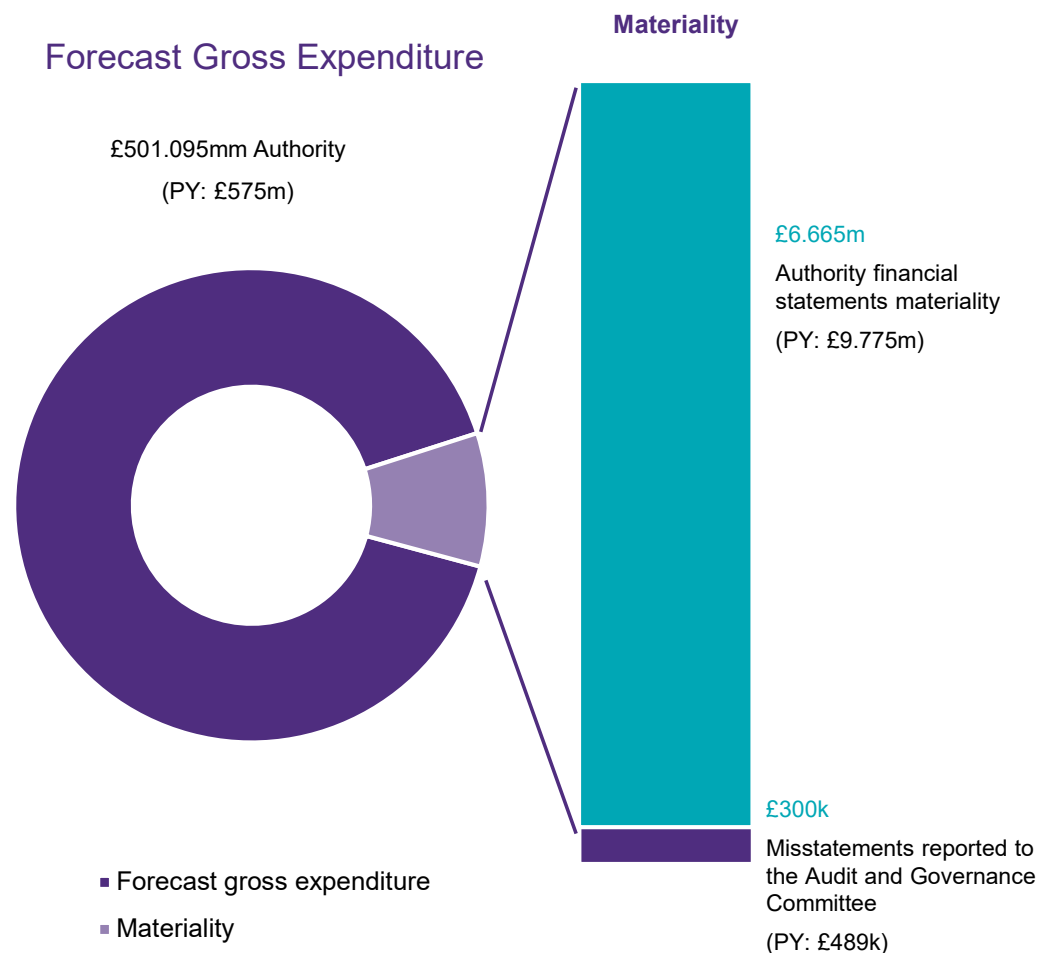
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Materiality will have to established for the Group once the Council have completed their own Group assessment and the figures are made available to the audit team to undertake the calculation.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £300k (PY £489k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

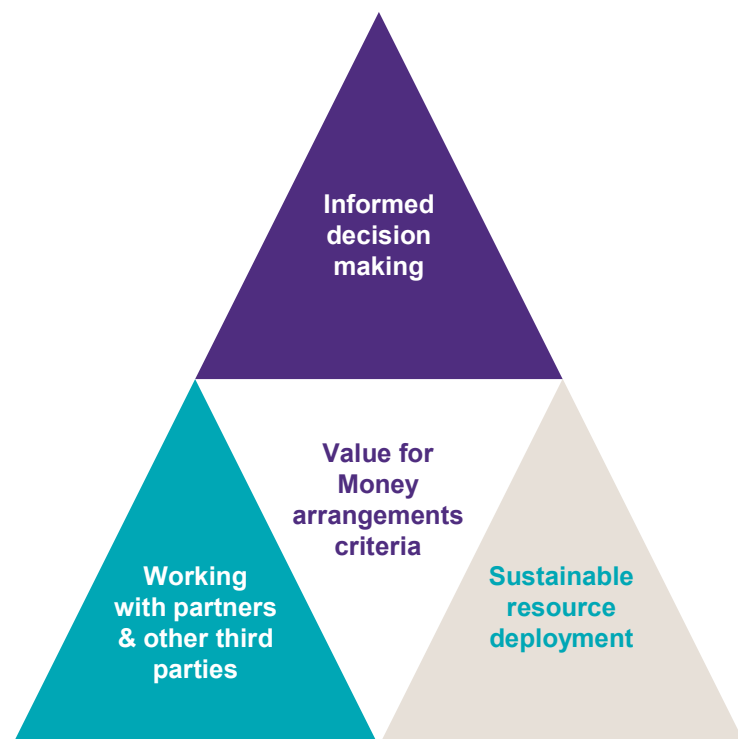
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Financial Sustainability

Medium Term Financial planning

The Council aimed to deliver £17.5m in 2019/20, but the overspend in some services, including Adult Social Care, continues to put pressure on the outturn position for the year end. However, the council are managing their budget and aim to get to a balanced outturn position. Demand for Children's services has stabilised in year but there continues to be cost pressures in relation to complex care cases and packages that the Council are working hard to address.

The budget for 2020/21 has been set by Members and highlights cost pressures of £21m, the need to make £12m further savings whilst still managing an ambitious capital programme and further pressure from collection of Council Tax and the generation of Business rates –two key areas that will require close monitoring in 2020/21.

The revised medium term financial plan indicates further cost pressures in 21/22 of £10.4m, £9.1m in 2022/23. Although savings targets in 2021/22 and 2022/23 are not at the level of previous years, the Council's capital programme is heavily reliant on prudential borrowing and will require extra provision for these extra costs in the future. Legacy savings targets that remain undelivered will continue to be an area of particular focus.

The Council will continue with its investment programme, and the latest capital budget between 2019 – 2024 is £892.91m.

Across the medium term, 2020/21 is the most challenged year ahead and the Council continue to scrutinise and monitor budget positions and investment plans carefully.

We will review progress made in delivering the budget and savings plans associated with the Medium Term Financial Plan. We will review the wider underlying assumptions made in the Council's plans for 2020-2023.

Value for Money arrangements

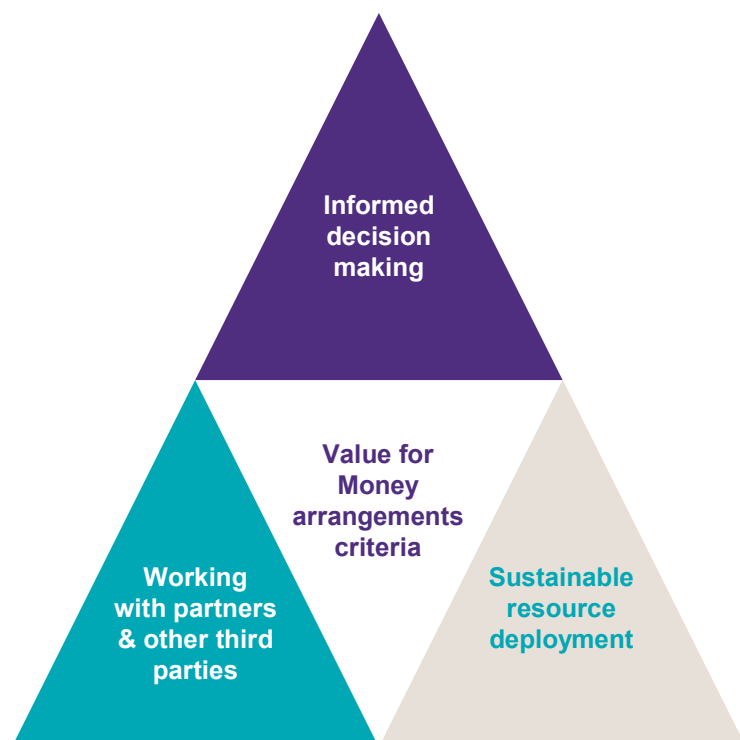
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Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Informed Decision Making

The COVID-19 Pandemic

The COVID-19 pandemic is the greatest challenge faced by public sector services in a generation and it places significant demand and pressures on Local Authorities in their role as local provider of statutory services.

The emergence of the pressures facing local authorities continues to be examined and is likely to continue to do over the next 6 months and more.

At the end of March 2020, the Ministry of Housing, Communities and Local Government responded to the immediate need for Local Authorities to be funded for this event, in the short term by transferring £3.2bn into Local Authority bank accounts, Plymouth City Council have received £15.7m. In addition, Plymouth City Council also received a separate allocation of £47.5m which has been used to support local businesses grant.

There are likely to be significant budget implications particularly in relation to reductions in income through Business rates, car parking, tourism and attractions.

The Council continue to work hard to establish the impact on costs and income as well as preparing for any loss of capacity over the next few months.

We will consider the Council's response to the pandemic and review the arrangements in place for assessing the budget impacts, scenario planning, tracking costs and pressures, changes in commercial activities, borrowing and investments, capacity and community support and impact on income streams.

Audit logistics & team



Paul Dossett, Key Audit Partner

Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Geraldine Daly, Lead Auditor

Geraldine plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing issues.



Roz Apperley, Audit Incharge

Roz's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and 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.

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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified, the fees shown are estimated.

Service	£	Threats	Safeguards
Audit related:			
Housing Benefit Certification	14,041	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,041 in comparison to the total fee for the audit of £142,393 and in particular is not significant relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee for core work and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teachers' Pensions	4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £142,393 and in particular is not significant 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.
Non-audit related:	14,241		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. 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 Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>



[grantthornton.co.uk](https://www.grantthornton.co.uk)

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Audit Fee – Further Analysis

Plymouth City Council

30 April 2020



Audit fee variations – Further analysis

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will seek approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	105,393	
Raising the bar	8,000	General - The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	General – the FRC have highlighted that the quality of work by all audit firms needs to be improved across local audit. This requires additional challenge and scepticism and testing. The requirements result in increased supervision and senior level input. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,500	General – The FRC have highlighted that the quality of work by all audit firms on PPE valuations requires further improvement. We have had to increase the level of challenge and scepticism of both management and valuers. We have also had to engage our own valuation experts - Wilks Head and Eve and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We estimate that the cost of the auditors expert will be in the region of £5000.
Groups	4,000 if required)	General - The Financial Reporting Council (FRC) have highlighted the need to increase quality by all audit firms in relation to the audit of group accounts and in particular, increase focus and scrutiny when relying upon assurances from other auditors. This requires additional supervision and leadership as well as additional challenge and scepticism in this area. As this is the first year of Group accounts additional audit procedures will be required.
New standards/developments	3,000	General - Covid-19 is an emerging issue and development across the entire public sector which will require further audit challenge and scrutiny across the financial statements. Our initial risk assessment has been updated to add a further significant risk for this event. We anticipate that this will increase as further detailed work is required.
Miel Ltd - Payment of the Pension Fund Liability	6,000	Local to Plymouth - The introduction of this as a financial statements level risk requires additional audit procedures and follow up of our recommendations from last year. As this is a highly complex and unusual transaction, we as auditors, are likely to also utilise the services of experts such as legal advisers.
Grants and Financial Instruments	3,000	Local to Plymouth - We have included these areas as significant risks as part of our audit risk assessment. These areas will require detailed auditor focus and increased testing.
Revised fee	142,393	



Grant Thornton

An instinct for growth™

Andrew Hardingham
Strategic Director Transformation and Change - Finance
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PL2 2AE

27th April 2020

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2nd Floor, 2 Glass Wharf
Bristol
BS2 0EL

Dear Andrew

Audit scope and additional work 2019/20

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times. In this letter, I want to continue to update you on our plans to work with you over the coming months, as we have discussed at our most recent weekly meetings. I want to ensure that we plan our audit effectively, to provide assurance for those charged with governance, and to deliver a high quality audit to all users of the audit, whilst seeking to maintain our fee within the envelope which we have recently been discussing with you. The letter therefore aims to support the commentary relating to the fee that is currently within the draft audit plan for 2019/20 and to ensure transparency. I know that we have discussed the fee on a number of occasions and I would want to continue those discussions relating to the forecast for 2019/20.

Global events have moved in an unexpected and tragic direction and none of us could have foreseen the impact that the Covid19 crisis has had on the world. As a local government body, you are at the forefront of efforts to support local people, and clearly the focus of the Authority will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

In recent conversations, including at Plymouth City Council, and the Audit and Governance Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also received a letter via email from Tony Crawley of PSAA in December 2019 explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: *“significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.”*

I wanted to ensure that I set out in more detail the likely impact of this on our audit, and I am pleased to do so in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Authority's audit.

Increased challenge and depth of work – raising the quality bar

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

Score	Description
1 or 2a	Acceptable with Limited Improvements Required
2b	Improvements required
3	Significant Improvements Required

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work. Reflecting this higher profile, and the expectations of stakeholders, we propose to reduce the materiality level for all major audits. For Plymouth City Council this will lead to a reduction from 1.7% to 1.33% of gross revenue expenditure, reflecting both the increased focus on large audits and our experience from the 2018-19 audit. This will increase the volume and scope of our testing and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We have also determined that, for major local audits, we will now be engaging our own external valuer to provide appropriate assurance to the standards expected by the FRC.

Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority
- checking the value of the Pension Fund Assets at 31 March per the Authority's financial statements against the share of assets in the Pension Fund statements
- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers
- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process)

Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. There is a requirement, under IAS8, to disclose the expected impact of changes in accounting treatment in the financial statements.

We know the Authority has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

Local issues

The audit of the Plymouth City Council's 2018-19 financial statements was the first year that Grant Thornton UK LLP were your external auditors in more recent times. Our audit identified a number of issues both in the accuracy of the figures and information reported in the financial statements and in the quality of supporting working papers. As you are aware we had to undertake a significant amount of work around the valuation of PPE and investment properties which led to prior period adjustments having to be made. Additional testing had to be undertaken on grant income, financial instrument disclosures and the validity of Trading Account income.

We also spent a number of hours in talks with you and reviewing the governance and due diligence arrangements regarding the repayment of the Pension Fund Liability through MIEL Ltd.

All of these matters required significant additional audit work to complete the audit and resulted in an additional fee to be paid.

We have continued to work with senior members of the finance team to address the issues arising during the 2018-19 audit and seek improvements to both the quality and accuracy of the financial statements and the supporting working papers produced by the Council for 2019-20. However, it is likely that there will be additional audit work arising in 2019-20 as these new arrangements become embedded and further opportunities to improve are identified. We have therefore factored in our expected additional audit work into the scope of the audit-

Covid 19

The current pandemic crisis has increased audit risk factors in the following areas:

- Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management's estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and their overall financial resilience and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We have set out in the Audit Plan the additional work we propose to undertake in respect of this new significant risk. Fundamental to our response will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid 19 in its accounts preparation. We will also review the appropriateness of your disclosures, including in respect of any estimation uncertainties around for example operational property plant and equipment and Pensions asset valuations. The significance of the Council's investment property portfolio and the potential impact of the coronavirus on its valuation will require additional audit input, using an auditor's expert, which will incur further additional costs that we would need to pass onto you.

Group Audit

We anticipate that there is a likely requirement to produce Group Accounts for the first time in 2019/20. The introduction of a Group Account requires additional responsibilities on the Auditor in the way that the audit is performed and reported. For instance, the Group Auditor is required to liaise with auditors of subsidiaries, request work to be performed on specific risk areas and review the work of subsidiary auditors. There are also specific reporting requirements imposed on the Group auditor in discharging their responsibilities to both the public and Those Charged with Governance.

Value for Money and Financial Standing

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current pandemic crisis. We have added an additional significant risk in relation to COVID-19 as part of our initial risk assessment. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example Council Tax and NNDR collection rates, car park income, tourist attraction income and investment returns. We envisage linking the additional VfM work around financial standing with our Going Concern opinion work.

Regulatory changes.

You will be aware that the Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required by both you and us, for this year at least.

Finally, MHCLG has revised the publication date for the draft accounts to 31 August and set a target date for publication of audited accounts of 30 November. Whilst flexibility in moving away from July is welcome, a number of authorities have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021/22. We are keen to continue with the agreed timetable of a draft set of statements by 31 May 2020 and an audit target of 30th September 2020. We will continue to liaise and discuss what works for you.

Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

Area	Cost £		
	2019/20	2018/19	2017/18
Scale Fee	£105,393	£105,393	£136,874
Increased challenge and depth of work	£5,000	-	-
Materiality	£3,000	-	-
PPE & Valuations	£9,500	£3,000	-
Pensions	£3,500	£3,000	-
Pensions Mc Cloud	-	£3,000	-
Groups	£4,000	-	-
New Standards	£3,000	-	-
Local Issues:			
Pension repayment through Miel	£6,000	£15,000	
PPE and PPA		£45,500	
Financial Instruments /CFR and Grants	£3,000	£8,000	
	£37,000	£68,500*	
Total	£142,393	£173,893	£136,876

* yet to be agreed by management and PSAA.

This would give a scale fee for the statutory accounts audit for 2019/20 of £105,393 plus VAT plus a variation of £ 37,000 plus VAT, giving a total fee of £142,393 plus VAT. (£173,893 plus VAT in 2018/19).

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 30 September Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit, which at this stage is planned to be delivered by 30 September 2020.

Future changes to audit scope

As I have previously mentioned in meetings and at the Audit and Governance Committee, the National Audit Office has consulted on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

At this stage, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year,



Yours sincerely

Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

Audit and Governance Committee



Date of meeting:	11 May 2020
Title of Report:	Audit Fees 2018/19 and Audit Timetable.
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Paul Looby
Contact Email:	Paul.looby@plymouth.gov.uk
Your Reference:	Click here to enter text.
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

To provide the Committee with an update of the proposed Audit Fees for 2018/19 and the local and national situation with regard to the completion of external audits within local government. The report includes an email from Public Sector Appointments and a report for the future procurement approach and audit contracts. This report had previously been prepared for the March Committee and has been updated to reflect recent changes.

Recommendations and Reasons

- I. Members of the Committee note the report.
 - I.1 Members of the Committee to consider whether they want to express their concerns with the reduction of fees as set out within the report and the impact this has had on Grant Thornton completing the 2018/19 audit.
 - I.2 Members of the Committee to discuss with Grant Thornton what plans they have in place to ensure the 2019/20 audit can be completed within the agreed deadlines and the agreed fee and what arrangements they will put in place to ensure they can present their final opinion to this Committee in July 2020.

Alternative options considered and rejected

N/A

Relevance to the Corporate Plan and/or the Plymouth Plan

The annual audit is a statutory requirement and our external auditor presents its findings and observations arising from their audit that are significant to Members of this Committee who are

charged with responsibility for governance with regard to finance and internal control. This are directly relevant to all Plymouth's Plan's

Implications for the Medium Term Financial Plan and Resource Implications:

The cost of the annual audit fees are budgeted for within the Medium Term Financial Plan.

Carbon Footprint (Environmental) Implications:

N/A

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:

** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

N/A

Appendices

**Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Email from Public Sector Appointments Limited							
B	Future Procurement and Market Supply							

Background papers:

**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7

Sign off:

Fin	djn.19 .20.28 0	Leg	lt/344 61/1 303.	Mon Off	Click here to enter text.	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 13/04/2020											
Cabinet Member approval: <i>Councillor Mark Lowry approved</i>											

2. Audit Process and Fees

- 2.1 Grant Thornton were appointed as Plymouth's external auditors by the Public Sector Audit Appointments Limited (PSAA) in December 2017. In addition to being the body with responsibility for local government external audit appointments, they also consult and set the annual audit fees that are paid by each local authority.
- 2.2 Grant Thornton set out their fees in their ISO260 report which was presented to this Committee on 9 December 2019. They are set out below:

Core Fees

Council Audit	£105,393
Certification of Housing Benefits Subsidy Return	£ 14,041
Certification of Teachers' Pension Return	£ 4,200

Additional Fees

Assessing the impact of McCloud ruling	£ 3,000
Pensions – IAS 10	£ 3,000

- 2.3 The Council has not agreed or paid the fee proposed for the McCloud work and the Pensions work. At the time of writing this report Officers were waiting to see if any other additional charges will be levied by Grant Thornton in relation to the core audit work before considering a response.
- 2.4 Table I below sets out the Audit Fees paid by the Council since 2014/15. There has been a significant reduction in the core audit fee over this period which has inevitably impacted upon the resources available to conduct the core annual audit and meet the deadline for completion of 31 July.

Audit Fees Paid to External Audit Since 2014/15

Supplier:	Audit Fees					
	GT	BDO	BDO	BDO	GT	GT
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£	£
PSAA Agreed Annual Charge	182,498	136,784	136,874	136,874	105,393	105,393
Additional Fees		34,830			?	
HB Subsidy	17,720	17,477	17,477	17,477	14,041	14,041
Teachers Pension	4,200	4,500	4,600	4,800	4,200	4,200
PSAA Refund of Fees						-12,750
Total	204,418	193,591	158,951	159,151	123,634	110,884

- 2.5 Members will be aware that the Council has to publish its statutory accounts by 31 May each year. This was achieved in 2019. The expectation and target is Grant Thornton will sign off the accounts and provide their opinion by the 31 July each year. However due to the COVID19 emergency the target for the 2019/20 accounts has been moved to 30 November 2020.
- 2.6 Due to a number of factors, which included resourcing issues within Grant Thornton, this deadline was not achieved.
- 2.7 Having considered the delay to the completion of the audit which is due to resourcing issues within Grant Thornton, Members of the committee are asked to consider whether they want to express their concerns with the reduction of fees as set out in table one and the impact this has had upon the auditors work.
- 2.8 Attached to this report (appendix 1) is an email from PSSA which summarises the local audit position in relation to the period 2018-21. The key points are there were still a number of opinions outstanding as at the end January 2020 which the PSSA described as unsatisfactory. The PSSA has commissioned independent research into the sustainability of the audit market. This report is appended as appendix 2.
- 2.9 As at the end of January 2020, Plymouth was one of the 80 opinions outstanding. This is an unsatisfactory situation and one that Plymouth do not want repeated for the 2019/20 audit. Due to the late completion of the 2018/19 audit this has already put pressure on council officers preparing for the 2019/20 audit. Grant Thornton usually complete their interim audit in February in preparation for 2019/20, however council officers received requests for information in March and the Interim Audit continued throughout April.
- 2.10 Having considered the issues raised within this report members of the Committee may want to discuss with Grant Thornton what plans they have in place to ensure the 2019/20 audit can be completed within the agreed deadlines and what arrangements they will put in place to ensure they can present their final opinion to this Committee. Grant Thornton have advised this will be by the end of September 2020.

Email from Public Sector Appointments Limited – 28 February 2020

Dear S151 officer,

Given all the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. That is an incredibly unsatisfactory position, particularly for all the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish soon. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backdrop PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. <https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, the impact will vary dependent on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. Note 1 below explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

Tony Crawley

Chief Executive

Public Sector Audit Appointments Limited

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	Scale fee for the audit 2019/20
Plymouth City Council	£105,393	£105,393

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive