



**Oversight and Governance**

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**AUDIT AND GOVERNANCE COMMITTEE**

**To Follow Pack 2**

Thursday 29 September 2022  
2.00 pm  
Warspite Room, Council House

**Members:**

Councillor Luggier, Chair

Councillor Lowry, Vice Chair

Councillors Evans OBE, Finn and Tofan.

Independent Members: Mr Ian Shipperley and Mrs Annette Benny.

Please find enclosed additional information for your consideration under agenda item number 13.

For further information on attending Council meetings and how to engage in the democratic process please follow this link - [Get Involved](#)

**Tracey Lee**

Chief Executive

**Audit and Governance Committee**

- 13. External Audit Progress Report, Findings report 19/20 and Auditors Annual Report 20/21: (Pages 1 - 40)**



This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

# The 2019/20 Audit Findings for Plymouth City Council

Year ended 31 March 2020



# Contents



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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

## Page

- 3
- 5
- 23
- 28

- 29
- 31
- 34
- 38

Page 2

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Plymouth City Council Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the [group and] Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was undertaken remotely. Our findings to date are summarised on pages 4 to 22. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is not yet complete and there are a number of areas where we are awaiting further information and revised accounts from the Council to conclude our work. These include:</p> <ul style="list-style-type: none"> <li>• Receipt of a revised set of financial statements, incorporating a number of changes including those relating to financial instruments;</li> <li>• The conclusion of our work in respect of the pension transaction- a significant issue which has consumed significant Council and audit resource.</li> <li>• Further evidence to support the calculations of expected credit losses;</li> <li>• Resolution of our queries in respect of the treatment of impairments, revaluations and depreciation and the consistency of entries between the movement in reserves statement and other notes within the accounts;</li> <li>• Resolution of the national issue relating to the carrying value of infrastructure assets within the Council's financial statements</li> </ul> <p>The Council will need to reflect on the impact of the pension transaction within its Annual Governance Statement and we will review the other information to be published with the financial statements for consistency with our knowledge of your organisation once this is resolved.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Plymouth City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Plymouth City Council did not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources in 2019/20. Our findings are summarised on pages 23 to 29.

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

We therefore propose issuing a qualified adverse value for money conclusion for the year ended 31 March 2020 and arrangements in that year only. This relates to the governance arrangements in respect of the pension transaction and the interest rate swaps which we reported on in July 2021. We raised no specific issues about the other aspects of the Council's overall governance framework.

Like many other Councils, Plymouth faced considerable financial pressures at the end of 2019/20 as it entered the Covid 19 Pandemic

We would note that in 2020/21 a new Code of Practice was introduced by the National Audit Office which ended the requirement for auditors to reach a VfM conclusion. In 20/21 auditors required to offer a commentary on Financial Sustainability, Governance and Economy, efficiency and Effectiveness and make recommendations as appropriate.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties at the current time.

We have not yet completed all our work under the Code including WGA and are unable to issue our completion certificate until we complete the outstanding work on our audit.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and presented to the Audit and Governance Committee.

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

## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not altered our audit approach, as communicated to you in our updated plan in March 2021.

## Audit approach (continued)

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements however there remain a small number of significant matters to be resolved before we are able to issue our opinion on the financial statements These outstanding items are set out on page 3.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,665,000	Materiality is set at 1.333% of prior year gross operating expenditure.
Performance materiality	4,332,000	Performance materiality has been set at 65% of headline materiality, reflecting material errors identified during the prior year audit.
Trivial matters	300,000	This set at 5% of headline materiality.
Materiality for senior officers remuneration	£100,000	Reduced materiality due to the heightened public interest in this figure.

# Significant audit risks

## Risks identified in our Audit Plan

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited;
- the culture and ethical frameworks of local authorities, including Plymouth City Council, mean that all forms of fraud are seen as unacceptable

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.

## Auditor commentary

As a result of the work undertaken, we have not identified any further matters that would require amendment to our risk assessment.

For government grants, we identified the completeness of grant income to be a significant risk and undertook procedures to determine that grants had been recognised in the correct period and performed a review to compare grants received in the current year against those received in the prior year with no issues arising. We also evaluated the design effectiveness of the Council's processes and controls.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid– 19

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:

- 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.

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.

## Auditor commentary

### We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported.
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

There are no matters to report.

# Significant audit risks

## Risks identified in our Audit Plan

### Management override of controls

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.

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.

## Auditor commentary

We:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

It is Council policy that all journals greater than £500,000 require authorisation. For journals prepared manually, a field identifying journals above the threshold as requiring authorisation must be selected. Our initial testing of journals selected identified that 8 of the 60 journals tested had not been authorised when above the £500,000 threshold. As a result of this finding we extended our testing and from the 5 items selected, 2 had not been authorised.

Although the journals tested were appropriate with no concerns identified over their nature, this issue has been identified as a control weakness and reported on page 31.

Our work on financial instruments identified that a document required to support a hedging transaction dated April 2020 had been created at a later date and the signature of the former Section 151 officer had been applied after he had left the Council. As a result of this finding, further work was undertaken to review all documents submitted to us as audit evidence. These included evidence to support treasury transactions and grants. We also extended our testing of journals to review all journals posted by the individual concerned. No further areas of concern were identified from this work.

Internal audit also undertook work to consider the falsified document and use of signatures and determined that the issue was isolated to this particular unusual transaction and arose from a lack of understanding rather than fraudulent intent.

Our findings on estimates are set out on pages 16-19.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings including investment property

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.

We therefore identified valuation of land and buildings, and Investment Properties namely the assumptions made by the valuer in his revaluations of assets, as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Energy from Waste Plant

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.

### Tamar Bridge

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 was revalued on 31 March 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 engaged a valuer to undertake a full valuation of the bridge and to review and consider the basis of the valuation.

## Auditor commentary

The Council uses its own internal valuer for the majority of its land and buildings, with the exception of two assets where Plymouth City Council has a share of an asset with one or more other Local Authorities as follows:

- Devonport Energy from Waste Plant – joint with Torbay Council and Devon County Council – valuation provided by valuers appointed by Devon County Council
- Tamar Bridge – joint with Cornwall Council – valuation provided by valuers appointed by Cornwall Council

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation experts;
- written to the three valuers to confirm the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding;
- engaged an auditors expert to review the terms of engagement, valuation report of the valuer and followed up any findings;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; and
- we have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts.

Our testing identified 22 assets that did not appear to have been revalued within the five year programme. All these assets had a nil value within the fixed asset register. Of these assets twenty related to assets that should have been deleted from the asset register and for the remaining two a nil value was appropriate. This represents a weakness in maintaining the asset register and has been reported on page 32.

The Council revalued £341 million of its other land and buildings assets during 2019/20 representing 73% of these assets. Our testing identified that no depreciation had been charged on these assets during the year. This will result in a potential understatement of the deficit on continuing operations in the Comprehensive Income and Expenditure Statement and an corresponding understatement of the surplus on revaluation of non-current assets. Management have been asked to review the depreciation charge and our work in this area remains ongoing. This represents a weakness in maintaining the asset register and has been reported on page 31.



# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings including investment property continued

## Auditor commentary

Our auditors expert has reviewed the terms of engagement, valuation reports and a sample of detailed workings for the valuers used by the Council where available, and we have obtained explanations for queries raised. It was identified that no formal terms of engagement were issued by the Council's internal valuer. Although there is no evidence to suggest that the work undertaken was not appropriate, it is an industry requirement that terms of engagement are issued by all valuers prior to undertaking their work. A control recommendation has been raised on page 32.

The valuer has applied a 3% obsolescence factor for the year for schools buildings. Our auditors expert reviewed the assessment of obsolesce and commented that, the application of obsolescence is subjective and down to the individual professional judgment of the valuer although it may be prudent to ascertain the judgement for how the 3% figure was calculated. The Council's valuer had used his judgement to determine the obsolesce factor to apply, but this was not supported by evidence. A change in the obsolescence factor by 1% ( eg down to 2% or up to 4% ) would have an impact on the valuation of less than £1 million and is not considered to be material.

For investment properties, we reviewed the valuation reports prepared by the Council's valuer and tested, on a sample basis, the assumptions used by the valuer including to supporting evidence. We assessed the impact of Covid-19 on investment income to support the valuations. Our auditors expert reviewed the work of the Council's valuer with no issues identified.

Our work identified that there was no total valuation on the Valuers report for the assets valued, requiring additional work to reconcile the report to the asset register.

In the valuation reports prepared by all valuers, they have confirmed that as a result of Covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. At the balance sheet date, the valuer was faced with an unprecedented set of circumstances on which to base a judgement and as such the valuations have been reported on the basis of 'material valuation uncertainty'. The Council has reflected this uncertainty in Note 5 to the financial statements. We identified that further detail on the sensitivities relating to the assumptions used in deriving the valuations were not included.

We will include an emphasis of matter paragraph in our audit opinion. The emphasis of matter paragraph does not qualify the opinion but will refer to the matter of the disclosure of the material uncertainty stated by the valuers included in the financial statements that is, in our judgement, of such importance that it is fundamental to users' understanding of the financial statements.



# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£434 million in the Council's balance sheet) at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified assumptions made by the actuary to determine valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

It was identified that the actuary had omitted to include the Council's share of the pension liabilities in respect of Livewell South West staff for service prior to the transfer from Plymouth City Council. A revised IAS 19 report was obtained from the Council resulting in an increase in the pension liability of the Council of £18.3 million.

This omission was not identified by the Council's control processes and we have identified an improvement recommendation on page 31,

The Devon Pension Fund assets include investments in pooled property funds, these are subject to the same uncertainties in their valuation due to the impact of Covid -19 as other property assets. A disclosure referencing this was omitted was from note 5 to the accounts.

Our audit work has not identified any further issues in respect of the valuation of the pension fund net liability.

# Significant audit risks

## Risks identified in our Audit Plan

### Reduction of the net pension liability through the use of the pension transaction

As noted on the previous page, the Authority's pension fund net liability represents a significant estimate in the financial statements.

The Council has used a separate vehicle (the pension transaction Ltd) to pay a £70m off of its Pension Fund liability amount. This transaction took place in early October 2019.

This type of transaction is both material and unusual and has therefore been assessed as a Financial Statements significant risk.

## Auditor commentary

We:

reviewed the Council's response to the series of recommendations that we have made in our Audit Findings Reports throughout 2018/19, in particular to -

- assessed the due diligence undertaken by the Council
- reviewed the action taken by the Council to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate
- assessed the arrangements the Council has in place to assess whether it considers the transaction to reduce the pension fund net liability to be financially sound.
- review the Council's proposed accounting treatment to ensure it is compliant with CIPFA's Code and the relevant accounting standards.

In April 21 we issued a report on the Governance arrangements in respect of the pension transaction and the adopting of a hedging instrument 1 May 2021. This report identified some serious governance weaknesses. The Council has responded positively and addressed the majority of our recommendations.

In terms of the financial statements, the pension transaction has involved significant discussion with the Council. A significant amount of legal advice has been sought as well as professional accounting advice. The Council accepted that its original accounting was incorrect and significant changes will be made to the accounts. Our view remained, as we reported in respect of our 2018/19 audit that this was a transaction entered into by the Council which should not have happened. The matter remains unresolved, nearly three years after the Council first entered into the transaction. Further legal and accounting resource is now engaged to resolve the matter.

# Significant audit risks

## Risks identified in our Audit Plan

### Group Accounts

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.

## Auditor commentary

We revisited the group assessment made in 2018/19 and considered managements updated assessment of the materiality of group entities both quantitatively and qualitatively.

As a result of the work undertaken we with concur with management's assessment that the Council is not required to produce group accounts.

# Significant audit risks

## Risks identified in our Audit Plan

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.

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.

As this is a complex area and requires specialist support and advice, it is susceptible to possible error.

## Commentary

We reviewed the Council's processes implemented to establish the correct valuations of all financial instruments held, including:

- testing disclosures for financial instruments back to the figures within the main financial statements
- testing the disclosures in accordance with the CIPFA Code and accounting and auditing guidance
- reviewed the work of the Council's experts in this area.

Our testing identified:

### Treatment of pooled investment funds

The Council has £50.9 million invested in a collective investment fund (CCLA). The treatment of this fund has been reviewed as part of our testing of financial instruments. It is considered that collective investment funds are puttable and therefore do not meet the definition of equity and cannot be accounted for through fair value- other comprehensive income, but rather, should be accounted for through fair value – profit and loss. The Council has performed a review of all other pooled property fund investments and have determined that these should also be accounted for through profit and loss rather than other comprehensive income. Adjustments are being made to the accounts.

The Council has a new pooled fund - the Social Impacts Fund. As this was only invested in cash as at 31 March 2020, there is no requirement to determine the fair value of this instrument in 2019/20. However, we recommend that the accounting treatment for this instrument be reviewed in line with other pooled fund guidance from CIPFA and DLUCH for 2020/21. As a result of this testing, the Council have agreed to amend the accounting treatment for the Social Impacts Fund.

Errors were identified in the CIES, MIRS and disclosure notes regarding the accounting for financial assets. The Council is amending for these errors and making the amendments.

Appropriate accounting policies were also omitted for financial assets measured at fair value through profit and loss and fair value through other comprehensive income.

### Fair value of other long term liabilities

There is no fair value provided for the other long term liabilities with a carrying value of £118.7 million in note 18 to the financial statements.

This is made up of the PFI schemes for schools and the incinerator and loans with Cornwall Council. Although accounted for at current value, a disclosure is required for fair value.

Following our review of the fair value assumptions for other debts - including other borrowings and the PFI debt on the Council's balance sheet, the Council commissioned Arlingclose to undertake further fair value reviews for these items. This also includes the loan with Cornwall Council. The fair values of these items has been amended in the accounts.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

### Expected Credit Losses

There was no accounting policy covering expected credit losses and no disclosures that referred to these requirements other than reference to a bad debt provision at note 19.3. The statement in the accounts relating to expected credit losses was out of date and not reflective of current accounting standards. The policy is being amended to reflect current requirements.

The Council had not clearly identified the maximum exposure to credit loss attributable to property investment funds and equity investments. The Council is amending the financial statements so that they comply with the Council's treasury management policy.

### Fair value hierarchy of financial instruments

£50.1 million of financial assets were disclosed in note 18 as being level 1. These relate to pooled funds and should be classified as level 2. In order to be classed as level 1, these instruments would need to be actively traded on a recognised market at the accounting date which is not the case for these assets.

Our work in this area is ongoing and we have not yet received revised accounts to determine that all the required changes have been made.

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings – Other - £537m</b>	<p>Other land and buildings comprises £418million of specialised assets such as schools and leisure centres, which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings £119 million are not specialised in nature and are required to be valued at existing use in value (EUV). The Council has engaged its own internal valuers for the majority of assets, using the valuers of Cornwall Council and Devon County Council to provide other valuations as detailed on page 9. 72% of total assets were revalued during 2019/20.</p> <p>The Council values its assets on a five year rolling programme as at 1 April. £50 million of assets were valued at this date in 2019/20. In addition a further £340 million of assets were valued at 31 March 2020.</p> <p>In line with RICS guidance, the Council's valuers disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates note in the Statement of Accounts.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase/decrease of £15,895m. Management's assessment of assets not revalued has identified no material change to the values.</p> <p>Investment properties are revalued annually at fair value as at 31 March.</p>	<p>We have considered the independence, experience and objectivity of the Council's internal valuer and confirmed that he is sufficiently independent from the finance function to provide objective valuations.</p> <p>We have considered the independence, experience and objectivity of the Council's other valuation experts with no matters to report.</p> <p>We have carried out completeness and accuracy testing of the underlying information provided to the valuers to determine the estimate.</p> <p>In our findings on the significant risk on page 10, we reported that the evidence to support the obsolescence applied to schools buildings could not be supported by robust evidence.</p> <p>We have evaluated the assumptions made by management for those assets not revalued at the year end and how management has satisfied themselves that these are not materially different to current value at year end.</p> <p>We have considered the consistency of the estimate against data provided by our auditors expert, and tested valuations where the changes in valuation differ from expectations.</p> <p>We have used our auditors expert to obtain further assurance of the methodology used by the valuer.</p>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious



# Significant findings – key estimates and judgements

Accounting area

Summary of management's policy

Auditor commentary

Net pension liability – £437m

The Council's net pension liability at 31 March 2019 is £437 million (PY £541m) the majority of which relates to the Devon Pension Fund, with a non-material amount relating to the Tamar Bridge and Torpoint Ferry Joint Committee.

The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £67 million net actuarial gain during 2019/20

We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.

We have performed additional tests in relation to accuracy of contribution figures, benefits paid, the reasonableness of the Council's share of the funds assets and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.

We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	●
Pension increase rate	1.9%	Between 2%-1.8%	●
Salary growth	2.9%	Between 1.9%-2.9%	●
Life expectancy – Males currently aged 45 / 65	Pensioners 22.9 years Non pensioners 24.3 years Used CMI 2018 Model with long term improvement rate of 1.5% and a smoothing parameter of 7.	Scheme specific but would expect actuary to calculate using the CMI 2018 MODEL	●
Life expectancy – Females currently aged 45 / 65	Pensioners 24.3 years Non pensioners 25.5 years Used CMI 2018 Model with long term improvement rate of improvement rate of 1.5% and a smoothing parameter of 7.		●

We have also:


- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report
- obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Page 17

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements


Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Capital Finance Reserve, MRP and Capital Receipts.</b>	<p>The Council is statutorily required to repay debt annually by calculating an MRP (minimum revenue provision) using one of the four options in the legislation.</p> <p>In summary the Council's policy as set out in its Treasury Management Strategy is as follows:</p> <p>The Council uses the Annuity Method</p> <ul style="list-style-type: none"> <li>• 50 year repayment for capitalisation directives</li> <li>• PFI/Leases determined by the specific agreement</li> <li>• No MRP on capital loans or investments</li> <li>• Option for capital receipts to be used towards repaying debt</li> </ul>	<p>The Council's MRP calculation does not include the correct application for MRP on investment properties. The Council has a large number of investment properties and the policy is not to charge MRP on borrowing attributable to these. MRP is only charged where there has been a decrease in value. This is not in accordance with the CIPFA Code and not considered to be prudent and suggests MRP is understated overall. The Council's overall MRP is however, not unreasonable as a % in terms of its overall debt portfolio.</p>	

## Assessment





- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable



# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Provisions for NNDR appeals - £1.889m</b>	The Council are responsible for repaying a proportion of successful rateable value appeals. Management has based its appeals provision on its own experience of claims outcomes and the number of claims received.	The Valuation Office Agency gives a rateable value to each non-domestic property and this is used by local councils to calculate a property's business rates. New rating lists (which contain the rateable values for non-domestic properties) are usually prepared every five years. The current list was published on 1 April 2017. Appeals are initially dealt with by the Valuation Office Agency (VOA) deal with checks and challenges through their online service. This has reduced the numbers of appeals received by local authorities. In 2019/20 the Council has based its provision on appeals received. From 2020/21 the Council has engaged external expertise to reassess the level of appeals based on anticipated rather than received appeals. The impact o this change will be to increase the level of the provision recorded in future years. This would suggest that 19/20 is understated and in our view the Council needs to revisit its 19/20 provisioning based on a more recognised methodology eg the approach used for 20/21.	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Significant findings – going concern

### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

### Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, the closure of leisure centres and car parks, with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams to assist with additional workloads caused by the pandemic in addition to normal responsibilities. In common with all local authorities, the Council is facing significant challenges, but has reported a small overspend for 2019/20 and the Council needed to draw on its reserves to deliver the financial outturn with general fund reserves reducing from £8.051 million at 1 April 2019 to £8.045 million at 31 March 2020.

### Going Concern commentary

#### Management's assessment process

Management have advised us that they have prepared the financial statements on a going concern basis.

Management's view is that the concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future as an authority can only be discontinued under statutory prescription. Although Central Government funding is being cut significantly, management is of the view that this will have no effect on Plymouth City Council as a going concern. We have requested that management provide a detailed assessment of going concern in light of future funding information and the budget for 2020/21. This assessment should cover the 12 months from the opinion date which is likely to be from Autumn 2022.

#### Work performed

We discussed the going concern principle with management and asked them to provide an assessment of the application of this principle and to assess what disclosures should be included in its financial statements. Management referred us to the budget for 2019/20 and the Council's medium term financial plan which we reviewed as part of our work on the Council's VFM conclusion – see page 24 of this report.

#### Concluding comments

CIPFA's code of practice on local authority accounting for 2018/19 is clear that an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The issue is simply one around the disclosure within the Council's financial statements.

Our discussions with management, supplemented by our VFM conclusion work has given us sufficient assurance that the disclosures within the Council's financial statements are adequate. In reaching this decision we took into account the level of the Council's reserves and the savings that will be required in order to deliver a balanced budget in the medium term.

## Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Based on the work completed to date, we are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	<p>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date.</p> <p>We have commented on page 8, that managements evidence to support potential hedging transaction dated April 2020 had been created at a later date and the signature of the former Section 151 officer had been applied after he had left the Council.</p>
Written representations	A letter of representation will requested from the Council on the completion of our audit.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to the Council's bankers and other organisations with which the Council has investments and loans. This permission was granted and the requests were sent.</p> <p>Not all were returned with positive confirmation and alternative procedures undertaken where required. We were unable to obtain a confirmation to support borrowings of £543k from the Defence Infrastructure Organisation (an arm of the Ministry of Defence).</p>
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

# Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>There are no issues we wish to draw to your attention at this time.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"><li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li><li>• If we have applied any of our statutory powers or duties</li></ul> <p>The matters identified during the audit relating to the pension transaction, the interest rate swap and the documentation of the hedging arrangement, are considered to be significant governance issues and should be referenced in the Annual Governance Statement. We have not yet been provided with the final version of the Statement.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Due to the late completion of this audit, a WGA submission for 2019/20 will not be required.</p>
Certification of the closure of the audit	<p>We are not yet in a position to certify the closure of the 2019/20 audit of Plymouth City Council in the audit report, until our audit work is completed and the national issue in relation to the carrying value of infrastructure is resolved.</p>

# Value for Money

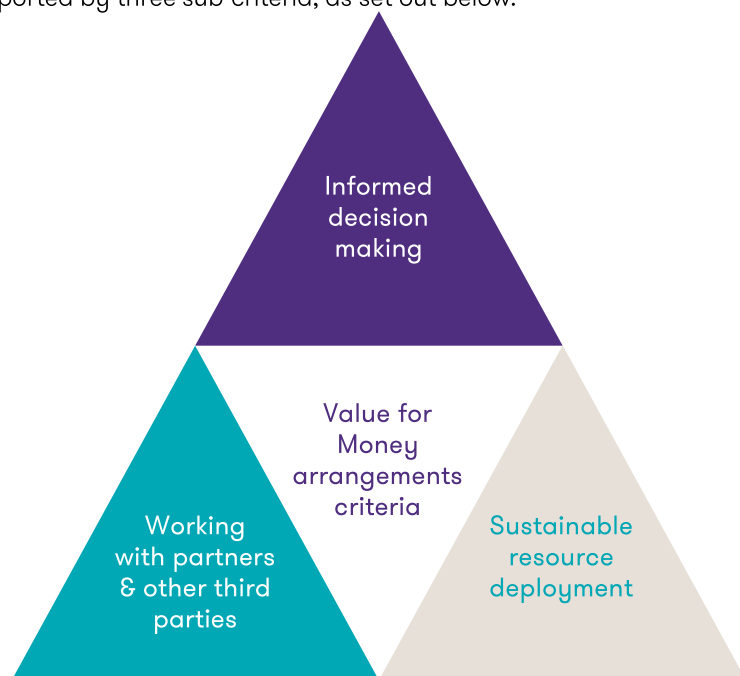
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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:



## Risk assessment

We carried out an initial risk assessment in March 2020 and identified two significant VFM risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our 2019/20 Audit Plan dated April 2020 which was presented to the Audit & Governance Committee in September 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our initial Audit Plan. Our Audit Plan Update, of March 2021, included a third significant VFM risk and this was presented to the Audit & Governance Committee on 22 March 2021. This section refers to our vfm conclusion arrangements in place in 19/20 only but also provide a commentary on future challenges.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment in our audit plans.

## Significant risks

We focused our work on the **three significant risks** we identified in the Council's VFM arrangements under the three VFM sub-criteria. These significant risks were:

### Sustainable resource deployment

- 1. Financial sustainability – Medium Term Financial Planning;

### Working with partners & other third parties

- 2. Council's response to the financial impact of the COVID-19 virus;

### Informed decision making

- 3. Governance of the pension transaction and the Interest Rate Swap transactions

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 24 to 27

Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Overall conclusion

Because of the significance of the matters we identified in respect of "informed decision making", we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion. As we mention on page 4 of this report, this qualification relates specifically to the issues raised in our governance report in July 2021. We note that the Council has implemented our recommendations from the July 2021 report. The Council also embarked on a programme to address its financial sustainability.

# Value for Money (continued)

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

## Significant risk

### 1. Sustainable resource deployment - Financial Sustainability and Medium Term Financial planning

#### Background

The Council achieved financial balance in 2019/20, delivered £17.5m of savings in 19/20, albeit overspends in some services, including Adult Social Care, put pressure on the outturn position for the year end. Demand for Children's services established in the year but there continued 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 been set by Members highlighted 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 required close monitoring in 2020/21.

At March 2020, the revised medium term financial plan indicated further cost pressures in 21/22 of £10.4m and £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 (net of substantial grant funding) requires prudential borrowing and will require extra provision for these extra costs in the future. Legacy savings targets that remain undelivered from 19/20 have been mitigated by other means. The Council will continue with its investment programme, and the latest capital budget between 2019 – 2024 is £314m. Across the medium term at the time of the plan 2020/21 was challenged year ahead and the Council continue to scrutinise and monitor budget positions and investment plans carefully. We will review the wider underlying assumptions made in the Councils plans for 2020-2023.

#### Findings

##### 2019/20 outturn

At the year end, the initial outturn position was an overspend of £6.8m across all directorates, but that was prior to a more detailed outturn position and adjustments. Pressures on outturn position were related to a mixture of legacy savings and in year savings not achieved and overspends taking place in directorates such as Children's services -£5.1m, Place £1.8m and Customer Services £2.6m. A number of mitigations resulted in the Council being able to achieve a year end outturn position of a small surplus which has been charged to the General Fund reserve which now sits at £8.m. These mitigations were varied in nature and consisted of more favorable returns on investments such as the Schroders Maximiser Fund (£1m), a further £500k from the CCG for winter pressures, redundancy budget £0.638m, pension deficit payment £1.5m, and review of unused reserves, use of one-off grants and the release of Council tax surplus. **Nevertheless balance was achieved in 19/20.**

##### Level of reserves

The General Fund Reserve, in common with many other councils was very low, at 8.044 million at 31 March 2020, and at 4.33% it is below the Council's own voluntary minimum level of 5% net revenue budget as documented in the Council's Medium Term Financial Plan. We have already seen in 20/21, the increased pressures that the Council face as a result of the COVID-19 pandemic, mainly in relation to loss of income, and therefore continued efforts need to be ongoing to establish an agreed way forward to increase working balances for the future. The General Fund Balance was 8.4m at the end of March 21 and £8.7m at the end of March 22.

# Value for Money (continued)

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

## Significant risk

### 1. Sustainable resource deployment - Financial Sustainability and Medium-Term Financial planning

#### Findings (continued)

##### Borrowing

The 20/21 draft financial statements include an increase in short-term borrowing from £281.266 million to £464.242 million, long-term borrowing of £135.5 million and a net liability position of £81 million at 31 March 2021 indicating a high gearing position. This is within the Council's approved limits however the cost of borrowing has a significant revenue impact. We are aware that the Council has taken considerable steps to reprofile its debt away from short term borrowing significantly in the last few years. At the time the short term borrowing was undertaken the rate were low. As we move into an era of increasing rates, the Council's move to replace short term borrowing with fixed long term debt appears well judged and timely.

##### 2020/21 and beyond.

Part of our value for money work is to also look forward with regards to the financial stability of the Council. The Council have continued to review and reconsider its original budget position in light of the COVID-19 pandemic. The Council set a gross budget of £502.6m for 20/21, with a net position of £193.6m. That budget was set only weeks prior to lockdown and the start of the pandemic. Plymouth, like all councils across the country had to invest considerable time in addressing the impact of the pandemic, not only on its finances and future financial sustainability but also the economic impact on the City as a whole.

To alleviate these cost pressures the Council have utilized the government support grants that have been made available to them. At the end of Quarter 2 total cost pressures amounted to £26m. £17.7 m of covid-19 grants have been utilized to support these pressures. The council also anticipate £3m of savings being made from the transformation program and to utilize a further £4m of general covid-19 support grants. If the transformation program delivers the anticipated savings the Council will be reporting a small under spend at year end of £900k. However, it should be noted that many of the cost pressures relating to the overspends within the Council remained in 2021/22 and the financial position can no longer be sustained through one off savings or grants.

##### Medium Term Financial Plan

The Council's Medium Term Financial Plan for 19/20 and 20/21 shows a forecast budget gap for 20/21 and 21/22 of £7.236 million and £11.779 million respectively after savings of some £16 million have been identified. For the 20/21 budget setting Cabinet were asked to note that the budget shortfall of £7.112m could be offset by:

- a Council Tax increase of up to 1.99%
- an ASC Precept increase of up to 2.00%
- the use of limited local resources including a limited use of reserves.

Members have not increased council tax for the 2022/23 budget which whilst not material to the budget will start to build a cumulative loss of income that is not sustainable.

##### Conclusion:

Given the increased pressures on expenditure and income in the current year, it is critical that detailed consideration is given to any continued use of reserves and the general fund balance and the affordability of the investment programme. We would however note that the Council achieved a balanced position in 20/21 and 21/22.



# Value for Money (continued)

## Significant risk

## Findings

## Conclusion

### 2. Working with partners and other third parties - Council's response to the financial impact of the COVID-19 virus

The COVID-19 pandemic was the greatest challenge faced by public sector services in a generation and it placed 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.

The outbreak of the COVID-19 pandemic was an exceptional challenge for the Council. There was a good response with the roll-out of Member's devices, staff devices, the virtualisation of the Contact Centre and the speedy release of Microsoft Teams to ensure that Members and staff were well equipped to transition from office based to home workers.

The Council continued to support the most vulnerable of Plymouth's residents through the setting up of Caring for Plymouth, a partnership with Livewell Southwest and a large number of voluntary and community sector organisations had a considerable impact on the city and the Council.

The Council supported businesses throughout the pandemic through the administration of various grant schemes designed to help those impacted by the local restrictions and periods of lockdown. In 2020/21 the Council paid out over £77m to local businesses.

The Council launched its COVID-19 Economic Recovery Plan – Resurgam as a local response to the global pandemic. This is a plan for recovery and it has six key recovery pillars around sector taskforces, infrastructure, city centre development, supporting the economy, transformational projects and workforce skills.

The Council responded well to the challenges of the Pandemic and supported its stakeholders well



# Value for Money (continued)

## Significant risk

### 3. *Informed decision making: Governance of the pension transaction and the Interest Rate Swap transactions*

#### Background

The largest proportion of the Council's 2019/20 capital expenditure was its investment in the pension transaction in October 2019, a special purpose company, to pay £73m of the Council's pension fund liability to Devon Pension Fund. Our 2019/20 audit plan highlighted this as a significant risk as this was an unusual and complex transaction and the Council went ahead with this despite our concerns. We made a series of recommendations to both management and the Audit & Governance Committee regarding the transaction on 22 July 2019, 23 September 2019, 9 December 2019 and 2 April 2020. The first two series of recommendations were ahead of the transaction being undertaken. Whilst one of these recommendations was related to the need to obtain accounting advice for the transaction, the remaining items were of a governance nature.

Our concerns were raised with the former Section 151 Officer ( who left in November 2020 ) and the Audit and Governance Committee on four occasions, including two before the transaction was completed. However, the majority of our concerns were not actioned and the Committee did not effectively discharge its duties and ensure that the recommendations raised were actioned in a timely manner.

In April 2020, the Council entered into an interest rate swap transaction with Santander Bank. This transaction has raised some wider interest in the sector. The aim of the interest rate swap was to reduce the Council's exposure to changes in the interest rate and to reduce the net cost of borrowing. It is considered good practice to raise proposed material transactions of an unusual nature with external auditors.

The decision to engage in an interest rate swap was made by the former Section 151 Officer. In our view as this was an innovative and unusual transaction it was not an everyday transaction, and should not have been managed solely as part of everyday treasury management. In order to enable appropriate scrutiny and public debate the decision should have been made by elected members. The decision could have been taken by Cabinet and reported to the City Council.

Our initial enquiries have determined that the governance and due diligence arrangements in place for both of these transactions required further scrutiny by us as auditors. We therefore updated our original 2019/20 audit plan, of March 2020, to include a specific review of the governance and due diligence arrangements regarding the pension transaction and the Interest Rate Swap transactions. We reported the conclusions of this review to the Audit and Governance Committee, in July 2021. We made 11 recommendations in that report. The Council positively responded to our recommendations and reported progress on implementation of these to the Audit and Governance Committee. The findings from our work have driven the adverse VFM conclusion for 19/20. We will report our findings on the new value for money code arrangements for 20/21 and 21/22 to the November Audit and Governance committee. We will not be making any further recommendations surrounding the governance of the Pension transaction and the Interest rate swap which were addressed in the Council's response to our 2021 Governance review.

# Independence and ethics




## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to April 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.




	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Teachers Pension Return	4,200 (2019/20) 6,000 (2020/21)	Self-Interest (because this is a recurring fee)  Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £225,048 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  To mitigate against the self review threat , the timing of certification work is normally done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	14,041 (2019/20) 27,000 2020/21	Self-Interest (because this is a recurring fee)  Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £225,048 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  To mitigate against the self review threat , the timing of certification work is normally done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
<b>Non-audit related</b>			
None			

# Action plan

We have identified 6 recommendations for the Council as a result of issues identified during the course of our audit to date. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.




Assessment	Issue and risk	Recommendations
 <b>High</b>	<b>Review of the Pension Liability</b> The IAS 19 report provided to the Council by the actuary omitted the transactions and assets and liabilities of the Council's share of Livewell South West pension arrangements. The Council's processes to ensure that the information provided by their expert is complete and accurate were not sufficiently robust to identify this error.	Management should ensure that it undertakes a review of the information received from its expert for completeness and accuracy.  <b>Management response</b> We now ensure that we make a lot of additional checks with Devon LGPS and the actuaries prior to and on receiving their report.
 <b>Medium</b>	<b>Journal Authorisation</b> Our testing identified that not all manual journals requiring authorisation had been authorised.	Management should consider how controls in this area could be strengthened..  <b>Management response</b> Regular reporting and monitoring takes place to ensure that all journals over £500k are reviewed and authorised on the finance system.
 <b>Medium</b>	<b>Depreciation charged on revalued assets</b> Our work identified that the Council had not made an in year depreciation charge to the comprehensive income and expenditure account and balance sheet. The impact of this omission remains under investigation and relates to other land and buildings and the Council's share of the Tamar Bridge.	Management should ensure that the Capital Accounting rules are followed and that a robust review of the financial statements is undertaken to identify and correct such errors.  <b>Management response</b> We have reviewed our processes for calculating depreciation on assets valued at year end to ensure that a full year of depreciation is charged.

## Controls




-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Action plan

We have identified 6 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<b>Related party declarations</b> We identified that your senior officers had not completed a related party form or had submitted a form which did not include all their related parties.	Management should ensure that training is provided to ensure that all senior officers are aware of the requirements to complete accurately, a related party declaration. <b>Management response</b> We have improved the guidance provided to staff for the declarations and do extra checks with Companies House to ensure that the related party disclosures are correct.
 Low	<b>Asset valuations</b> Our testing identified 22 assets that did not appear to have been revalued within the five year rolling programme. All these assets had a nil value within the fixed asset register. Of these assets twenty related to assets that should have been deleted from the asset register and for the remaining two a nil value was appropriate. This represents a weakness in maintaining the asset register and a risk that the asset register is not kept up to date.	The asset register should be reviewed annually and updated to remove assets that are no longer in use. <b>Management response</b> We will review our procedures for the asset register to ensure that assets are removed when council responsibility ceases.
 Low	<b>Valuer Terms of Engagement</b> It was noted that no Terms of Engagement was issued by the Council's internal valuer. It is an industry requirement that such a document is produced by the valuer and agreed with the Council prior to commencing work	Management should ensure that Terms of Engagement documents are received from all valuers engaged prior to work commencing. <b>Management response</b> We received Terms of Reference from external valuers, but not from the internal valuers in the last 12 years, we will ensure that this is requested from now on.

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Plymouth City Council's 2018/19 financial statements, which resulted in 11 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note that one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<b>Delivering the budget for 2018/19 and achieving a sustainable financial future</b> The Council should look for new ways of delivering savings, which are recurrent and not as heavily reliant on one off savings and vacancy management, in order to ensure they are realistic and robust.	See comments on 19/20 arrangements
✓	<b>Revaluation of Devonport Energy from Waste plant</b> The Council should engage with Devon County Council's valuers to ensure that it is aware of all revaluations that are undertaken.	The Council has engaged with the valuer and ensured that this asset is revalued appropriately.
X	<b>Proposal to reduce the pension fund net liability</b> We strongly recommend that the Council should: <ul style="list-style-type: none"> <li>• obtain independent actuarial advice regarding the estimated pension liability amount</li> <li>• obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money</li> <li>• obtain independent legal advice as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability</li> <li>• obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations</li> <li>• Obtain advice regarding the use of any company in the transaction;</li> <li>• Update the business plan and re present to Members</li> <li>• obtain independent accounting advice and</li> <li>• ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis.</li> </ul>	The work on this transaction remains ongoing.

## Assessment

✓ Action completed

X Not yet addressed

# Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<b>Frequency of property valuations</b> We recommend that the Council should formally review the frequency of valuations for all property plant and equipment assets and would encourage the Council to make this frequency more regular than every 5 years.	The Council has reviewed its valuation approach and revalued additional assets in addition to the five year rolling programme.
✓	<b>Investment Properties</b> The Council should ensure that all investment properties are formally reviewed, annually, as at the balance sheet date – i.e. 31 March.	Investment properties were revalued at 31 March.
✓	<b>Accounting for Government Grants</b> We recommend that the Council improve the controls for the accounting for government grants and that all expenditure related to each grant is correctly accounted for.	No issues were identified in relation to government grants.
✓	<b>Accounting for Trading Accounts</b> The Council need to implement effective controls to account for trading account surpluses or deficits correctly.	No issues identified in the current year.
✓	<b>Financial Instrument and complex fair value disclosures</b> We recommend that the Council should: undertake a detailed review of the financial instrument and fair value disclosure requirements for 2019/20 and beyond and obtain the necessary and appropriate expertise so that these complex disclosures are correct in the financial statements.	A number of issues remained in the financial statements. Our findings are summarised on pages 14 and 15.
✓	<b>Quality review of capital financing accounting and disclosures</b> The Council should implement quality reviews on a regular basis for capital transactions so that all associated notes in the accounts such as the capital financing reserve, capital adjustment account are accurate in the draft financial statements at year end.	No issues identified in the current year.
✓	<b>Group Accounts</b> The Council should undertake a group accounts assessment early-on in the accounts production process for 2019/20 taking in qualitative and quantitative factors.  Disclosures regarding the various components should be clearly presented within the financial statements.	The Council has updated and strengthened its assessment of the group boundary and updated it's disclosures appropriately.

## Assessment

- ✓ Action completed
- ✗ Not yet addressed

# Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Quality review of the draft financial statements submitted for audit</b></p> <p>We recommend that the Council improve the controls for the accounting for government grants and that all expenditure related to each grant is correctly accounted for.</p>	<p>Although presentational errors remain within the financial statements, they are of a low number, although larger issues regarding the accounting for areas such as capital and financial instruments remain.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements to date are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Amendments required to reflect the Livewell South West pension liability on the comprehensive income and expenditure statement	238	(238)	238
Amendments required to reflect the Livewell South West pension liability on the balance sheet. The transaction impacts the pension liability and reserve.	No impact	18,028	
Overall impact	£238	£nil	£238



# Audit adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Audit fees	The external auditor costs in note 27, only included the scale fee for both 2018/19 and 2019/20. The note should be amended to include the additional audit fees in both years.	✓
Capital commitments	The financial statements submitted for audit included capital commitments in note 15.2 of £106,971k. An error was identified in relation to the commitment reported for the Plymouth Rail Station Regeneration, which was revised down by £27,991k. Further challenge identified that £7,000k relating to Oceansgate Remediation and Plymouth Railway Concourse of £1,200k were also incorrectly included. The note was revised to £70,780k.	✓
Related Parties	We identified inconsistencies between information disclosed in the financial statements and that shown in the working paper and through further query with Companies House. Transactions with Devon Audit partnership were understated by £267k and four senior officers had not completed a related party form or had a form which did not include all their related parties. We have determined that there are related parties that have not been disclosed adequately.	✓

# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
A difference was identified between the collection fund adjustment account in reserves and the movement on the collection fund statement. This was due to errors in compiling the account caused by resource constraints arising from the Council's response to Covid-19.	(3,298)	(3,298)	3,298	Immaterial – adjusted in 2020/21.
<b>Overall impact</b>	<b>£(3,298)</b>	<b>£3,298</b>	<b>£(3,298)</b>	

# Audit adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Management's view is that the impact of the McCloud ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.	No impact	Cr Net Pension Liability – £7,931.	No impact	Immaterial in 2018/19 and included within the actuary's report for 2019/20.
Impact of GMP Equalisation judgment – The Council has considered the impact of the GMP Equalisation judgment on the net pension liability. There is a potential overstatement of £1.875m of the net pension liability as a result of our own calculations and use of our own expert data.	No impact	DR Net Pension Liability -- £1,875	No impact	Immaterial
The Council's financial statements included an accrued loan which has still not been received. In our view there was insufficient evidence to support the Council's assertion that this loan was sufficiently certain at 31 March 2019. This is a £5m value.	No impact	No overall impact as debtors and loans are both overstated by £5m	No impact	No overall impact and immaterial
The Council has an investment of £23m in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA. The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.	<p>There is no impact on the Comprehensive Income and Expenditure Statement or the Statement of Financial Position as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years.</p> <p>There is only an effect on the disclosures within the Council's financial instruments. Grant Thornton UK LLP strongly recommend that this is corrected and applied correctly in subsequent year's accounts as the statutory override is only applicable for 5 years and will not be available by MHCLG after that and this will have an impact upon the net income and expenditure of the Council.</p> <p>This is being amended in current year financial statements and relates to a disclosure only.</p>			
The Council have used capital receipts of £1m to repay, however the entries within the accounts are incorrect. This does not have a material impact upon the net worth of the Council.	-1000 Cr Usable Capital Receipts	No overall impact	1000 Capital Adjustment Account DR Capital Adjustment Account	Immaterial
Overall impact	£0	£6,056	£0	

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Interim 1 September 2022 fee</b>
Council Audit	142,393	*225,048
<b>Total audit fees (excluding VAT)</b>	<b>£142,393</b>	<b>£225,048</b>

The fees reconcile to the financial statements. Where they do not, we have provided a reconciliation

- fees per financial statements (PSAA scale fee) £105,393
- Additional fee per the audit plan
- Interim fee variation approved by PSAA Ltd £119,655
- Fees to finalise the audit TBC
- total fees per above £ 225,048

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services E.g. Grant Claims	18,241	18,241
<b>Total non- audit fees (excluding VAT)</b>	<b>£18,241</b>	<b>£18,241</b>

\* Interim fee agreed with PSAA.



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