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AUDIT AND GOVERNANCE COMMITTEE – SUPPLEMENT PACK

Tuesday 12 March 2024
12.30 pm
Warspite Room, Council House

Members:
Councillor Allen, Chair
Councillor Finn, Vice Chair
Councillors Dr Mahony, Raynsford, Stevens and Independent Member Mrs Benny.

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

You can watch any of our webcast meetings on YouTube. 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

Interim Annual Auditor's Report on Plymouth City Council

DRAFT

2022/23

February 2024

Consultation Draft

Action plan for 2022/23 recommendations

Recommendation	Type of recommendation	Date raised	Progress to date
2022/23 Key recommendations from Significant Weaknesses			
Financial sustainability **Given the increased level of financial stress the Council is facing members need to ensure that there is a robust response to financial matters with a more detailed revision of the Council's Medium Term Financial Strategy, early in 2024/25, to address how it will mitigate the risks against the financial stress indicators. Progress in delivering savings and transformation plans should be tracked by Cabinet each month and periodically reviewed by the relevant Scrutiny Committee for the service.**	Key	February 2024	The requirement for a revised MTFS is acknowledged with a revised strategy updated to include the 2024/25 Budget is scheduled for Cabinet and then Council approval in June 2024. The Council will continue to ensure, as is the current practice, that all Scrutiny Committees are informed of their directorates' progress against savings as well as the overall monitoring position.
Improving economy, efficiency and effectiveness **In May 2023, the Department for Education issued the Council with a statutory Improvement Notice requiring all areas of improvement in Children's Services to be addressed by the Council and its partners. The Children's Improvement Plan needs to be costed with timeframes so the Council is clear of the investment required in Children's Services to meet the quality standards required by the Secretary of State to remove the Statutory Improvement Notice. The transformational issues need to be planned and resourced in detail and reflected in the Council's revised MTFS 2024/25 to 2028/29.**	Key	February 2024	Agreed – the 2024/25 Budget includes additional investment in Children's Services. There is a monthly Children's Transition Board which reviews all data and measures outcomes . This will be clearly set out in the revised MTFS.

Action plan for 2022/23 recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date
	Financial Sustainability			
1	**We suggest that savings plans are RAG (Red, Amber, Green) rated, as part of the reporting on the progress of achievement of savings so that officers and members are aware in monthly financial reports to Cabinet, of the high-risk schemes that are less likely to be delivered; and what alternative savings plans are in place to address any financial in-year deficits.**	Improvement	February 2024	The current Cabinet reports show full analysis of the savings, clearly showing those which are delivered and on-track for delivery. The S151 Officer will review current reporting formats and amend where required to ensure full visibility.
2	**The Council approved the four-year Medium Term Financial Strategy (MTFS) 2023/24 to 2027/28 in September 2023. We suggest that future MTFSs are prepared at the same time as the annual budget and approved before the start of the next financial year and that the 2024/25 to 2028/29 MTFS is approved early in the 2024/25 financial year.**	Improvement	February 2024	This is an ambition of the Council, and as stated above a revised MTFS will be presented to Full Council in June 2024. There is an ambition to align the reporting timelines for budget and MTFS.
3	**As the Council is in the bottom quartile of "general fund and earmarked reserves as a percentage of net revenue expenditure" compared to other councils then it should aim for a higher working balance target than its current 5% to protect the long-term financial health and viability of the council.**	Improvement	February 2024	This is a strategy set out in the September 2023 MTFS. We have to recognise that building reserves during the current financial situation is more challenging, but it remains an ambition. The revised MTFS will set out our plan.

Action plan for 2022/23 recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date
	Governance			
4	**Integration of performance management and risk management through the mapping of strategic risks to the achievement of corporate objectives and associated Key Performance Indicators (KPIs).**	Improvement	February 2024	Agreed – Work is underway to ensure that Directorate business plans align to the Corporate Plan agreed in Q2 of 2023/24. This work will include risk, health and safety and business continuity. The work will be completed across Q4 2023/24 and Q1 2024/25.
5	**The quarterly High Risk Update Report to Corporate Management Team and the Audit & Governance Committee needs to record further management action to provide officers and members with assurance on how strategic risks scoring in excess of 20 are being managed, with specific SMART actions and timeframes to monitor the management of these risks. We suggest that this information is also recorded on the computerised risk management system.**	Improvement	February 2024	Agreed – The new risk management system was launched in January 2024. There will likely be significant movement in risk as risk awareness and a positive approach to risk management is embedded within "Team Plymouth" (3rd tier managers). The work will be completed across Q4 2023/24 and Q1 2024/25.
6	**The Audit Committee should carry out a self-assessment of its effectiveness each year and report on the outcome at the end of the financial year.**	Improvement	February 2024	Agreed – As a first step a self-assessment questionnaire will begin the process and will be circulated to members after the meeting on the 12 March 2024 if not before.
7	**The scope of the review on "Governance of the Council's Arms-length Companies" and the progress to date and timeframe for completion of the review is reported to the Audit and Governance Committee so that they may have the assurance that these companies are being effectively manged and the review reports in a timely manner.**			A full review is in progress and a report will be presented to Audit and Governance Committee early in the new financial year.
	Improving economy, efficiency and effectiveness			
	The Council should develop a data quality strategy articulating how it will obtain assurance over the quality and integrity of the data used for the KPI's in its corporate performance framework, with a view to including an assessment of specific data sets within non-financial performance reports.	Improvement	February 2024	The Council uses a wide range of data sources in support of the Corporate Plan which also form the basis of statutory reporting. Management will consider this recommendation as part of its 2024/25 work programme.

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GRANT THORNTON AUDIT FINDINGS FOR PLYMOUTH CITY COUNCIL

Introduction

Grant Thornton has previously made members aware of the issues within the audit market through our progress reports and attendance at Audit & Governance committee. The Audit Findings Report we are presenting to this Committee relates to the work completed in 2020-21 and includes a number of recommendations across a number of areas of the financial statements. We recognise that the timing of this report relates to an earlier audit period and that two further years of draft financial statements have subsequently been approved by members. Had it been possible to complete the reporting in line with reporting deadlines it is Audit's expectation that some of the issues identified would have been addressed by management had the audit been completed at an earlier opportunity and therefore we recognise that this has potentially contributed to the significant number of recommendations. We have also reported the findings from the 2020-21 and 2021-22 Auditor's Annual Report which is the relevant VfM assessment for the year of reporting. Again, the delays in the audit market mean that some of these comments will refer to historical actions and we have taken account of the 2022-23 AAR which is complete and being presented to this Committee. We are, however, satisfied that the recommendations are appropriate and relevant and will continue to monitor progress against these in the 2023-24 financial statement audit and 2023-24 VfM assessment.

Grant Thornton

The Audit Findings for Plymouth City Council

Year ended 31 March 2021

Contents

Your key Grant Thornton team members are:

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

Paul Dossett

Name: Paul Dossett
For Grant Thornton UK LLP
Date: 6 March 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. 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 2021 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed remotely during 2023 and 2024. Our findings are summarised on pages 6 to 24. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix E. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix D.

Our work is substantially complete and, subject to the satisfactory conclusion of the pension transaction issue, there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Clearance of outstanding queries for grant income, cash, cash flow statement, Movement in reserves and heritage assets.
- Resolution of the pension transaction issue
- receipt of management representation letter; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified with an emphasis of matter in regards to the pension transaction . We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness(es) we have identified in the Council's arrangements is detailed on page 22 of this report.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant matters	We have identified a number of significant issues through the course of audit which have been included within this report. We recognise that during the financial year for which these accounts were produced there was a global pandemic and that management were operating in a challenging financial environment and as such are required to provide and report an appropriate budget which fully reflects the financial challenge facing the Council prior to the start of the of the financial year on 1 April. This requires resources being made available and these resources are also those on which we rely for assisting with the audit process through the provision of working papers and responding to queries raised. We have worked with management to resolve these resource conflicts and held regular meetings to expedite the process and conclude the audit. Given the current resource issues with the audit market and the challenges facing the management team we have experienced a significant delay in completing this audit.

1. Headlines

National context – audit backlog

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

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

We would like to thank everyone at the Council for their support in working with us constructively to resolve any issues and allow us to complete and deliver the 2020-21 audit. We have continued to hold discussions with management over the ongoing issues and have agreed a position in line with the backstop requirements for the 2021-22 and 2022-23 audits.

National context – level of borrowing

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

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We have not identified any significant issues with the Council's levels of borrowing and these have remained relatively consistent from the prior year to 2020-21. However, we are aware of the continuing challenges and will remain in discussion with management over levels of borrowing and any negative impact this would have on the financial sustainability of the Council.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit & 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;
- An evaluation of the component/s of the group based on a measure of materiality considering each as a percentage of the Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that no further work was required; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 12 March 2024, subject to the outstanding items list on page 3 being resolved.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 23 of our audit plan presented to the Audit & Governance Committee on 29 November 2021, during the course of the audit both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, and verifying the completeness and accuracy of information provided remotely produced by the entity. This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

Our approach to materiality

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

We have revised materiality from that reported in the Audit plan due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

We set out in this table our determination of materiality for Plymouth City Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	8,200,000	Materiality has been based on 1.33% which is reduced from 1.5% to reflect the inherent complexity in the Council
Performance materiality	5,340,000	Performance materiality has been set at 65%, below the upper limit of 75%, to recognise the history of significant deficiencies in the control environment, the number of misstatements identified in previous audits and the change in Director of Finance
Trivial matters	400,000	Set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA240 there is a non-rebuttable presumed risk of management override of controls in all local authorities. The Council faces external scrutiny of its spending and this could potentially place management under 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 is one of the most significant assessed risks of material misstatement in audited bodies.	We have: • evaluated the design effectiveness of management controls over journals, including undertaking a walkthrough of the process and controls. No issues were identified from completion of this • obtained a full download of the general ledger alongside the trial balance and uploaded these onto our data analysis software, Inflo. • Inflo undertakes a number of checks on the data such as unbalanced transactions, unbalanced user IDs and transactions with blank account descriptions. Where any differences were noted by Inflo, we followed these up with the Council and obtained sufficient explanations and corroborations for these. • we have reviewed the manual journals within inflo to identify those deemed to be high risk to be selected for testing. We selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries and will complete our testing upon receipt of the supporting documentation. • We have reviewed and considered significant estimates that are subject to management bias to understand assumptions made and whether these are reasonable. The findings from this work are included in pages 12 to 15. Our testing of journals identified the following issues: • There is no formal approval process for posting journals below £500k. Therefore, the finance team members, who have access to post journals, are effectively self approving. This presents a risk that inappropriate journals could be posted and authorised by one individual • There is an in-built system deficiency that is not able to segregate the posting and authorising function for journals over the Council authorisation limit of £500k. Our testing identified one journal over the £500k limit which was not included within the Council's monitoring report. Whilst testing confirmed that the journal was created and authorised by separate individuals there is a risk that a journal, over the Council's limit, could be posted and authorised by the same person and not be identified through the monitoring report. No further issues have been identified in our testing of journals.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Revenue cycle includes fraudulent transactions Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud or revenue recognition.	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 most income streams because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are limited • The culture and ethical frameworks of local authorities mean that all forms of fraud are seen as unacceptable However, as a result of the large increase in grants that passed through the council due to COVID-19 and the errors found in issues identified in previous years' audits, we have tested the accounting treatment for Government Grants, COVID-19 grants both as a principal and agent, capital grants and grants received in advance under this risk. **We identified 3 disclosure errors in the covid grants disclosure. We also identified one error in the note in relation to the Local Restriction Grant which has been treated on an agency basis in the accounts but should have been principle. The amount of the error is £417,827 which should have been grant income and £662,109 which should have been a grant received in advance. This is not adjusted on the grounds of materiality.**
Fraud in expenditure recognition As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we have regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	We have: • inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year-end; compare size and nature of accruals at year-end to the prior year to help ensure completeness; and • investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure. Our testing identified one transaction that was incurred in 2020-21 and was not paid until 2021-22. We challenged management to demonstrate that this was accrued for and further investigation identified that this was not posted until 2021-22 and was incorrectly included in the 2020-21 financial statements. We have extrapolated on the error and have identified that there is a potential error value of £231k which is below trivial and therefore we are satisfied that accruals are not materially misstated.

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2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings including Investment Properties 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 particularly revaluations and impairments, 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. **Investment Properties** The Council hold a large portfolio of investment properties which are valued each year in accordance with the CIPFA Code.	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 for both the internal and external valuers. • Evaluated the competence, capabilities and objectivity of the valuation experts used by the Council across all categories of assets • Written to the valuers to confirm the basis on which the valuations have been carried out. • Reviewed the data and assumptions made regarding the year end valuation of the Councils Investment property portfolio • Employed our own specialist internal valuer to review the assumptions made by management regarding the valuation of the Tamar Bridge • Employed our own external 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. • Challenged the information and assumptions used by the valuers to assess completeness and consistency with our own understanding • Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • Tested the year end closing balance for property, plant and equipment • 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. • Evaluated the assumptions made for the valuation of investment properties, including data used and yield assumptions. • Evaluated of the impact of COVID-19 on valuations – particularly investment properties held by the Council. Our work has identified the following issues: • There is a variance of £1,846k between the revaluation disclosure and the value per the valuer's report • We identified that cumulative depreciation on revalued assets had not been written out in line with the requirements of the Code. This resulted in depreciation being overstated by £441k. • A review by our auditor's expert identified that no formal terms of engagement document was issued for either internal or external valuers which does not comply with RICS requirements. However, they have concluded that there is no indication that valuation process is not in line with the relevant guidance. • The review by our auditor's expert also identified that no formal overriding valuation report has been provided covering the formal valuation process. Further where no evidence exists to support the Existing Use Value (EUV), the Depreciated Replacement Cost (DRC) process has been used but no specific commentary in relation to this approach has been provided. Again, the auditor's expert has concluded that there is no evidence that this issue has impacted the valuation process and that it has not been completed in line with RICS requirements. • We tested a sample of 30 assets to ensure that assumptions used were reasonable and could be agreed to supporting documentation. This testing identified that 6 assets used floor areas that were not supported by detailed plans, 2 assets that included calculation errors and five further assets with trivial errors. The total of these variances is £82k, which is trivial but is a net movement of £1.39m understatements and £1.47m in overstatements.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings including Investment Properties (cont.)	Issue identified (cont.) • We have reviewed the obsolescence factors and considered the appropriateness of the rates applied. For 3 assets we were unable to assess the obsolescence rate used and our comparison with the VOAs curve did not agree to any rates identified. As a result we are unable to conclude as to whether the rate used is appropriate. The total value of the three assets is £1.342m which is not material. Testing of investment properties identified the following issues: • Testing identified a number of assets where valuation movements from the revaluation process had been applied to the incorrect asset. The errors were not material but the issue is considered to be a control deficiency that could have a greater impact on the financial statements • We identified a number of assets where agreement to floorplans identified variances or management were unable to provide primary documentation. Two assets were tested where floorplans could not be provided. We were able to gain assurance from other documentation to confirm the floor area used in the calculation. Two assets identified variances between the floor area used for the calculation and the floor area shown in the documentation provided. The total of these variances is £236k and again is not material.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of net pension fund liability The authority's pension fund net liability as reflected in the balance sheet as the net defined liability represents a significant estimate. The pension fund net liability is significant due to the size of the numbers involved (£588,890k in the draft financial statements) and the sensitivity of the estimate to changes in the key assumptions. We therefore identified valuation of the authority's pension fund net liability as a significant risk, which is one of the most significant assessed risks of material misstatement.	We have: • Updated our understanding of processes and controls put in place by management and evaluate the design of the associated controls • Evaluated the instructions issued by management to their management expert (the actuary) for the estimate and the scope of their work • Assessed the competence, capabilities and objectivity of the actuary • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • Obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements Our work has not identified any issues in relation to this area
Financial Instruments 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 fair value of financial instruments is complex and requires specialist support as a part of the valuation process. In 2020/21 the council undertook an interest rate swap in the treatment of financial instruments, meaning the financial instruments were misstated in the prior year. This was an incorrect action and raised questions regarding the governance of the council. The interest rate swap was a poor decision and indicative of poor accounting practice in the treasury department and poor governance generally in this aspect of the accounts.	We have: • Reviewed the Council's processes implemented to establish the correct valuations of all financial instruments held • Tested disclosures back to figures within the main financial statements • Tested 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 work on the Council's hedge fund transaction has focussed upon the related financial instrument transactions and disclosures necessary for this type of financial transaction. • Consulted with internal experts to understand whether the interest rate swap has been appropriately classified in line with statutory guidelines. From our testing we have reviewed the £75m "pay fixed receivable variable" hedge transaction, held with Santander, is a hedge transaction and not the interest rate swap disclosed in the statement of accounts. This is a legal transaction and should be included as a financial instrument. As we have concluded that this is a financial instrument it should be accounted for at fair value through profit and loss and reclassified as a hedging instrument.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £573.6m Investment Property valuations - £275.4m	Other land and buildings comprises of specialised assets such as schools and libraries 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. The reminder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. Surplus assets and Investment properties are valued at the highest and best values. The Council values its assets on a five year rolling programme as at 31 March. £421m of assets were revalued in 2020-21. The Council engages both an internal and external valuer to undertake the annual valuation. External valuers were used to value specialist assets including the Tamar Bridge and Torpoint Ferry The total year end valuation of land and buildings was £573.6m, a net increase of £45m from the prior year (£528.6m)	We have reviewed the detail of your assessment of the estimate considering: • The assessment of the Council's valuers • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall increase in the estimate • The adequacy of the disclosure of the estimate in the financial statements • The sensitivities used by the valuer to assess completeness and consistency with our understanding and • Consistency of the estimate against Gerald Eve reported indices 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. We have identified a number of issues from our testing of Land and Buildings and Investment properties including: • Variances between the valuer's report and the Council's records • Failure to provide formal documentation to valuers • Variances between areas used for valuations and area per floor plans • No support for assumptions used to provide valuations We have used our auditors expert to obtain further assurance of the methodology used by the valuer	Light Purple

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £583.3m .	The Council's net pension liability at 31 March 2021 is £583.3m (PY £437m) comprising the Devon Pension Fund Local Government defined benefit pension scheme obligations 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 this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2020. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	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 fund assets and investments returns to gain assurance over the 2020-21 roll forward calculation We have used PwC as auditor's expert to assess actuary and assumptions made by actuary – see table below for our comparison of actuarial assumptions	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	●
Pension increase rate	2.8%	2.8% - 2.85%	●
Salary growth	3.8%	CPI + 1% = 3.8%	●
Life expectancy – Males currently aged 45/65	24 / 22.6	21.9 – 24.4 / 20.5 – 23.1	●
Life expectancy – Females currently aged 45/65	25.4 / 23.9	24.8 – 26.4 / 23.3 - 25	●

We have 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 required

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

We are satisfied that the disclosures are complete and accurate

Assessment

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

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2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £313.5m	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income. There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code.	• We have reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts • We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed • We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these • We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for. • We have reviewed the Council's assessment as to whether they are acting as principal or agent in the treatment and recognition of grant revenue, and specifically covid grant funding. We have not identified any further issues in relation to this area and considered that the disclosures in the statement of accounts are appropriate.	Light Purple

Assessment

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

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Civica Financials	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Revenue Cycle includes fraudulent transactions Fraud in expenditure recognition	The issue identified is that IT audit were unable to to test leavers as no evidence was provided. We have undertaken specific leaver testing and have noted further issues which we have reported
Capita One (Academy)	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	N/A	This relates to revenue and benefit payments. We have undertaken specific testing in these areas and have not identified any issues
Technology Forge	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Valuation of Investment Property	We have undertaken substantive testing of investment property assumptions and have noted further issues which we have reported

Assessment

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

2. Financial Statements: Information Technology

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
OLM Eclipse	ITGC assessment (design and implementation effectiveness only)	Amber	Amber	Green	Green	N/A	Relates to Child Social care and ability to change underlying details. Not considered to impact the financial statements
OLM CareFirst 6	ITGC assessment (design, implementation and operating effectiveness)	Amber	Amber	Green	Green	N/A	Relates to Adult Social care and ability to change underlying details. Not considered to impact the financial statements
Core HR	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	N/A	N/A
Activity Directory	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	Management override of controls	N/A

Assessment

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

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● (red)	**Segregation of duty conflicts within Technology Forge** We noted that there were two business users who perform business processes/financial reporting with administrative access to Technology Forge, resulting in segregation of duties conflict. See pages 16 – 17 for further consideration and audit response. **Risks** A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. **Management response** Only one of the users performs business process. For the second user, the access is provided for resilience in case of leave / unplanned absences etc. The system has a full history checker and other background processes that would pick up any unauthorised changes, such as changes to rent. These are, annual financial forecasts and projected income and weekly reports of lease outs added to the system
● (amber)	**Lack of segregation of duties between developers and implementers in Capita One** Our IT Audit identified that, seven (7) user accounts had been granted the role 'Admin' access which enables them to both develop and implement changes in production. It is pertinent to note that these seven (7) accounts were used by five (5) users as one of the users had access to three (3) accounts. See Appendix -2 for details. **Risks** The combination of access to develop and implement changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/ or programs.	Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. Where management is unable to fully segregate access for operational reasons, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained. **Management response** Admin access for users will be reviewed. The one member of staff with three Admin accounts is a legacy issue and will be dealt with by the deletion of two extraneous accounts. Given the limited number of System staff and system experience within the business, combining these two functions is the most operationally expedient. A formal risk assessment can be drawn up and signed off by senior management. A regular review of change implementation logs can be set up and reviewed by the DSI Manager.

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Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● (amber)	**Lack of segregation of duties between developers and implementers in OLM Eclipse** Our IT Audit identified that, seven (7) user accounts had been granted the role 'System Administrator' access which enables them to both develop and implement changes in production. See Appendix -3 for details. **Risks** The combination of access to develop and implement changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/ or programs.	Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. Where management is unable to fully segregate access for operational reasons, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained. **Management response** Two of these accounts are for OLM Consultants and can be disabled when not required for the Eclipse implementation project. However, this set up means that the system manufacturer believes that this is the most efficient set up of System admin. Separation of these two functions is not practical given the limited number of System staff and lack of system knowledge elsewhere and would require changes to role profiles and additional staffing and loss of operational efficiency. A formal risk assessment can be drawn up and signed off by senior management. A regular review of change implementation logs can be set up and reviewed by the DSI Manager.

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Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● (Deficiency)	**Lack of segregation of duties between developers and implementers in OLM Eclipse** Our IT Audit identified that, seven (7) user accounts had been granted the role 'System Administrator' access which enables them to both develop and implement changes in production. See Appendix -3 for details. **Risks** The combination of access to develop and implement changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/ or programs.	Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. Where management is unable to fully segregate access for operational reasons, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained. **Management response** Two of these accounts are for OLM Consultants and can be disabled when not required for the Eclipse implementation project. However, this set up means that the system manufacturer believes that this is the most efficient set up of System admin. Separation of these two functions is not practical given the limited number of System staff and lack of system knowledge elsewhere and would require changes to role profiles and additional staffing and loss of operational efficiency. A formal risk assessment can be drawn up and signed off by senior management. A regular review of change implementation logs can be set up and reviewed by the DSI Manager.
● (Deficiency)	**Lack of segregation of duties between developers and implementers in Capita One** Our IT Audit identified that, seven (7) user accounts had been granted the role 'Admin' access which enables them to both develop and implement changes in production. It is pertinent to note that these seven (7) accounts were used by five (5) users as one of the users had access to three (3) accounts. See Appendix -2 for details. **Risks** The combination of access to develop and implement changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/ or programs.	Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. Where management is unable to fully segregate access for operational reasons, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained. **Management response** Admin access for users will be reviewed. The one member of staff with three Admin accounts is a legacy issue and will be dealt with by the deletion of two extraneous accounts. Given the limited number of System staff and system experience within the business, combining these two functions is the most operationally expedient. A formal risk assessment can be drawn up and signed off by senior management. A regular review of change implementation logs can be set up and reviewed by the DSI Manager.

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Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● (Deficiency)	In our testing of related parties, we have identified 8 individuals who did not complete their year end related party declaration form. All of these relate to councillors. This is an important control for ensuring that all material related party transactions are recorded in the note. This will therefore be reported in the AFR as a control deficiency. A similar finding was reported in the prior year. We are aware from discussions that the council performs their own checks e.g. companies house searches on the individuals in question. We have reviewed the clients checks and found that, for one councillor, companies house search identified that a director at TEC Construction Holdings, is a PCC creditor in the year. It was identified that in total £442k was paid over to TEC construction in the year. This is the largest related party balance for any individual. We therefore made inquiries with the client who confirmed that this amount was not included in the note on the grounds of materiality.	Management should ensure current checks undertaken are sufficiently robust and that any related party transactions are fully considered and appropriately disclosed. This process should also include ensuring that all councillors are completing year end declarations **Management response** We are currently reviewing the processes involved in relation to related parties as this is a complex area with many sources of data and we are keen to avoid duplication of data that is already available in other areas of the Council.
● (Deficiency)	PFI Schools contract - Management was unable to produce a signed version of the PFI contract.	Management should ensure that all signed documents are maintained and available for audit **Management response** This signed copy is available, but the documents are large. This was an access issue due to Covid and the need to provide information remotely.
● (Deficiency)	When testing starters, leavers and changes of circumstances as part of our standard payroll SAP procedures we have identified a non significant control deficiency with regard to leavers. During the 2020-21 year the council implemented a new payroll system. Previously the system used was itrent, which has now moved over to core HR. This was done part way through the year. In our testing we have identified two leavers which Delt (The external payroll provider) were unable to provide the relevant backing documents. The client has stated that this is largely caused because they now have difficulty accessing the old itrent system given the time that has passed since it was last used. Payroll have confirmed that neither of the two leavers were paid after year end which gives us a level of comfort, however they are unable to provide the leavers forms or any signed documentation.	Where management are transferring data between systems steps should be taken to ensure that historical data is retained and maintained in order to provide evidence of changes made in year. **Management response** This probably would not have been a problem if the audit had been undertaken within a reasonable timeframe, the system changeover happened during the pandemic. We will ensure that steps are taken to avoid this happening with the new HR platform implementation.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have 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	We are not aware of any related parties or related party transactions which have not been disclosed. Our testing identified two control issues in relation to related parties: • Declarations of interest were not received from 8 Councillors • One councillor who had not disclosed a Directorship in a company who had received payments from the Council
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work with the exception of the pension transaction issue. We remain of the opinion that the £73m transaction to pay the pension fund liability through a separate vehicle is not in line with legislation and should therefore be adjusted within the 2019-20 Financial Statements. Our view differs to management who have subsequently applied to DLUHC for a capital direction and await a formal response. We are unable to conclude on the 2020-21 audit until the resolution of this issue
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have received responses to all requests and no issues have been identified. We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. This confirmation has been provided and no further issues have been identified.
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations	All information and explanations requested from management were provided. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

2. Financial Statements: other communication requirements

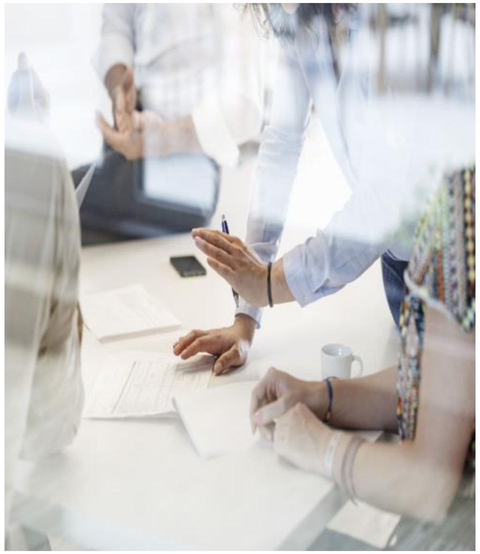
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. This work is not required at Plymouth City Council as they do not exceed the threshold required tor the completion of this work.
Certification of the closure of the audit	We intend to certify the closure of the 2020-21 audit of Plymouth City Council in the audit report.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report reported in November 2022

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified three significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weaknesses in arrangements, as required by the Code. We have followed up these matters in our 2022/23 report and the Council has made good progress in addressing the majority of the issues identified.

Significant weakness identified during audit	Procedures undertaken	Key Recommendations
In setting the Council tax for 2022-23, members chose not to follow the advice of the Council's section 151 officer to increase council tax within referendum limits. This decision impacts both the 2022-23 budget and future budgets by not building on the base positions resulting in cumulative lost income of some £2.1m a year which would be £10.5m across the span of the Medium-Term Financial Strategy (MTFS)	We have: • Reviewed budget setting processes to ensure all assumptions are appropriate • Considered decision making process by members to evaluate whether these are fully informed and reasonable • Reviewed the MTFS and reporting of the position to ensure members are fully informed	Members should follow the advice of the Council's section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023-24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time into the base position.
Plymouth City Council has experience deteriorating financial resilience for a number of years with its service spending pressures, its demand led children and adult social care costs, the impact of Covid and the affordability of the capital programme. The Council's ability to increase local taxation in line with inflation for several years has also impacted its financial sustainability as its level of general fund is in the lowest 20% of unitaries nationally.	We have: • Reviewed budget setting processes to ensure all assumptions are appropriate • Considered decision making process by members to evaluate whether these are fully informed and reasonable • Reviewed the MTFS and reporting of the position to ensure members are fully informed • Held discussions with Senior Management to further understand issues facing the Council	The Council's Medium Tern Financial Strategy (MTFS) needs to be updated, as a priority, for the mid-year 2022 Cabinet and Council meetings so that it reflect the latest inflationary and energy price increase. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 2023-24.
The Chief executive has spoken of a grave financial situation facing the Council and the Council's S151 officer has left the organisation. One of the Deputy Directors of Finance is currently acting up and there is a 30% vacancy rate in the finance department.	We have: • Held discussions with Senior Management to further understand the issues facing the Council • Reviewed finance department capacity to evaluate whether this is sufficient to meet the service requirements of the Council.	The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the Council's significant financial challenges and associated workload during 2022-23

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Audit and non-audit services

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

We have made enquiries of component auditors and have confirmed their independence from the Council and Group and that they are not providing any non audit services that would impact on the group independence

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teacher's Pension Return	7,500	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 £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	27,000	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 £27,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

4. Independence and ethics

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

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

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

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

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

B. Action Plan – Audit of Financial Statements

We have identified 19 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 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	In the 2019-20 audit an issue was identified in relation to a £75m interest rate swap transaction which was signed off in April 2020 (Within the current audit period). Staff members involved in this decision have subsequently left the Council and . Two issues were identified: 1 - IFRS9 states that formal documentation must be in place at the inception of the hedge relationship, the swap is dated 6th April 2020, and the documentation provided to the audit team in the prior year was dated as such. However, upon examination of the document properties it was discovered it was actually created on 26th July 2021. 2 - Upon investigation it was noted that the Service Director for Finance's, who left in late 2020, signature added to the document by other staff members. This means he did not sign it himself.	Management should review the processes in place to ensure that all actions comply with statutory legislation. **Management response** Grant Thornton undertook a review of governance in 2021 and in line with the recommendations contained within the report the Council developed the Executive Decision Governance Route to provide support to members when making decisions on key/unusual or innovative decisions.
Medium	Journals testing has identified a number of segregation issues including: • There is in-built system deficiency that is not able to segregate the posting and authorising function for journals over the council's authorisation limit of £500k. • the ability for posters to authorise their own journals. It stems from the Civica system which allows posters to authorise their own journals. • 1 journals within our selection was not included within the Council's over £500 monitoring report. There is a risk that inappropriate journals will be posted leading to fraudulent transactions or misreporting within the financial statements	Management should review the journal process to ensure that sufficient segregation of duty controls are in place and that monitoring processes are sufficiently robust to identify and address any issues identified **Management response** The Lead Accountancy Managers will consider appropriate action to mitigate the risk.
Medium	The auditor had difficulty in obtaining a transaction level listing for the fees and charges income and other service expenditure, initially the listings provided were at a high level which were not suitable for sampling procedures. Although the listings were eventually obtained, this did cause delays to the sample selection process. Upon receipt of the listing we further identified £400m worth of debits most of which were contra entries. Further work was required to remove these which reduced the balance to £50m. As this was above materiality this required additional testing.	Management should ensure appropriate quality control is in place to ensure that information provided for audit are suitable for testing and agree to balances disclosed in the statement of accounts **Management response** There was a different approach to the external audit for 2020-21 to those we have experienced previously and the auditors did not make it clear initially what they required and what they were testing for. We could provide better source information if we understood what the testing was trying to achieve.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	For a number of OLB assets and Investment Property assets management were unable to provide floor plans to support the measurements used within the calculations. There is a risk that management and valuers will use inaccurate information which could result in a material misstatement within the statement of accounts	Management should ensure that all supporting information is maintained and is consistent with disclosures made in the statement of accounts **Management response** New valuation templates have been created for all assets so that there is now an appendix for plans and/or floor areas to be shown. This will ensure that there is a source for floor areas for each valuation as it will state where we obtained them from. However, it should be noted that measured floor plans are not necessary to support measurements. If the source of the floor area can be shown, this is sufficient as it will have been previously measured. A measured plan will not be available for each property as they will have been measured in previous years. This also is true where we have used areas from external valuation reports that have measured the assets in accordance with RICS guidance. They will not provide us with a measured floor plan, but we will use their measured floor area. As long as we can provide the source for this measurement, this should be sufficient rather than the actual measured floor plan.
Medium	Detailed testing on the obsolescence rates used on DRC assets has been performed. There are several assets in which we were unable to assess the obsolescence rate used based on the valuer's commentary and our use of comparison to the VOA s curve was not near the valuer's rate. We have made further inquiry on these, but we were unable to gather any more useful evidence for this. As a result, we are unable to conclude as to whether the rate used for the three assets tested are appropriate The total obsolescence applied by the valuer for these three assets is £1,342k and if they were 100% wrong this would not be a material issue.	Management should ensure appropriate obsolescence rates have been applied to all relevant assets **Management response** Within the new DRC valuation template, we now have a box for depreciation where text has to be inserted to detail the physical, functional and economic obsolescence before stating the overall depreciation rate. Obsolescence is considered to be subjective and based on a valuer's professional judgement. However, this depreciation rate is considered after taking into account inspection notes, condition surveys, improvements and any ongoing maintenance. The rates used will be appropriate as they are determined by these factors that are individual to each asset.
Medium	Three individual errors identified in which valuations have been applied to the wrong asset. As a result, both assets are misstated in the FAR by equal and opposite amounts. Though not a material issue, in this case, and no amendments are deemed necessary to the FAR, had this issue occurred on larger assets then there is the potential for a material issue to be created between assets. This demonstrates a control weakness in the valuations process and therefore we recommend this is more thoroughly reviewed.	Management should ensure that where the fixed asset register is updated that review is undertaken to ensure that all changes in values have been appropriately and accurately updated **Management response** This issue is noted and valuers are peer reviewing reports. Valuation report file names are now named by the property code, cross referenced on TechForge and finally, checked against the property code in the FAR issued to us by Finance. By cross-referencing the code three times, this prevents any confusion as to what value is assigned to an asset.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	Our refcus work identified that all 4 key items selected were in fact adjustments in which the client have corrected prior period errors in the current period, relating to refcus spend incorrectly classified as PPE additions in prior years. This has resulted in an unadjusted misstatement reported on the 'Misstatements' tab. Our work on this area has resulted in two issues below: 1 - In some cases the client did not know about the errors until 2020-21. However, for the asset Millbay the auditor is of the opinion that this could have been averted had more attention been paid to where the construction work was being done. 2 - The auditor has faced significant difficulty obtaining the relevant evidence for the REFCUS key items.. In 2020-21 working papers were not retained and resulted in a large time investment on the client side searching for the evidence and on the auditor's side understanding the client,s method.	For larger capital projects such as Millbay the client should perform a close review as to whether any work will be performed on land or assets the council do not own and account for it accordingly. Where the client perform large adjustments for items, they maintain clear working papers, and an audit trail which can be easily accessed, so that they can clearly explain the context, double entry, and evidence the totals involved and the methodology used in arriving at the adjustments **Management response** We will review our procedures and working papers to see how this can be improved.
Low	Where users have uploaded a manual Journal via the 'Journal Uploads' or 'Load Journals' function on Civica, it is not clear from the G/L listing who has posted the manual Journal. The User ID field indicates that the entries were posted by 'svc-civica-live-fina' / 'Radius', however to identify the user that posted the entry via this method would involve analysing the postings on a case by case basis. We have carried out additional work to confirm the users that have posted under these functions are in line with expectation.	User IDs should be assigned to all journal posted in order to allow easy identification of which member of staff has initiated the transaction **Management response** We will review the functionality to see if the audit trail can be improved. Currently these journals are done by uploads and are run in by the radius user (system).
Low	It was found that PCC do not have a clear process of how they consider if a transaction is material to a related party. In addition, from cumulative audit knowledge and experience (CAKE) we understand that the prior years audit uncovered that senior officers do not always disclose their related parties, and that the disclosed amount in the note for transactions with Devon Audit Partnership was incorrect and that several in year transactions and outstanding balances for Plymouth Science Park had been omitted.	Management should ensure an appropriate process for identifying and disclosing related parties is in place to ensure all disclosures are included in the statement of accounts **Management response** We will review our procedures and working papers to make improvements.
Low	From our review of the welfare benefit process, it was noted that recovery of debts from overpayments to claimants no longer receiving benefit has decreased. This is because the welfare benefit team were stretched with more benefits being paid out due to covid-19 reducing people's income so the team did not have capacity to chase outstanding debts. This effects the bad debt provision.	Management should ensure that when calculating bad debt provisions that all debts are considered and the provision accurately reflects the current position. **Management response** The Council has recently employed more staff within the debt management team to improve debt recovery.

Controls

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

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B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	When undertaking the walkthrough of PPE and IP, we found that management had no formal process of reviewing the source data supplied to the internal valuer and NPS for completeness such as agreeing to prior year records and additions and disposals in year. Data from asset management system Techforge is downloaded and supplied to the valuer as it is. Management therefore places a degree of reliance that Techforge data is up to date and complete based on all the information and movements in year being fed to the system timely and appropriately. For 2020-21 since the 19-20 has not yet been signed off , this asset base is being maintained manually on a spreadsheet which makes the source data more susceptible and prone to errors in the absence of a control or reconciliation to ensure listing is complete.	Management should implement processes to review data passed to the valuer to ensure that this is accurate and in line with the figures included within the fixed asset register **Management response** We will introduce additional reconciliation controls and checks prior to supplying information to the valuer. TechForge is kept up to date and is the central database. Therefore, reliance should be on Techforge. In addition to this, with every valuation, the valuer refers to Techforge to see if there are any updated files that could affect the valuation. Therefore, this is now the formal process where the onus is on the valuer to check Techforge for lease updates or changes to the asset. In terms of assets, the rolling programme is issued first, then we value the investment properties as these are done on an annual basis. In terms of any additions or disposals, this is dealt with last and this list of surplus, AHFS and ad-hoc is issued last. However, as with the rolling programme and investment, these assets are checked against Techforge when valued to ensure correct assets are valued.
Low	We testing the existence testing, we selected asset naming Street lighting bulb replacement with asset code TRA0012A/001. Asset is related to amount incurred in 2014-15. Client is able to provide the breakdown of the asset. But is not able to provide invoice copy or anything to support the existence. We have selected replacement sample against this sample in our testing	Complete records should be maintained to support transactions recorded in the general ledger and to demonstrate the accuracy of disclosures **Management response** We were not aware of this issue and are not sure if this was pursued with us. However, the original transaction is now 10 years old.
Low	Review of instructions provided to the valuer by the Council identified the following issues: • No formal terms of engagement document was issued for either internal or external valuers which does not comply with legislation. • No formal overriding valuation report has been provided covering the formal valuation process. Further where no evidence exists to support the EUV, the DRC process has been used but no specific commentary in relation to this approach has been provided. The Auditor's Expert has concluded that there is no reason to suggest that the valuation process will not be in line with the guidance.	Management should ensure that instructions provided to the valuer are in line with legislation requirements **Management response** We will ensure that we receive formal terms of engagement in future as well as an overriding valuation report. Instructions were issued but it is noted that a formal Terms of Engagement was not agreed and saved on file. This will be done going forward and we will ensure we have an email agreeing the Terms of Engagement saved on file. An overriding valuation report was provided covering the formal valuation process. The new valuation templates provide sections where the approach should be explained. This will ensure there is a clear explanation for the method used.
Low	In relation to the asset 'Regent Street MSCP', management has stated that the asset is unregistered. However, audit team have acquired the deed for this asset from the client to provide assurance over ownership of the asset	The Council should ensure that all assets owned are appropriately registered to demonstrate ownership **Management response** We will endeavour to ensure that all owned assets are appropriately registered.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	In assessing the disclosures in the financial statements in relation to the revaluation of assets the following issues were identified • A variance of £320k for one asset due to a variance between the value recorded in the valuer's report and that recorded in the client's records • Difficulty in reconciling the overall value of the FAR to the Council's records which is mainly due to a large number of blank lines where no valuation has been applied to the asset.	Processes should be in place to ensure a robust reconciliation between sources of information to ensure all records are accurate and up to date **Management response** We will review our procedures and working papers to see how this can be improved.
Low	We have identified that part of the reconciling difference between the PPE note and note 15.3 relates to depreciation, primarily on children's centre assets but also on some other assets. The total amount of this is above trivial at £441k. As per paragraph 4.1.2.33 of the code, this states that all depreciation should be written out on assets that are revalued. As a result the auditor is confident that there should be no depreciation on these assets which have been revalued and that the amount in note 15.3 should reflect the revalued amount. Management have confirmed that the children's centre assets are valued as at 1st April 2020 and so it is reasonable for there to be a depreciation charge. This represents £359k. The remainder (Roughly £82k) relates to assets which have been revalued at year end and therefore depreciation on these should be written out in line with the code guidance. As this amount is trivial, no adjustment is necessary.	Management should ensure that depreciation and related records are updated in line with the requirements of the Code. **Management response** We will review our procedures and working papers to see how this can be improved.
Low	The auditor has recalculated the accounting entries for all assets selected for testing. Overall, no significant issues have been identified. However, the auditor has had significant difficulty in performing the calculations due to the nature of the clients' working papers. Firstly, the FAR was not updated to include all the relevant adjustments such as the depreciation charges which were added manually following a prior year finding that revalued assets were not depreciated by the client. There was also no single working paper which could be used to trace the revaluation movements and shows the clients workings and processes. We recommend that the client keep and prepare more robust workings which clearly show the revaluation accounting entries so that these can clearly be traced and audited.	We recommend that the client keep and prepare more robust workings which clearly show the revaluation accounting entries so that these can clearly be traced and audited. **Management response** The asset register is closed after each financial year to enable work to be undertaken on the following financial year. Due to the significant 3-year delay in getting the 20/21 accounts audited it was not possible to keep Tech Forge open in order to action audit amendments and it has been hard to work on a mostly manual process for amendments due to the delay in being audited and with so many financial years outstanding. It is hoped that once the backstop issue is resolved that we can go back to a more robust method of providing information.

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Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	We identified that the FAR contains a line for asset no C5390 which was not on the valuers report, the client explained that asset C5390 is included in the line for asset C5149 and therefore the line in the FAR for C5390 should be deleted. Additionally, we identified that lines in the FAR with the asset reference NPP5 represent old AUC which has since been transferred over to the relevant asset as an addition, these therefore also should be deleted from the FAR.	Management should review the Fixed Asset Register is accurate and reflects all relevant adjustments **Management response** We will be introducing additional checks and reconciliations as part of the 2023-24 year end process
Low	We have identified a significant value of VPE assets which have been fully depreciated and sit on the FAR with a nil NBV. The value for this is £30,342k which is well above material. We have challenged management as to whether they undertake a review of assets fully depreciated, for which they have confirmed that no review takes place. From a sample tested 2 assets were confirmed as being in still in operational use. The client has confirmed that they will delete 3 of the assets as they are no longer in use. In total this means that our test has identified £1,714k of assets which should be removed from the FAR. This highlights the need for the council to undertake a detailed review of their FAR and remove all assets which are no longer in operational use. We have identified a similar issue within intangible assets for which assets with a gross book value of £8,503k had a recorded net book value of £1. It has been confirmed that these assets have transferred to DELT and it is therefore audit opinion that there should be fully derecognised.	Management should undertake a formal review of all fully depreciated assets to identify whether these continue to remain operational or not and derecognise those that are not. **Management response** We are currently reviewing the fully depreciated assets to identify whether the assets are still operational and will derecognize those that are not.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Plymouth City Council's 2019/20 financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 5 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The IAS19 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	We have reviewed the IAS19 disclosures and consider that these are accurate and have included all the expected members
X	Testing identified that not all manual journals requiring authorization had been authorised	Authorisation of all manual journals is still not in place. We have raised a recommendation for this issue in 2020-21
X	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	We have again identified that management have not accurately accounted for depreciation in relation to assets revalued in year. Although in year depreciation charges are appropriate, we consider this issue still exists and have raised a further recommendation in 2020-21
X	We identified that your senior officers had not completed a related party form or had submitted form which did not include all their related parties	Although we have not identified any issues with senior officers we have identified issues with members including significant related party transactions that should have been disclosed and 8 members who had not completed an annual declaration
X	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 presents a weakness in maintaining the asset register and a risk that the asset register is not kept up to date	We have identified that a large fully depreciated balance of assets still exists and that management need to complete a formal review to identify which of these are still operational. We have raised a recommendation in 2020-21
X	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 have still not issued formal instructions to the valuers and therefore we have raised a further recommendation in 2020-21

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Whilst testing investments, auditor discovered that a year end balance on one of the holdings at year end was incorrectly reported. Upon receipt of evidence for the clients Fidelity investment, queried a disparity in the £6,949,180.68 expected amount, to the amount of £4,391,142.44 that was evidenced by the third party.	Corporate Items 6,949 Financing Investment (4,391)	Long term investments (6,949) Pooled investments 4,391	2,558	(2,558)
Overall impact	£2,558	£(2,558)	£2,558	£(2,558)

D. Audit Adjustments

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

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/issue/Omission	Auditor recommendations	Adjusted?
Capital Commitment Note There is a £500k understatement in the capital commitment disclosure which is unadjusted. They have disclosed a £2m commitment to [Re-development of Old Town Street / New George Street East] which is incorrect as the true commitment is £2.5m.	Management should ensure that capital commitments disclosed in the statement of accounts agree to those figures reported to members	✓
IAS19 agreement to the accounts: Whilst undertaking this work the auditor identified that for the Plymouth LGPS assumptions in note 34.5, the prior years discount rate is rounded to 2.4% when the IAS19 states 2.35%. In the auditors judgement the use of rounding for these assumptions is not appropriate given the large amounts involved and the impact the discount rate has. The same issues has been identified in relation to Tamar Bridge and Torpoint Ferries assumptions	Management should ensure disclosures are consistent with third party reports	✓
Trial Balance Reconciliation to Statement of Accounts During recalculation of figures within the Balance Sheet, the engagement team has identified that the line 'Net Assets' has been misstated as £180,030k, rather than the calculated £189,030k. This recalculated figure also reconciles to the TB.	Management should review balances to ensure they are accurately disclosed	✓
Note 27 The audit fees for the year under review did not agree with the audit plan by 3k. This was discussed with the client, who agreed that the note was prepared before the audit plan was received and therefore agreed to update the disclosure.	Management should ensure audit fees included in statement of accounts agree to those communicated in the audit plan	✓
Note 13: During our pension liability testing it was noted that note 13 does not agree to the CIES disclosure. The CIES discloses an amount of £23,300k but note 13 states an amount of £26,961. Queried with the client who confirmed note 13 has not been correctly updated and agreed to the adjustments right. Note this is disclosure only as the CIES is correct.	Management should review balances to ensure they are accurately disclosed	✓

D. Audit Adjustments

Misclassification and disclosure changes (cont)

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Page 20 - Narrative Report: For point 2 on balance sheet position - Prior years figure for business rate appeals is £1.889m but the prior years FS states £2.53m. Client has agreed that the figure should be updated.	Management should ensure the narrative report is consistent with the financial statements	✓
Note 10 - Adjustments between accounting and funding basis under regulations: Note 10 states a total of £32,687 for the collection fund adjustment account, but note 22.6 states £32,688.	Management should ensure figures are consistently disclosed throughout the financial statements	✓
Note 22 - Unuseable reserves: Financial instruments adjustments accounts stated as £26,044 but note 22.3 is stated as £26,024. Client has confirmed that note 22.3 has a 20k opening adjustment in 2020-21 which is incorrectly included and should be zero.	Management should ensure figures are consistently disclosed throughout the financial statements	✓
Note 26 - Senior officer rem: The auditor has identified 2 errors as a result of our testing: 1 - The service director for 'Customer Services and Service Center', in which Payroll confirmed by email that they had provided the wrong figures for her, and that the amount stated on the payslip inspected by the auditor was correct. Client have agreed to amend for this variance. Total agreed should be 110,491 (74,513 in salary column and then 35,977 in the loss of office). 2 - The auditor identified that the 'Service Director for Street Services', had the incorrect salary amount within the note. A variance was identified between the payslip inspected and the note. Head of payroll - Delt, confirmed that the payslip figure was correct and the note for this individual is misstated. The client have agreed to amend.	Management should ensure disclosures are consistent with third party reports	✓
Note 23.4 - Cash and Cash Equivalents The auditor identified a disclosure error in Note 23.4. Upon reconciling the Note to the Ledger, it was identified that: 1) Cash and Bank Balance line was incorrectly stated as £0. This should be £440k. 2) The Cash Investments - regarded as cash equivalents line was incorrectly stated as £41,414. This should be £40,974k. Effectively, in the accounts, £440k has been removed from Cash Investments line and added in to the Cash and Bank Balances line, which agrees to the ledger figures. The net amount shown in the accounts are correct.	Management should review balances to ensure they are accurately disclosed	✓

D. Audit Adjustments

Misclassification and disclosure changes

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Accounting Policy Review: Noted that in the estimation uncertainties note the council have included a disclosure for material uncertainty on pension fund assets. However, confirmed that this is not appropriate for 2020-21 and confirmed with the pension fund auditor that there was no clause at this time as markets had stabilised following the start of the pandemic.	Review of accounting policies should be undertaken to ensure that all relevant disclosures are either appropriately included or excluded.	✓
Accounting Policy Review: We have noted that there has not been any inclusion of a policy for the infrastructure assets. In line with updated guidance this should be included. The client has agreed to add a policy in. Please note, this was agreed by the 2019-20 audit team and the client will add the same policy to all of their accounts.	Review of accounting policies should be undertaken to ensure that all relevant disclosures are either appropriately included or excluded.	✓
Narrative report page 4: Management to add in some detail regarding both the audit delays and the pension transaction issue.	Management should ensure the narrative report reflects the current situation to ensure the reader is aware of all relevant issues	✓
Working balance page 17: The balance is disclosed as £8,394k. This should be made clearer that the amount does not meet the recommended minimum and a comment should be added to this effect. We also believe that the pound value of the minimum should be shown for comparison purposes.	Management should ensure the narrative report reflects the current situation to ensure the reader is aware of all relevant issues	✓
PPE Note 15: There is an amount of 120k missing from the table on the transfers to/from assets held for sale line. Amount is trivial but should be added in.	Management should review balances to ensure they are accurately disclosed	✓
Note 23.2 - investing activities: Sale of short term investments should be 12m.	Management should review balances to ensure they are accurately disclosed	✓
Covid grant disclosure: An error has been identified in relation to two grants which were initially categorised in the covid grants disclosure as being treated on an agency basis, when in fact they should have been categorised as principle. This is in relation to the rapid testing fund and the Business Improvement District support fund for £780,458 and £39,495 respectively. This is a disclosure issue only in the covid grants disclosure note, the actual treatment in the ledger is correct.	Review of all grant income should be undertaken annually to ensure that they are accurately classified within the financial statements	✓

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D. Audit Adjustments

Misclassification and disclosure changes

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Note 29 and covid grant disclosure: The auditor identified that in note 29 the GRIA includes an amount of £331k for leisure recovery grant which is not included in the covid grant disclosure	Management should review balances to ensure they are accurately disclosed	✓
Cash flow statement - Investing activities Within the primary financial statements, on the face of the cash flow statement, the total for purchase of PPE, IP and intangible assets is stated as 75,727k, when it should be £83,089k.	Management should ensure figures are consistently disclosed throughout the financial statements	✓
Related Parties: We have identified that the clients related party table in note 30 is incomplete. The client also have a 100% owned subsidiary called ARCA. Confirmed that the 2020-21 balances should be the same as in the group determination working paper being £95k receipts, £227k payments, and £246k outstanding balances.	Management should review balances to ensure they are accurately disclosed	✓
A small number of typographical and grammatical amendments were made to the Accounting Policies and Narrative report to more accurately reflect the requirements of the code and improve the document for readers of the accounts	Management should strengthen quality checks to ensure as many grammatical and typographical errors are identified and corrected	✓

D. Audit Adjustments

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

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit & 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	Impact on general fund £'000	Reason for not adjusting
Errors identified as part of our PPE revaluations testing in respect of the floor area discrepancies on three assets. These are Plymouth Guildhall, Plymouth Library, Ballard House and Windsor House. This has caused an overall understatement to the assets.	Revaluation reserve (1,391)	PPE 1,391	(1,391).	1,391	Not material
Errors noted in relation to the REFCUS Key Items samples	Revaluation reserve 1,434	PPE (1,434)	1,434	(1,434)	Not material
Errors noted in relation to the REFCUS Key Items samples where errors identified which relate to prior years were corrected in 2020-21	REFCUS (5,474)	PPE Additions 4,093 Investment Property Additions 1,381	(5,474)	5,474	Not material
Error identified in the income cut off testing from the bank. The total amount not accrued for is £290,800. An extrapolation has been performed which shows that the impact of the error over the entire population is unlikely to be material. Total extrapolation is £884k. The amount is is relation to the new burdens grant amount for the 2020-21 year. Although the amount relates to the 2020-21 financial year, and was received after the year end. The client has confirmed that no accrual was processed for this amount.	Grant Income (884)	Debtors 884	(884)	884	Not material
Error identified with the accounting treatment of the Local restrictions grant (Open) which has been accounted for on an agency basis when it should have been principle in line with the guidance. This means that income has been misstated by the value of the grant. The in-year amount is £417,827 with the unspent amount of £662,109 which should be treated as a grant received in advance.	Expenditure 418 Grant Income (418)	Creditors 662 Grants received in advance (662)	0	0	Not material
Overall impact	£(6,315)	£6,315	£(6,315)	£6,315	

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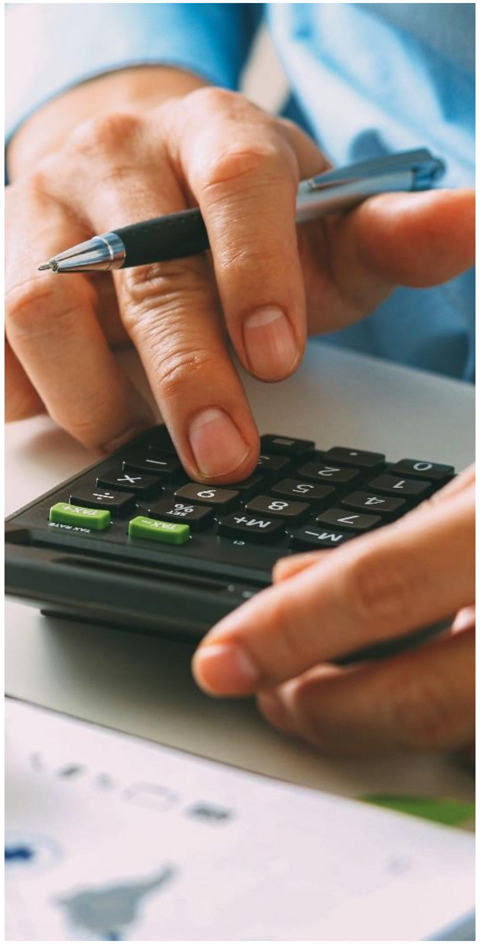
D. Audit Adjustments (continued)



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 2019/20 financial statements

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 Covd-19	(3,298)	3,298	(3,298)	Not material.
Overall impact	£(3,298)	£3,298	£(3,298)	

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E. Fees and non-audit services

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

Audit fees	Proposed fee
Scale fee published by PSAA	£105,393
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£3,500
Materiality and new standards	£6,000
Local issues	£13,393
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors – new accounting treatment	£10,000
Additional fee to be agreed with management	TBC
Total audit fees (excluding VAT)	£195,786

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Grant Claims		
Housing Benefits Certification	27,000	27,000
Teacher's Pension	7,500	7,500
Total non-audit fees (excluding VAT)	**£34,500**	**£34,500**

The fees reconcile to the financial statements as per the adjustments below.

fees per financial statements - £212,000

- Additional HB certification cost - £2,500
- Additional Teacher's Pension cost - £3,300
- Additional costs per audit plan - £12,486
- total fees per above - £230,286

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

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

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

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

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

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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