



The Audit Findings for Plymouth City Council

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

Year ended 31 March 2019

05 December 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Plymouth City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

This report provides a further update following the last two Audit Finding Reports which were presented to the Council's Audit and Governance Committee on 22nd July 2019 and the 23rd September 2019. We will provide members of the Council's Audit and Governance Committee with a verbal update as well when we present this report to the Audit and Governance Committee on December 9th 2019. The Accounts and Audit Regulations 2015 require Local Authorities to publish their financial statements by 31 July each year, irrespective of whether the audit has been completed. The Council complied with this date and published the accounts.

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 [group and] Council and [the group and Council's/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), Narrative Report and Pension Fund Financial Statements), 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 undertaken on site from late June through to December 2019. Initially, there were delays to the completion of our audit work as a result of our own resourcing issues. As the audit has progressed, we have identified a number of errors within the accounts that have required adjustments by management. The area where this has occurred the most is in capital, the valuation of property plant and equipment (PPE) and the detailed disclosure notes required for Financial Instruments. Our work on the valuation of PPE has identified a prior period adjustment (PPA) which management have included in the revised version of the financial statements.

Our findings to date are summarised on pages 5 to 15.

We have identified seven adjustments to the Statement of Financial Position – one is a PPA as a result of the need to process the valuation of the Energy to Waste Plant for 2017/18, misclassification of investment properties which should have been recorded in other land and buildings and an error in the accounting for capital grants. The amendments made in 2017/18 and 2018/19 has increased the net worth of the Authority by £5.931m. Unusable reserves have also increased by the same amount. There have been six changes to the Council's Comprehensive Income and Expenditure Statement which has resulted in an increase in the surplus/ financial outturn of the Council by £8.77m for 2017/18.

We have also identified a possible material upward valuation regarding those assets revalued on a depreciated Replacement Cost basis for those assets that have not been valued prior to 2017. We believe that the upward valuation will be circa £29m and the Council's valuer is currently reviewing this and applying the necessary indices to arrive at an accurate figure. Once this has been determined the Council will make the necessary adjustments in the accounts.

Audit adjustments to date are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. Your previous External Auditors did not make any recommendations in 2017/18 and so no follow-up work was required.

Our work is in its finalisation stages. We have listed below the items that will need to be completed prior to the audit opinion being issued. We will also require specific representation from management and the Audit and Governance Committee for those items that have not been adjusted. These will be included in the Letter of Representation which will be shared and discussed at the Audit and Governance meeting on 9th December 2019.

The key matters in progress as at 3rd December 2019 are:

- Completion of our work on the valuation of Property Plant and Equipment
- Review and testing of the revised financial instruments disclosure notes
- Review of the amended accounts and disclosure notes
- Receipt of management representation letter
- Review of the final set of financial statements, including the Annual Governance
- Review of Post Balance Sheet Events
- Our own internal quality checks.

Headlines

Value for Money arrangements

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

We have completed our risk based review of the Council's value for money arrangements. This covered the risk we identified in our original risk assessment (covering the Council's medium term financial strategy) as well as the new risk identified regarding the Council's investment in properties outside Plymouth.

We concluded that Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This outcome follows a national Grant Thornton panel which reviewed further information provided by the Council and is a better outcome than reported in the previous audit findings report of 22nd July 2019 which reported a possible qualification on an expect for basis subject to further work and Panel review.

However, the Council's financial outlook is extremely challenging and active management will be required to safeguard the Council's financial standing with less focus upon the use of reserves going forward.

Our findings are summarised on pages 18 to 22.

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
- certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We will not be able to certify the completion of the audit when we give our audit opinion because we still need to complete our work on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.

Acknowledgments

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. The audit work has been detailed and the council do have a number of complex transactions which have required further audit challenge and testing. Management have been responsive to our audit queries throughout the past few months and continue to work with us as an audit team to amend and review the accounts in order to satisfactorily conclude our audit work.

Summary

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.

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 11 March 2019, except as follows:

- an additional VFM Conclusion risk identified during our fieldwork regarding the Council's acquisition of investment properties outside Plymouth (see page 21)
- a revision to our revenue risk rebuttal (see page 6)
- we have had to undertake detailed, further work, in relation to the recent McCloud high court ruling which has an impact upon the Pension fund liability (see page 10)

As a result of the errors found, we have also had to undertake enhanced audit testing and procedures regarding the valuation of PPE, capital financing disclosure notes, capital grants received, financial instruments, and the prior period adjustment for Other Land and buildings.

We undertook additional work on the Council's opening balances, recognising that Plymouth City Council is a new audit for Grant Thornton.

Conclusion

Subject to satisfactory clearance of all outstanding items and work on your financial statements, we anticipate issuing an unqualified audit opinion as detailed in Appendix D. The main outstanding items are summarised on page 3 of this report.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan, although we have no longer applied a separate level of materiality for senior officer remuneration. This was because senior officer remuneration is not complex and is therefore not subject to the potential for error.

	Amount (£)	Comments
Materiality for the financial statements	£9.775m	This was 1.7% of the prior year gross expenditure. We used this for planning stage and the year on year consistency of the Council's expenditure meant that this continued to be relevant.
Performance materiality	£7.331m	This is 75% of the materiality of the financial statements as a whole.
Trivial matters	£0.489m	This is 5% of the materiality of the financial statements as a whole.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

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 for the majority of sources can be rebutted, because:

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

We therefore do not consider this to be a significant risk for Plymouth City Council. However, based on the findings of your previous External Auditors we did not rebut this risk for Government grants and other contributions and we therefore planned to undertake additional work in this area. An error was identified on the accounting for the Better Care Fund. Although this is a capital grant, there is a weakness in controls over the expenditure that has to be offset in relation to Government grants. The error also relates to how this was accounted for in 2017/18. The impact of this error is to reduce the capital grants receipts in advance by £4.29m. We have made a specific recommendation to management regarding this issue and this is detailed in Appendix B.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- agreed the journals selected to supporting backing information to assess the reasonableness of journals

As part of our audit completion we will:

- gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

There are no significant issues that we would wish to bring to attention of the Audit and Governance Committee..

Significant findings – audit risks

Risks identified in our Audit Plan

3

Valuation of land and buildings

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 (£728 million at 31 March 2018) 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, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Auditor commentary

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

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

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the three valuers to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We found that the Devonport Energy from Waste plant was revalued in the year by Devon County Council's valuers, although this revaluation, and the previous revaluation, were not reflected in the Council's fixed asset register and hence its financial statements. An net adjustment of £15.593mm to the PPE balance has been made on the balance sheet by management. This required a PPA being processed in the revised financial statements. See Appendix B for details

The Tamar Bridge was due to be revalued on 1 April 2019. We have noted that this valuation has yet to be completed. We have therefore challenged this valuation given that the Bridge had not been revalued for 4 years. We have written to AECOM as Cornwall Councils management expert to confirm the assumptions underpinning the valuation as well as their qualifications. We have further employed our own internal valuer to assess the basis of the valuation and the calculation provided by AECOM. Following this work our valuer has concluded that the bridge is materially correct and this has been supported by our own internal review. Our valuer has concluded that the base value of the bridge, according to AECOM experts is £107m. In addition to this £7m has been spent in additions to the Bridge in year. Providing an estimated value of £114m. The Council carries 50% of the asset value. The bridge is currently in the balance sheet at a value of £60m – i.e. £120m in total. This therefore gives rise to estimation uncertainty for Plymouth of £3m. We are reporting this to those charged with governance as it is above our trivial level. In addition our expert concluded that the basis on which the asset is valued is not DRC, which is what the Council disclose as the valuation basis. We recommend that as part of the valuation process the basis of valuation be reconsidered by the Council in conjunction with the specialist engineers –AECOM and that specialist valuers are used to undertake the valuation of the bridge going forward

Significant findings – audit risks

Risks identified in our Audit Plan

3

Valuation of land and buildings

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 (£728 million at 31 March 2018) 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, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Auditor commentary

As part of our audit work, we identified some assets that had not been valued over the course of the last five years as required by the Code. These assets had nil values attributed to them which we found to be correct. We have recommended that management review the timing and frequency of all assets, especially other land and buildings given that there is a large quantity and value of assets not valued in year, each year.

Investment properties are not valued as at the Balance sheet date but rather on 1 January each year. Whilst the Council do value investment properties annually, as directed by the Code, the Council will need to request that either the valuer changes the valuation date to 31st March each year- ie the Balance Sheet date, or undertakes a detailed fair value review at year end to identify any properties that may have changed significantly in value and undertake appropriate valuation techniques in relation to these.

Our review of the valuation process and results identified 2 properties that had previously been incorrectly classified as investment properties when they should have been classified as other land and buildings. The total value was £1.6m. This has been amended as part of the prior period adjustment for other land and buildings as detailed in Appendix B.

Our audit work reviewed those assets that had not been revalued between 2014/15 and 2017/18 as these are the assets that are most likely to see possible material changes over the course of the 5 year rolling programme valuation period.

Our work highlighted that those assets that are currently valued on a Depreciated Replacement Cost basis (DRC) are likely to have had a material increase in their valuations. We discussed this matter with the finance team and the valuation/ property team. The Council's valuer is currently applying the appropriate local indices to all categories of assets in this exercise to determine a fair value. The Council will amend the accounts according to these figures where they have been determined.

The Code states that a full valuation in this instance is preferable, however, as auditors, we would want to determine if the accounts present a true and fair view and are materially accurate. We accept the proposal by the Council to uplift the valuations using appropriate industry and local factors and note that this is a deviation from the Code.

We have made specific recommendations regarding the frequency of the valuation of other land and buildings in our Action Plan which can be found in Appendix A and management have agreed to increase the amount of assets that are valued each year from 2019/20.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£562 million in the Authority's balance sheet) at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report • obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability. Please also see page 13 for a further commentary on our work on this estimate.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

5

Proposal to reduce the pension fund net liability

In our Audit plan presented on 11 March 2019, we included a specific risk in relation to the plans that the Council were discussing to repay the entire pension fund liability for the Council. As this is a highly unusual transaction this was included in the plan to ensure focus upon the arrangements being put in place to undertake the transaction.

The Authority is considering options that could reduce the pension fund net liability, although any payment is not expected to occur until after the financial year end.

This type of transaction is material, complex and unusual and has therefore been assessed as a significant risk.

Commentary

Auditor commentary

We understand that this transaction has now taken place and has to be recorded in the accounts as a Post Balance Sheet Event. However, as this transaction relates to 2019/20 our work will be ongoing on this for the audit of that year. There is no impact on the Council's financial statements for 2018/19 as an in-year transaction.

As part of our own work on this in 2018/19 we :

- appointed our own independent legal advisors to provide us with advice in this complex area
- discussed with management the arrangements the Council has in place to assess whether it considers the proposed transaction to reduce the pension fund net liability to be financially sound and value for money
- discussed with management the due diligence undertaken by the Authority
- assessed the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate

We made specific recommendations to management and the Audit and Governance Committee in our two previous Audit Findings Reports to state that should the Council consider that this option is still worth pursuing further, the following recommendations should be adhered to:

- obtain independent actuarial advice regarding the estimated pension liability amount
- obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money
- obtain independent legal advice as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability and using a company to pass monies through
- obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations
- obtain independent accounting advice
- Review the business case and re present to Members; and
- ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis.

We will review the transaction and associated arrangements as part of our audit work for 2019/20.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>This also has implications for the GMP equalisation of pay review and this has been commented upon on page 22.</p>	<p>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £7.931m, and an increase in service costs for the 2019/20 year of £645k.</p> <p>Management's view is that the impact of the ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.</p>	<p>We have completed an overview of the analysis performed by the actuary and, based on this, consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>We are of the view that there is sufficient evidence to indicate that a liability is probable and that this should be included in the pension liability value of the Council on the Balance Sheet..</p> <p>The Council have decided not to amend for this increase in pension liability. Specific representation has therefore been added to the Letter of Representation to include this matter.</p>
<p>2 IT General Controls</p>	<p>Our specialist IT auditors undertook a review of the Council's IT general controls.</p>	<p>No significant deficiencies (where there is a risk of significant misstatement) were identified and we therefore did not need to amend our audit approach. A small number of recommendations were made and the Council has agreed these.</p> <p>Although there are no issues we wish to draw to the Audit and Governance Committee's attention within this report, our IT findings were a separate agenda item at the Audit and Governance Committee meeting on 22 July 2019.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment based on work to date
<p>Land and Buildings – Other - £494m</p>	<p>Other land and buildings comprises £375m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£119m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Tamar Bridge is valued separately.</p> <p>The Council has engaged its own internal valuers for the majority of assets, using the valuers of Cornwall Council and Devon County Council to provide other valuations as detailed on page 7.</p> <p>Plymouth City Council's valuers complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 52% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £22m. Management's assessment of assets not revalued has identified no material change to the values.</p>	<p>Please also see the findings on page 7 regarding the valuation of land and buildings.</p> <p>As part of our work in this area we have:</p> <ul style="list-style-type: none"> assessed management's expert reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end Challenged the assumptions made by the valuer for all assets not valued in year and the valuation dates for investment properties. Reviewed those assets that had not been valued since 2017 – in particular those assets that are valued on a Depreciated Replacement Cost (DRC) basis and identified a possible material upward valuation movement which the Council's valuer is currently reviewing to determine the amendment that needs to be processed. <p>We recommend, that a detailed technical revaluation of the Tamar Bridge takes place in 2019 20 by a specialist or expert. We also recommend that management enhance the estimation uncertainty disclosure to ensure the bridge's current estimated value and the basis that this has been arrived at is clear to the reader.</p>	<p style="text-align: center;"> Amber</p>

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment based on work to date																								
Net pension liability – £541m	<p>The Council's net pension liability at 31 March 2019 is £541m (PY £562m) the majority of which relates to the Devon Pension Fund, with a non-material amount relating to the Tamar Bridge and Torpoint Ferry Joint Committee.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There was a £57m net actuarial gain during 2018/19.</p>	<p>Please also see the findings on page 8 regarding the valuation of the net pension liability. As part of our work in this area we have:</p> <ul style="list-style-type: none"> Assessed management's expert Used our auditor's expert (PwC) to assess the actuary and the assumptions made by the actuary. The key assumptions underpinning the actuarial valuation are: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.35% to 2.45%</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.4%</td> <td>2.4% to 2.45%</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>3.9%</td> <td>3.1% to 4.35%</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.4 years & 24.1 years</td> <td>22.2 to 25.0 years</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.4 years & 26.2 years</td> <td>25.0 to 26.6 years</td> <td>● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35% to 2.45%	● Green	Pension increase rate	2.4%	2.4% to 2.45%	● Green	Salary growth	3.9%	3.1% to 4.35%	● Green	Life expectancy – Males currently aged 45 / 65	22.4 years & 24.1 years	22.2 to 25.0 years	● Green	Life expectancy – Females currently aged 45 / 65	24.4 years & 26.2 years	25.0 to 26.6 years	● Green	<p>● Green</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.35% to 2.45%	● Green																								
Pension increase rate	2.4%	2.4% to 2.45%	● Green																								
Salary growth	3.9%	3.1% to 4.35%	● Green																								
Life expectancy – Males currently aged 45 / 65	22.4 years & 24.1 years	22.2 to 25.0 years	● Green																								
Life expectancy – Females currently aged 45 / 65	24.4 years & 26.2 years	25.0 to 26.6 years	● Green																								
		<p>We have also:</p> <ul style="list-style-type: none"> undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 																									

Assessment

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

Significant findings – matters discussed with management

Significant matter	Commentary	Auditor view
<p>1 Capital Financing and Expenditure</p>	<p>The CIPFA code of practice on Local authority accounting in the United Kingdom 2018/19 (S4.1.A.3) states that “The financial statements shall disclose a summary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of fixed assets, together with the sources of finance and the Capital Financing Requirement.” (CFR)</p> <p>Note 31 sets out the calculation for the Council, our review of the Council’s reporting identified a number of issues with the note: These are detailed as part of Appendix X Adjusted misstatements. In particular the following items were discussed with management:</p> <ul style="list-style-type: none"> The decision to use £1,000k of capital receipts to repay debt has reduced the total repayment of debt to the General Fund by £1,000k. This use of receipts has been challenged by the Ministry of Housing, Communities and Local Government (MHCLG). Currently, the MHCLG is not taking further action but will review the prudential code. Future use of receipts in this way may be prevented. The Council’s current usable capital receipts reserve is £15.2m (2019 £18.2m). Recognition of the Regional Investment Funding (RIF) loan liability had been identified as a prior year adjustment in the Movement in Reserves Statement (MiRS), when it should be shown as an in year movement as part of note 10 to the accounts. This also needed to be recognised as an increase in the CFR in note 31. <p>None of the amendments impact on the Council’s general Fund balance</p> <p>The CFR should reconcile to the capital balances on the Council’s balance sheet. The Council has reconciled it’s CFR. The draft accounts already recognised an historical error of £45.281m in the treatment of capital grants unapplied. As part of the reconciliation process the Council has identified further errors of £0.271m of unapplied capital grants and £6,028m relating to the initial recognition of donated assets.</p>	<p>Adjustments have been identified to note 31, these are set out in Appendix B adjusted mis-statements.</p> <p>The CFR has been reconciled to the Balance sheet, there remains a trivial unreconciled amount of).382m.</p> <p>Officers have agreed to change the reporting of the RIF loan liability to show as an in-year movement.</p> <p>Recommendations</p> <p>The capital accounting entries need to be updated to accord with statutory directions.</p> <p>The Council’s CFR should be reconciled annually to give assurance that capital adjustments are correctly reflected in the accounts.</p> <p>Management response</p> <p>The Council will undertake a review of the capital adjustments in the accounts and will ensure that the CFR is fully reconciled to the Council’s balance sheet.</p>

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management have advised us that they have prepared the financial statements on a going concern basis, although this has not been referred to in the Council's financial statements.

Management's view is that the concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future as an authority can only be discontinued under statutory prescription. Although Central Government funding is being cut significantly, management is of the view that this will have no effect on Plymouth City Council as a going concern. We have requested that management provide a detailed assessment of going concern in light of future funding information and the budget for 2019/20. This assessment should cover the 12 months from the opinion date which is likely to be from September 2019.

Work performed

We discussed the going concern principle with management and asked them to provide an assessment of the application of this principle and to assess what disclosures should be included in its financial statements. Management referred us to the budget for 2019/20 and the Council's medium term financial plan which we reviewed as part of our work on the Council's VFM conclusion – see page 18 of this report.

Concluding comments

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

Our discussions with management, supplemented by our VFM conclusion work has given us sufficient assurance that the disclosures within the Council's financial statements are adequate. In reaching this decision we took into account the level of the Council's reserves and the savings that will be required in order to deliver a balanced budget in 2019/20 and 2020/21.

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
① 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.
② Matters in relation to related parties	Based on the work completed to date, we are not aware of any related parties or related party transactions which have not been disclosed.
③ 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 to date.
④ Written representations	A letter of representation will requested from the Council on the completion of our audit.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bankers and other organisations with which the Council has investments and loans. This permission was granted and the requests were sent. Not all have yet been returned with positive confirmation and these have been chased up. We will complete alternative audit procedures if satisfactory responses are not forthcoming.
⑥ Disclosures	A significant amount of changes have taken place to ensure that the disclosures are compliant with the CIPFA code, particularly regarding Financial Instruments. .
⑦ Audit evidence and explanations/significant difficulties/other financial reporting issues	All information and explanations requested from management to date has been provided. The Council provided us with a group accounts assessment during our audit. Whilst we concur with the Council's view that group accounts are not required in 2018/19, this assessment needs to be undertaken before the Council prepares its financial statements each year. Looking ahead to 2019/20, the Council may find it beneficial to prepare group accounts for that year on a quantitative basis.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>There are no issues we wish to draw to your attention.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • 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 <p>In our view, the Council's Annual Governance Statement could be improved by:</p> <ul style="list-style-type: none"> - explicitly referring to the conclusion provided in the Head of Internal Audit opinion - ensuring that the action plan only covers governance issues for the Council and not wider risks e.g. Brexit. <p>We have not applied any of our statutory powers or duties.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m for Income and Expenditure we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>We have commenced our work on the WGA consolidation pack but this cannot be concluded until our audit of your financial statements has been completed.</p>
<p>4 Certification of the closure of the audit</p>	<p>We are unable to certify the closure of the 2018/19 audit of Plymouth City Council in the audit opinion, as detailed in Appendix D, until our work on the Whole of Government Accounts (WGA) consolidation pack has been completed.</p>

Value for Money

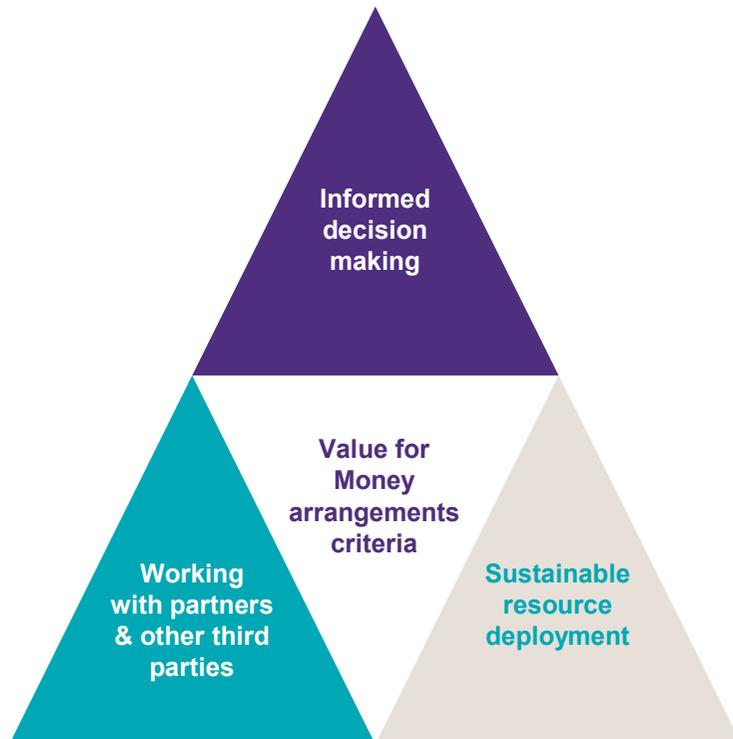
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in early 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to the Council's Audit and Governance Committee in our Audit Plan on 11 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and we identified one further significant risk where we needed to perform further work. This additional risk is regarding the Council's acquisition of investment properties outside Plymouth. Please see page 19 for further information.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the 2018/19 outturn
- the savings of £25.6m required in 2019/20 in order to achieve a break-even position
- the level of general reserves as at 31 March 2019 as any future overspends must met from these
- the governance arrangements in place for the Council's out-of-area investment properties

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

Overall conclusion

As noted on page 4, we concluded that Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, the Council's financial outlook is extremely challenging and active management will be required to safeguard the Council's financial standing.

The text of our proposed report can be found at Appendix D, although this is subject to the completion of our work on the Council's financial statements.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations to date and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk from the audit plan

Delivering the budget for 2018/19 and achieving a sustainable financial future

Achieving the budget in 2018/19 will be difficult due to increased demand and overspends within Adult's Social Care and Children's Social Care.

Looking ahead, ensuring a sustainable financial future will be challenging due to significant savings required over the next two years and the pressures noted in the two high-spend areas noted above.

Audit work and Findings

The 2018/19 outturn position for the Council is an overspend of £1.117m which was financed by the Council's General Fund. The Council had forecast an overspend throughout the 2018/19 financial year, but from month 6 did manage to reduce the extent of this overspend by introducing more stringent financial controls.

In 2018/19 the Council was aiming to deliver savings in the region of £11.5m, however, overspends occurred in the Customer and Corporate Directorate and the People Directorate. The largest overspend was within Children and Young People, £4m, due to increased demand and costs of looked after children's placements.

This is an improved financial position on the previous year, however it reduces the amount of the Council's General Fund balance to only £8.05m. The Council has other earmarked General Fund reserves of £24.7m, although it acknowledges that the main General Fund balance is 4.3% of its net revenue budget compared to its target of 5%.

Going forward the financial pressures remain and the Council faces significant challenges to deliver its savings in 2019/20 and beyond. As at the end of month 2 (the end of May 2019) the Council is forecasting an overspend of £3.958m (£1.44m Customer and Corporate Directorate and £2.057m within the Children's Directorate). If the Council was not able to reduce this overspend the General Fund reserve would be reduced to £4.092m at the end of the year, a significant reduction, although there are additional earmarked reserves available.

In 2019/20 the Council is aiming to deliver savings of £25.619m, of which at the time of reporting £6.5m are at risk and do not have plans in place. The Council has improved the monitoring and financial control over its savings plans, with the introduction of risk assessing savings plans and introduced a 'fresh look' approach to identify new ways of working to identify savings, however this approach has not identified significant savings that will benefit 2019/20. These new measures highlight the scale of the challenge faced by the Council.

Review of the savings plans provided for the People Directorate indicates that the Council is aiming to deliver savings from a range of different service lines, is reliant on maximising income and grants and assumes that savings will be delivered from quarter 1. The month 2 report on progress to date on all savings plans, identifies that the Council is heavily reliant on one-off savings and vacancy management and that savings require lapsed time before they will be delivered. Active management will be required to safeguard the Council's financial standing.

Conclusion

The Council faces significant challenges to deliver the savings (£25.6m) required in 2019/20. Failure to deliver these savings and manage demand within its Children's service will lead to budget overspends that reduce reserves to unacceptably low levels.

The Council is also reliant on a significant amount of one-off savings and vacancy management. These approaches alone are not sustainable and will increase the financial pressures in 2020/21.

However, taking into account the level of reserves overall available to the Council we concluded that Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Key findings

We identified the following significant risk after we had completed our initial risk assessment.

Significant risk identified since our audit plan was issued

Acquisition of investment properties outside Plymouth

Plymouth City Council has recently acquired a number of investment properties outside the City. This type of activity is attracting a lot of interest nationally, including from the National Audit Office (NAO) and CIPFA, as such investments can potentially carry a higher level of risk as they are pure investments and do not align to any of a Council's strategic ambitions such as economic development.

There is a risk that the governance arrangements for such investments are inadequate. These transactions are ongoing and this work will continue as part of the 2019/20 audit plan.

Audit work and Findings

This risk was identified after we had completed our initial risk assessment.

The Council has provided us with evidence that its investment strategy (covering its Asset Investment Fund) was approved by Members and that it covers investment within the City's boundaries and the Functional Economic Area, defined as the areas covered by the two Local Economic Partnerships; Cornwall and the Isles of Scilly and Heart of the South West to deliver long-term income generation to the Council (via rental receipts) and stimulate regeneration and economic and employment growth in Plymouth and the Functional Economic Area.

The Council has a significant level of investment properties (£198m at 31 March 2019 per the draft financial statements) and there is active involvement of Members in setting the overall strategy and in monitoring the ongoing performance of the properties.

Conclusion

The governance arrangements for out-of-area investments appear to be adequate. We recommend to Members that any future investment in properties adheres to the proportionality rules as set by Central Government, that the appropriate legal and technical advice be obtained for each transaction and that the Council ensure that regular reporting requirements as set by Central Government are adhered to.

We will review the ongoing acquisition of investment properties, particularly those out of area to assess the overall arrangements in 2019/20.

Ofsted findings

Background

Children's social care services

In October and November 2018 Ofsted undertook an inspection of children's social care services at Plymouth City Council. Their findings were reported in January 2019.

Summary of Ofsted's Findings

The judgements made by Ofsted were as follows:

Judgement	Grade
The impact of leaders on social work practice with children and families	Requires improvement to be good
The experiences and progress of children who need help and protection	Requires improvement to be good
The experiences and progress of children in care and care leavers	Requires improvement to be good
Overall effectiveness	Requires improvement to be good

Audit Assessment

Although the Council's services were assessed as 'requiring improvement' Ofsted did report a positive direction of travel.

They reported that since the single inspection framework (SIF) inspection in 2014 and the focused visit in 2018, senior leaders have taken clear action to improve the quality of social work practice, and the vast majority of children, young people and families in Plymouth get the right help at the right time.

Ofsted stated that there is a clear commitment to and corporate ownership of children's services, as well as effective strategic partnerships that are well developed. Senior leaders have a good understanding of strengths and areas for improvement. There has been significant progress in establishing an environment in which good social work can flourish by significantly reducing social workers' workloads, increasing management capacity and providing a wide range of learning and development opportunities. They noted significant practice improvements are evident in a number of areas previously identified as weak.

Ofsted noted improvements were required in:

- The quality of strategy discussions, including records of decision-making and action plans.
- The quality of written plans.
- Sufficiency of local placements to meet the needs of older children.
- The quality of recording of supervision and management oversight.
- The quality of services to care leavers, including education, employment and training opportunities.
- The quality of and learning from auditing of casework.

We noted the positive direction of travel and determined that Ofsted's findings were not of such significance to impact on our overall VFM conclusion.

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. 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix c.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services are proposed and we have set out the anticipated fees, the threats to our independence and safeguards that have been applied to mitigate these threats.

	Proposed Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£14,041	Self review Management	Work undertaken after completion of the audit and there are not expected to be material changes arising to subsequent financial statements. Any changes that need to be made to recorded contributions are determined by officers based on our work; they also agree the factual accuracy of any findings we make to the Department for Work and Pensions (DWP)
Certification of Teachers' Pensions return	£4,200	Self review Management	Work undertaken after completion of the audit and there are not expected to be material changes arising to subsequent financial statements. Any changes that need to be made to recorded contributions are determined by officers based on our work; they also agree the factual accuracy of any findings we make to Teachers Pensions.
Non-audit related			
None.			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services were set out in our audit plan have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 11 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 2019/20 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
1	 Red	Delivering the budget for 2018/19 and achieving a sustainable financial future	<p>The Council should look for new ways of delivering savings, which are recurrent and not as heavily reliant on one off savings and vacancy management, in order to ensure they are realistic and robust.</p> <p>Management response</p> <p>The Council recognises the financial challenges that have arisen from the 2018/19 outturn position and the budget challenges faced in the current and future years. The priority is to address the budget pressures which have been identified at month 2. CMT and Cabinet will continue to explore options to maximise income and identify cost savings and efficiencies, as part of the regular budget monitoring process, to achieve a balanced budget at year end.</p> <p>The Council is in the process of developing its Medium Term Financial Plan and will continue to explore innovative solutions to the resourcing challenges presented by the shift and uncertainty within local government. The uncertainty for medium term financial planning is compounded by national issues and fact local government has had no indication of its future funding and progress on fundamental changes to local government finance such as Fair Funding and Business rates Retention. The Council should pay particular focus to the level of reserves and avoid regular draw on these reserves to support future overspends or budget gaps.</p>
2	 Amber	Revaluation of Devonport Energy from Waste plant	<p>The Council should engage with Devon County Council's valuers to ensure that it is aware of all revaluations that are undertaken. The Council should formally instruct the valuer and request and understanding of all data used and assumptions made. As part of this request the Council should ensure that they request details of all impairment and fair value reviews up to year end and the balance sheet date.</p> <p>Management response</p> <p>The Council have instructed the South West Devon Waste Partnership to instruct Norfolk Property Services (NPS) direct for a valuation for year end (31 March) on behalf of the partnership to ensure that PCC is entitled to a copy of the valuation certificate.</p>

Risk rating

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

Action plan contd

	Assessment	Issue and risk	Recommendations
3	 Amber	Valuation of Property Plant and Equipment	<p>We recommend that the Council should: Formally review the frequency of valuations for all property plant and equipment assets and would encourage the Council to make this frequency more regular than every 5 years</p> <p>Management response We will undertake a review of the frequency of valuations with the valuers to look at those assets that might need revaluing more frequently.</p>
4	 Amber	Investment Properties	<p>The Council should ensure that all investment properties are formally reviewed, annually, as at the balance sheet date – i.e. 31 March.</p> <p>.</p> <p>Management response We will work with the valuers to ensure that a formal review is undertaken annually of the Council's investment properties with regard to the appropriate classification and value.</p>
5	 Amber	Accounting for Government Grants	<p>We recommend that the Council improve the controls for the accounting for government grants and that all expenditure related to each grant is correctly accounted for.</p> <p>Management response We are reviewing the controls around the accounting for government grants to ensure that the grant income is applied correctly.</p>
6	 Amber	Accounting for Trading Accounts	<p>The Council need to implement effective controls to account for trading account surpluses or deficits correctly</p> <p>Management response We are undertaking a review of the use of coding within PCC and building in more centralised controls during the year and at year end to ensure that trading account surpluses or deficits are accounted for correctly.</p>

Risk rating

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

Action plan

We have identified 11 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 2019/20 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
7	 Amber	Financial Instrument and complex fair value disclosures	<p>We recommend that the Council should:</p> <p>Undertake a detailed review of the financial instrument and fair value disclosure requirements for 2019/20 and beyond and obtain the necessary and appropriate expertise so that these complex disclosures are correct in the financial statements.</p> <p>Management response</p> <p>We will review the code requirements for the Financial Instrument disclosures as well as taking external advice from our Treasury Management advisors.</p>
8	 Amber	Quality review of capital financing accounting and disclosures	<p>The Council should implement quality reviews on a regular basis for capital transactions so that all associated notes in the accounts such as the capital financing reserve, capital adjustment account are accurate in the draft financial statements at year end.</p> <p>.</p> <p>Management response</p> <p>We will build in appropriate check and review processes in connection with capital transactions, to ensure that all associated working papers and notes are accurate in the financial statements.</p>
9	 Amber	Quality review of the draft financial statements submitted for audit	<p>We recommend that the Council improve the controls for the accounting for government grants and that all expenditure related to each grant is correctly accounted for.</p> <p>Management response</p> <p>We will review our closedown procedures to ensure that a quality review is undertaken of all notes and associated working papers.</p>

Risk rating

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

Action plan

We have identified 11 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 2019/20 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
10	 Red	Proposal to reduce the pension fund net liability	<p>We strongly recommend that the Council should:</p> <ul style="list-style-type: none"> • obtain independent actuarial advice regarding the estimated pension liability amount • obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money • obtain independent legal advice as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability • obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations • Obtain advice regarding the use of any company in the transaction; • Update the business plan and re present to Members • obtain independent accounting advice and • ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis. <p>Management response</p> <p>There is ongoing work to reduce the pension fund liability. All of the recommendations are noted.</p>
11	 Amber	Group Accounts	<p>The Council should undertake a group accounts assessment early-on in the accounts production process for 2019/20 taking in qualitative and quantitative factors.</p> <p>Disclosures regarding the various components should be clearly presented within the financial statements.</p> <p>Management response</p> <p>We will review the process for the group accounts assessment to see how we can bring this work forward.</p>

Risk rating

- High – Significant effect on control system (Red)
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

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 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Better Care Fund 2017/18 and 2018/19 Capital Grant Receipts in Advance	-£1.95m	£1.95m	0
	<u>-£2.34m</u>	<u>£2.34m</u>	
Capital Grants Receipts in Advance	-£4.29m	£4.29m	
2 Trading Accounts Surplus	-£4.7m		
Trading Accounts Expenditure	£4.7m		
3 Prior Period Adjustment - PPE & Investment Property			
EFW & Investment properties to OLB 2017/18	-£5.620m	£6.731m	
EFW & Investment properties to OLB 2018/19	£3.980m	-£4.198m	
OLB to Investment Properties 2017/18	-£0.281	£0.097m	
OLB to Investment Properties 2018/19	£0.281	-£0.990m	

Audit Adjustments Cont.

Note 31: Capital Expenditure and capital financing

Detail	Capital investment £,000	Sources of finance £,000	Balance £,000	Adjusted
CFR as reported in draft accounts			559,870	
Adjustment to CFR at 31 March 2018, Initial recognition of donated assets and unapplied capital grants			5,734	Y
	137,116	(37,130)		
Additions to Assets held for sale	412			Y
Initial recognition of the RIF loan liability	6,005			Y
Use of capital receipts to repay debt		(1,000)		Y
Other movements in long term debtors		(589)		Y
Minimum Revenue Provision		1,000		Y
Changes to the landfill provision		288		Y
Repayment of a conditional capital grant		900		Y
	6,417	599	7,016	
Revised values	143,533	(36,531)		
Adjusted Capital financing Requirement			572,620	
Recognition of Better care fund grants as unconditional		(4035)	568,585	Y

Audit Adjustments Cont. Disclosures and Notes

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 2019.

Disclosure omission	Auditor recommendations	Adjusted?
Financial Instruments		
<p>CCLA - The Council have elected to account for this as fair value through other comprehensive income. Pooled investments do not normally qualify for this as they do not meet the definition of an equity instrument and should be processed through Profit and Loss.</p> <p>The draft financial statements did not include all the necessary disclosures relating to the requirements of IFRS 7 and 9 - fair value adjustments. There is also no clear indication of the transitional change being shown on the face of the accounts for the movement to IFRS 9.</p>	<p>We recommended that the accounts be changed to show these assets as fair value through profit and loss - we do however, accept that a statutory override is in place which currently allows for the accounting treatment to not impact upon CIES. However, this statutory override is only in place for a limited period of time, at which point the council will have to account for these correctly.</p>	No
<p>There were no inherent risk disclosures regarding LOBO loans.</p> <p>The financial instrument notes did not reconcile to the main statements.</p>	<p>The revised version of the accounts has now been amended to show the fair value of all financial instruments. The transition was not material and therefore no requirement to detail the transitional change.</p> <p>The revised financial statements now show the attributed inherent risk to these loans.</p> <p>The Council have amended all financial instrument notes and disclosures to ensure that they correspond to the transactions in the main financial statements.</p>	Yes
<p>Recognition of Regional Investment Fund –RIF Loan Liability</p>	<p>£6.005m</p> <p>This was originally shown in the Movement in Reserves Statement as a Prior Period Adjustment however, it was an in year transaction. This has been adjusted in the Movement In Reserves Statement and also the Capital Finance Reserve.</p>	Yes

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Management's view is that the impact of the McCloud ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.	No impact	Cr Net Pension Liability – £7,931	No impact
2 Impact of GMP Equalisation judgment – The Council has considered the impact of the GMP Equalisation judgment on the net pension liability. There is a potential overstatement of £1.875m of the net pension liability as a result of our own calculations and use of our own expert data.	No impact	DR Net Pension Liability -- £1,875 -	No impact- Management have decided not to adjust for this as this is an estimate, Management need to establish their own figure for this from experts and this will be part of the current triennial valuation.
3 The Council's financial statements included an accrued loan which has still not been received. In our view there was insufficient evidence to support the Council's assertion that this loan was sufficiently certain at 31 March 2019. This is a £5m value.	No impact	No overall impact as debtors and loans are both overstated by £5m	No impact
4 The Council has an investment of £23m in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA. The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.	There is no impact on the Comprehensive Income and Expenditure Statement or the Statement of Financial Position as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years. There is only an effect on the disclosures within the Council's financial instruments. Grant Thornton UK LLP strongly recommend that this is corrected and applied correctly in subsequent year's accounts as the statutory override is only applicable for 5 years and will not be available by MHCLG after that and this will have an impact upon the net income and expenditure of the Council.		
5 The Council have used capital receipts of £1m to offset MRP, however the entries within the accounts are incorrect . This does not have a material impact upon the net worth of the authority.	-1000 1000 Capital Adjustment Account	Cr Usable Capital Receipts DR Capital Adjustment Account	No overall impact
Overall impact	£0	£6056	£0

Audit Adjustments

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements

Fees

We confirm below the expected fees to be charged for the audit. Overleaf we set out the expected fees for the provision of non audit services.

Audit Fees

	Fee per audit plan	Expected fee	Comments (See Note 1)
Council Audit	105,393	TBC	This is the scale fee set by Public Sector Audit Appointments Ltd
Assessing the impact of the McCloud ruling		3,000	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have been considering the impact on the financial statements along with any audit reporting requirements.
Pensions – IAS 19		3,000	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.
PPE Valuation – work of experts		TBC	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this. We have also engaged an auditor's expert to support our work on the Tamar Bridge valuation.
Significant risk – Proposal to reduce the pension fund net Liability		TBC	We have been engaged with Officers on this issue since it was first raised with us. We have commissioned our own legal advice given the unusual nature of this transaction and the significance of the amount involved
Total audit fees (excluding VAT)	£105,393	TBC	

Note 1 –Any adjustments to the scale fee need to be approved by Public Sector Audit Appointments Ltd.

Fees

Below are the expected fees for the provision of non audit services.

Non Audit Fees

Fees for other services	Proposed Fees £'000	Comments
Audit related services:		
Certification of Housing Benefits Subsidy Return	14,041	Please see note 2
Certification of Teachers' Pensions Return	4,200	Please see note 2
Non-audit services:		
None.		
Total	£18,241	

Note 2 – this work has a deadline of 30 November 2019 and has not yet commenced. We will advise a future meeting of Audit and Governance Committee on the outcome of this work and the final fee.

Fees

We set out below the fees from the previous pages and how these agree to the disclosure within note 27 of the Council's financial statements.

Audit Fees

	Proposed fee	Final fee	Per Note 27
Council Audit	105,393	TBC	105,000
Assessing the impact of the McCloud ruling		3,000	Not included (see note 3)
Pensions – IAS 19		3,000	Not included (see note 3)
PPE Valuation – work of experts		TBC	Not included (see note 3)
Significant risk – Proposal to reduce the pension fund net Liability		TBC	Not included (see note 3)
Certification of Housing Benefits Subsidy Return	14,041		14,000
Certification of Teachers' Pensions Return	4,200		4,000
Additional Audit Work on errors and issues identified		TBC	Not included (see note 3)
Total audit fees (excluding VAT)	£123,634	£XX,XXX	£123,000

Note 3 – The Council was not aware of this additional work when it prepared its draft financial statements in May 2019. We will advise the Audit and Governance Committee of the final fees once we have completed our work, discussed the fees with officers and received approval from Public Sector Audit Appointments Ltd.

