External Audit Plan Update
Year ending 31 March 2020

Plymouth City Council

March 2021

Contents

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

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

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

Group Accounts	The Authority is likely to be required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings, for the first time this year. The Council are currently completing a detailed review of relationships and the impact on the Group.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Revenue Recognition – Rebutted in all areas apart from Government Grants • Valuation of Land and buildings including the valuation of investment properties at year end • Valuation of net pension fund liability • Financial Instrument disclosures • Group accounts, consolidation and reporting • Financial statements risk - impact of the reduction of the Council's pension fund liability through Miel Ltd. • Financial statements risk - impact of COVID-19 We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £6.665m (PY £9.775m) for the Authority, which equates to 1.33% of your forecast gross expenditure for the year. Further commentary regarding the reasoning behind the change in materiality is detailed on slide 17 . We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £300k (PY £489k). A separate materiality level of £100k for the remuneration disclosure has been set.

Introduction and headlines (continued)

Value for Money arrangements	• Financial sustainability; and • The Council's response to the financial impact of the COVID-19 virus. • In addition- for March 2021 - response to our recommendations regarding the Miel transaction in year. See slide 8 – revision to our audit plan.
Audit logistics	Our initial audit planning and interim work has taken place in February and March and our final visit will take place between July and September. Our key deliverables are this Audit Plan our Audit Findings Report, the Audit Opinion and the Annual Audit Letter. Our audit approach is detailed in Appendix A. Our fee for the audit is currently being discussed with management. All fee increases have to be agreed by Public Sector Audit Appointments (PSAA).
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Audit Quality – National and local context

What has the FRC said about Audit Quality?

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

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

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

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

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

Other sector wide reviews

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

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

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

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

The impact on our audit and Plymouth City Council

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

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

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

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

Key matters impacting our audit

Factors

The wider economy and political uncertainty

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

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

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

Financial reporting and audit – raising the bar

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

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

Repayment of the Council's Pension Fund Liability.

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

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

Our response

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

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

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

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

- As part of our audit work in 201819 we made a series of recommendations to both Management and Those Charged with Governance regarding the transaction. The recommendations were communicated in our Audit Finding Reports for July, September and December 2019 and April 2020. The recommendations made specifically concentrated on the review and use of advisers, regard for due diligence and adequate and informed review by members ahead of the transaction taking place. We will follow up on our recommendations as part of our work in 2019/20.
- We will review the accounting treatment for the transaction and associated disclosures and notes to the accounts. We have classified this as Financial Statements risk.

Key matters impacting our audit (continued)

Factors

Impact of Covid -19 on financial statements & other matters The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work across audits in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. As a result of the FRCs comments, our audit work on these areas requires further improvement and increased challenge and scrutiny - with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Our response

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

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

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

Revision to Original Audit Plan – March 2021

Audit Plan – Revision February 2021

Governance Review

Over the course of the 2018/19 financial statements audit we made a series of recommendations to both management and the Audit Committee regarding the Miel transaction. These recommendations were made - 22 July 2019; 23rd September 2019; 9 December 2019; and 2 April 2020. Whilst one of these recommendations was related to the need to obtain accounting advice for the transaction, the remaining items were of a governance nature. We recommended that the Council:

- 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 advise 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.

Our review of the progress made against these recommendations has concluded that, there is insufficient evidence to support that these have been enacted.

In April 2020, the Council entered into an interest rate swap transaction. Our initial enquiries have determined that the governance and due diligence arrangements in place for both of these transactions now requires further scrutiny by us as auditors.

We have therefore updated our original plan as at May 2020, to include a specific review of the governance and due diligence arrangements regarding these transactions.

Our review has commenced and we will report the conclusions of this review to the Audit Committee, once completed, likely to be May 2021.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Following our further work and analysis of the Councils own group analysis we do not believe that group accounts are currently applicable. We will , however, continue to review this position throughout the course of our audit work.

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	**Authority**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in the majority of income streams because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Plymouth City Council, mean that all forms of fraud are seen as unacceptable However, as a result of our findings relating to the accounting for Government Grants in 2018/19 and 2017/18 we will test the accounting treatment for Government Grants under this risk.
Management over-ride of controls	**Authority**	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.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land and Buildings - Including Investment Property	Authority	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. The Bridge's rolling programme of full valuation requires a full valuation take place on 1 April 2020. In our audit work for 2018/19 we recommended that management undertake a full valuation of the bridge in 2019/20 and that the basis of the valuation of the bridge be reconsidered. Management have since engaged a valuer to undertake a full valuation of the bridge and to review and consider the basis of the valuation.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work for both the internal and external valuers. • evaluate the competence, capabilities and objectivity of the valuation experts used by the Council across all categories of assets • write to the valuers to confirm the basis on which the valuations have been carried out. • Review the data and assumptions made regarding the year end valuation of the Councils Investment property portfolio • Employ our own specialist internal valuer to review the assumptions made by management regarding the valuation of the Tamar Bridge • Employ or own valuer - Wilks Head and Eve, to review the instructions issued by management to valuers and the assumptions made by valuers for the valuation of Property, Plant and Equipment and the Council's portfolio of Investment Properties. • challenge the information and assumptions used by the valuers to assess completeness and consistency with our own understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • Test the year end closing balance for property, plant and equipment • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • Evaluate of the impact of COVID-19 on valuations – particularly investment properties held by the Council

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Net Pension Fund Liability	**Authority**	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. 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. 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.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • Review the assumptions made by management and the actuary relating to the Mc Cloud and GMP estimates provided in 2018/19 and whether there is a further requirement to assess this value in 2019/20. • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Reduction of the net pension fund liability through the use of Miel Ltd.	**Authority**	As noted on the previous page, the Authority's pension fund net liability represents a significant estimate in the financial statements. The Authority has used a separate vehicle (Miel Ltd) to pay a £70m off of its Pension Fund liability amount. This transaction took place in early October 2019. This type of transaction is both material and unusual and has therefore been assessed as a Financial Statements significant risk.	We will: • review the Council's response to the series of recommendations that we have made in our Audit Findings Reports throughout 2018/19, in particular to - • assess the due diligence undertaken by the Authority • review the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate • assess the arrangements the Authority has in place to assess whether it considers the transaction to reduce the pension fund net liability to be financially sound. • review the Authority's proposed accounting treatment to ensure it is compliant with CIPFA's Code and the relevant accounting standards.
Group Accounts	**Group/ Authority**	There is a requirement in the CIPFA Code and International Accounting Standards to consider the need for group accounts if, across the group, any individual category of income, expenditure, assets and liabilities are above materiality. There is also a requirement to consider the need for group accounts on a qualitative basis. Given the level of transactions at some of the Council's subsidiaries, there is likely to be a requirement to produce Group accounts for the first time in 2019/20. This will be a new accounting requirement for the Council, who will also be reliant upon data from other organisations. Provision of group accounts can be complex and consolidation of individual entity balances can be time consuming and prone to possible error.	We will: • review the controls and processes that the Council will put in place to prepare Group Accounts • Review the Council's processes for consolidation of subsidiary accounts and the arrangements in place for the review of the validity of the financial information and data • Review the accounting treatment • Undertake a detailed risk assessment in accordance with auditing standards to establish an audit approach and strategy for seeking assurance of any other auditors work • Where appropriate, liaise directly with any subsidiary auditors and review working papers • Provide an audit opinion on the Group financial statements.

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

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Financial Instrument Disclosure notes	**Authority**	Accounting standards and the CIPFA Code require detailed disclosure notes to be published in the accounts regarding financial instruments held by the Council. These financial instruments can be in the form of loans and borrowings as well as assets and investments. Arriving at the fair value of financial instruments is usually complex and requires specialist support as part of the valuation process for these items. In 2018/19 the Council's draft financial statements did not include the required detail or disclosures relating to all financial instruments held by the Council. Further detailed work had to be performed by the Council and its advisers to ensure that the financial instrument notes were in accordance with regulation and guidance. As this is a complex area and requires specialist support and advice, it is susceptible to possible error.	We will: • review the Council's processes implemented to establish the correct valuations of all financial instruments held. • Test disclosures for financial instruments back to the figures within the main financial statements • Test the disclosures in accordance with the CIPFA Code and accounting and auditing guidance • Review the work of the Council's experts in this area.

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

Significant risks identified – Covid-19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a financial statements significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter for the Authority.	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

Other matters

Other work

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

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

Other material balances and transactions

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

Going concern

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

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

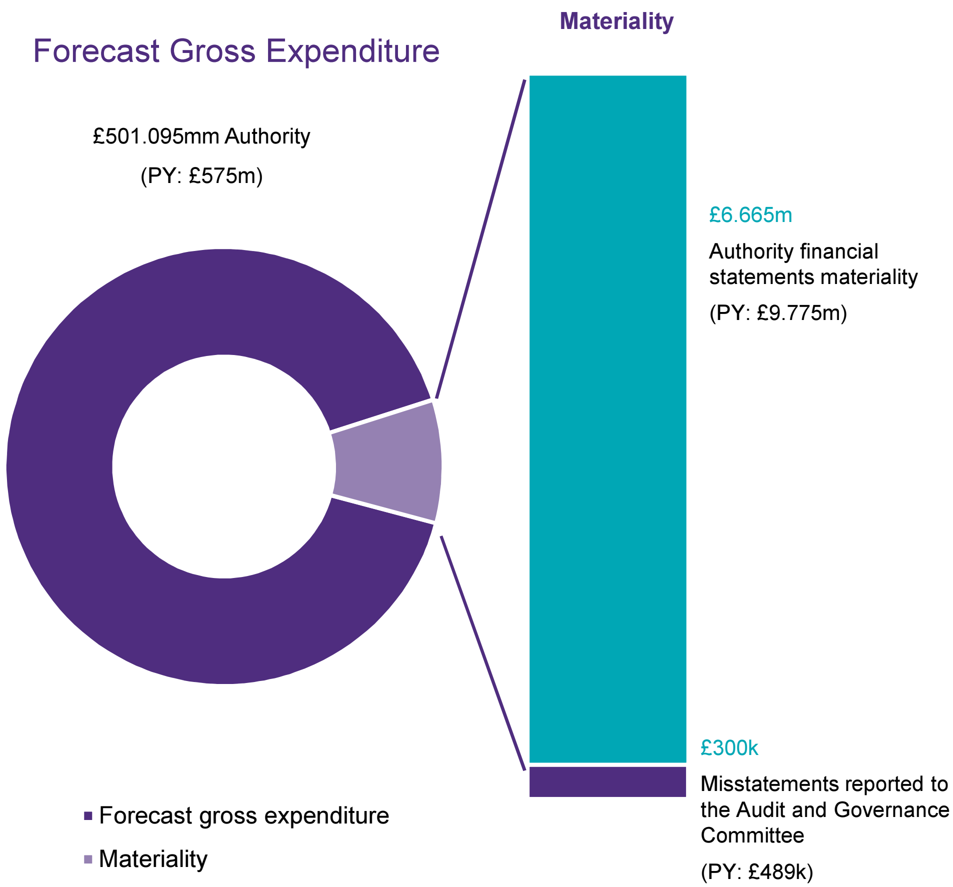
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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

Matters we will report to the Audit and Governance Committee

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

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



Value for Money arrangements

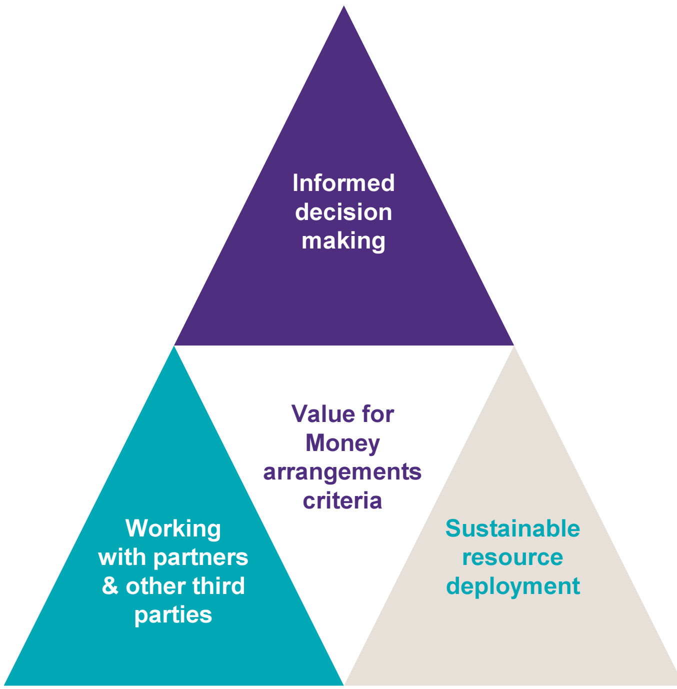
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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

Financial Sustainability

Medium Term Financial planning

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

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

The revised medium term financial plan indicates further cost pressures in 21/22 of £10,4m,£9.1m in 2022/23. Although savings targets in 2021/22 and 2022/23 are not at the level of previous years, the Council's capital programme is heavily reliant on prudential borrowing and will require extra provision for these extra costs in the future. Legacy savings targets that remain undelivered will continue to be an area of particular focus.

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

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

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

Value for Money arrangements

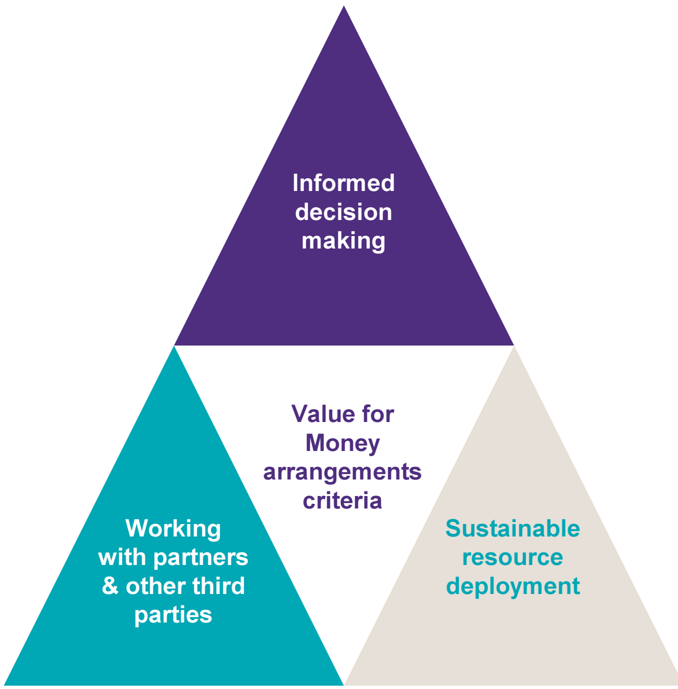
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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

Informed Decision Making

The COVID-19 Pandemic

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

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

At the end of March 2020, the Ministry of Housing, Communities and Local Government responded to the immediate need for Local Authorities to be funded for this event, in the short term by transferring £3.2bn into Local Authority bank accounts, Plymouth City Council have received £15.7m. These monies are already being used to support social care and the distribution of grants to small and medium sized businesses in the local area as well as other demands.

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

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

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

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Audit logistics & team

Paul Dossett, Key Audit Partner

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

Geraldine Daly, Lead Auditor

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

Roz Apperley, Audit Incharge

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

Client responsibilities

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

Our requirements

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

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

Independence & non-audit services

Auditor independence

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

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

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

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

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

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

Grant Thornton

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