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.
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Plymouth City Council audit plan

Year ending 31 March 2021

Plymouth City Council
31/03/2021

Contents

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Section	Page
Key matters	03
Introduction and headlines	07
Significant risks identified	08
Accounting estimates and related disclosures	13
Other matters	16
Materiality	17
Value for Money Arrangements	18
VFM Areas o Focus	19
Audit logistics and team	21
Audit fees	22
Independence and non-audit services	24
Appendix 1: Revised Auditor Standards and application guidance	25

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

Key matters

Factors

2019/20 Audit and the planning of the 2020/21 Audit

Our 2020/21 audit plan is based upon our initial planning which was undertaken in July and August 2021. Our 2019/ 20 audit work is still currently ongoing and the audit opinion for both the financial statements for the year ending 31 March 2020 and our value for money conclusion for the same period is yet to be issued. The audit opinion for 2019/20 can only be issued once all audit work has been completed.

The 2019/20 audit has largely been protracted as a result of the pension liability transaction which the Council entered into in October 2019. A series of actions have been taken by the Council over the course of the last 12 months which includes obtaining specific legal and accounting advice. Given the complexities of this transaction, both the Council and Grant Thornton UK LLP have been reviewing the many documents and views as issued. The last set of legal views were provided to Grant Thornton UK LLP at the end of October 2021. Further legal views and opinions are currently being sought. Accounting advice is also currently being reviewed. This work is ongoing.

Further work has also had to be undertaken regarding the valuation of the Council's portfolio of assets and its portfolio of investment properties, especially in light of the COVID-19 pandemic. This further work has required further review, testing and input from the Audit team's valuation expert. This work is currently ongoing.

Further review and testing has also been undertaken regarding the Council's MRP policy, the calculation of the MRP estimate and capital financing reserve. Work is ongoing in this area, including evaluating MRP and its relationship with the value of investment properties, given the Council's large investment property portfolio.

We have continued to report our initial findings and progress on the 2019/20 audit to the Audit and Governance Committee – specifically on 22nd March 2021, July 26th 2021 and September 27th 2021.

As a result of the 2019/20 audit work continuing, this audit plan is an indicative plan based upon the planning undertaken so far and the initial findings from the 2019/20 audit. Audit planning for 2020/21 will continue and will be concluded once the 2019/20 financial statements and value for money audits have been finalised and the audit opinion issued.

The Council have produced draft financial statements for 2020/21. The draft financial statements incorporate amendments made to the 2019/20 so far, as part of the financial statements audit for that year. The draft financial statements do not currently include any amendments that may be required relating to the pension liability payment in 2019/20 or the hedging transaction that took place in April 2020.

Audit Quality

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. Audit quality continues to be prominent and the Firm continues to be committed to audit quality and the quality of financial reporting across the Local Government Sector. Our audit plan focuses upon the key, significant areas as identified as a result of our initial audit planning and findings from previous years' audits. Those areas of audit focus are detailed further in slides 8 – 11.

Our response

- We will continue to focus our audit resources and attention on the 2019/20 pension fund liability transaction and other areas of audit focus. We will review our initial planning in light of the completion of the 2019/20 audit and update our 2020/21 audit plan accordingly.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, highlights this commitment. Our risk assessment and the associated areas of significant audit focus within this audit plan, further support our increased focus on areas where there are large material balances, increased use of estimates and areas, where in previous years, errors have been identified and/ or supporting evidence and documentation has needed to be improved.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

Key matters

Factors

Local issues - Financial reporting

The Council entered into a hedging arrangement in April 2020. This was linked to the previous year's pension liability payment and was to the value of £72m. Given the uniqueness of this transaction and the possible associated complexities relating to the accounting treatment, we have included a specific piece of work to challenge and review the accounting treatment. In addition, and as a result of our audit findings relating to the pension liability payment in 2019/20 and the subsequent series of recommendations made regarding some weaknesses in governance arrangements surrounding the transaction, we also incorporated a review of the hedging arrangement in our governance review which took place in May 2021. The findings of this review and recommendations made were presented to the Audit and Governance Committee on 26 July 2021.

As part of our audit work on the hedging arrangement we have already reviewed the Council's proposed accounting treatment and discussed the arrangement, the classification of the transaction and the entries proposed by the council within the draft financial statements for 2020/21. Further challenge has been made by Grant Thornton UK LLP's financial reporting and technical team. As a result of this review, the Council have obtained accounting advice and will amend the draft financial statements for 2020/21.

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has managed to keep critical services going. The Council, have continued to provide support to the homeless, boosted hardship funds, assisted tenants struggling to pay rents and service charges, provided further support to residents in receipt of Council Tax Support and distributed food parcels. Since the start of the pandemic, Plymouth City Council have distributed grants to businesses across Plymouth to help them offset the impacts of COVID-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020.

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 Children's' services, where increasing demand pressures are leading to overspends against the budget.

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 Council will need to ensure it remains dynamic in this unprecedented time, in order to support the people most affected.

Our response

- We will revisit and review the series of recommendations made as part of our governance review which was reported to Members at the 26 July 2021 Audit and Governance Committee.
- As detailed under "local issues – financial reporting" we have already tested and reviewed the background and assumptions made regarding the £72m hedge fund transaction. As part of the 2020/21 audit we will review the amended accounts and associated notes.
- We will consider the Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic as part of our audit in completing of Value for Money work.
- We will consider the work of Internal Audit and other council arrangements put in place to prevent and detect fraud in respect of COVID-19 grants.
- As part of our financial statements testing we will test the accounting treatment for COVID-19 related grants and determine whether the accounting treatment is in accordance with accounting standards.

Key matters cont.

Factors

Accounting and auditing developments

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's private equity, private debt and infrastructure and property investments which impacted both the Council's and Pension Fund position. We will monitor the position for the 31 March 2021 valuations.

The Council continue to review the need for group accounts, given the interests that it has in partnerships, ventures and companies. Should group accounts be required this year, a detailed group audit plan will have to be drafted and agreed and we will present the revised audit plan to the Audit and Governance Committee.

Information Systems Audit

We undertake a detailed review of the council's financial information systems on a cyclical basis. For 2020/21 we will undertake a detailed audit of all financial systems that are used by the Council where they either provide or support figures within the accounts. The work will be undertaken by our specialist IT auditors who sill support the audit team in their work. Our IT audit work commenced in August 2021 and we continue to liaise and discus the detailed testing with appropriate officers of the Council and DELT. The outcome of the IT systems audit will inform our risk assessment, planning and approach to the final accounts work.

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Our response

- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice
- We will continue to review the processes for valuing the Council's assets, with particular attention on the valuation of other land and buildings, the waste incinerator and the Tamar Bridge.
- We will review the Council's responses to our requests for further details regarding how significant estimates are devised across both the group and the Council. We will test significant estimate assumptions as part of our financial statements audit.
- The Council will need to produce a group account assessment to evaluate whether group accounts are required. We will review the assumptions made by management with regards to group accounts and discuss any further areas, where required.
- Our IT auditors are currently in the process of auditing and reviewing the IT processes used by the Council.

Key matters

Factors

Value for Money Audit

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.
- The conclusion of our value for money work will be the Annual Auditor's Report. This will detail the findings of our work and is required to be presented to full Council. Further details of our work are included on slides 18-19.

Our response

Governance

- We will revisit and review the series of recommendations made as part of our governance review which was reported to Members at the 26 July 2021 Audit and Governance Committee. As part of our responsibilities under the Governance VFM criteria, we will assess the progress made by the council.
- As part of our Value for Money work, we will consider your overall governance arrangements at Council level.

We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work. Specifically we will:

Finance

- consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
- consider your arrangements for the effective use of data to make informed business decisions as part of our audit in completing of Value for Money work.

Economy, Efficiency and Effectiveness

- consider your arrangements for the effective use of data to make informed business decisions as part of our audit in completing of Value for Money work

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Plymouth City Council 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 agreed 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 this document 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:

- Council [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 Council 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 Council 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 Council is fulfilling these responsibilities.

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

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 areas other than government grants
- Fraud in expenditure recognition
- Valuation of land and buildings including investment properties at year end
- Valuation of net pension fund liability
- Financial instrument disclosures
- Group accounts, consolidation and reporting where necessary

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 £7,097k (PY £6,665k) for the Council, which equates to 1.33% of your gross expenditure for the year. 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 £400k (PY £300k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following areas of focus:

- Financial sustainability
- Governance arrangements
- Economy, efficiency and effectiveness; and
- The council's response to the financial impact of the COVID-19 pandemic

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	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue cycle includes fraudulent transactions	Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud or revenue recognition.	Having considered the risk factors set out in ISA240 an the nature of the revenue streams at the authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in most income streams because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are limited • The culture and ethical frameworks of local authorities mean that all forms of fraud are seen as unacceptable However, as a result of the large increase in grants that passed through the council due to COVID-19 and the errors found in issues identified in previous years' audits, we will test the accounting treatment for Government Grants, COVID-19 grants both as a principal and agent, capital grants and grants received in advance under this risk.
Management over-ride of controls	Under ISA240 there is a non-rebuttable presumed risk of management override of controls in all entities. The authority faces external scrutiny of its spending and this could potentially place management under pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement.	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 for appropriateness and corroboration • Gain an understanding of the accounting estimates and critical judgements made by management and consider their reasonableness • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	We will: • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year end; compare size and nature of accruals at year end to the prior year to help ensure completeness. • Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land and Buildings & Including Investment Property	The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, and Investment Properties particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. Energy from Waste Plant The Council also part own the Energy from Waste Plant which should be valued on an annual basis and the valuation of this asset is undertaken by a third party valuer. Tamar Bridge The Council own 50% of the Tamar Bridge and 50% of the asset value is held on the Council's Balance Sheet as Infrastructure – valued at Depreciated Cost. Investment Properties The Council hold a large portfolio of investment properties which are valued each year in accordance with the CIPFA Code.	We 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 the assumptions made for the valuation of investment properties, including data used and yield assumptions. Evaluate of the impact of COVID-19 on valuations – particularly investment properties held by the Council.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of net pension fund liability	The authority's pension fund net liability as reflected in the balance sheet as the net defined liability represents a significant estimate. The pension fund net liability is significant due to the size of the numbers involved (£588,890k in the draft financial statements) and the sensitivity of the estimate to changes in the key assumptions. We therefore identified valuation of the authority's pension fund net liability as a significant risk, which is one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of processes and controls put in place by management and evaluate the design of the associated controls • Evaluate the instructions issued by management to their management expert (the actuary) for the estimate and the scope of their work • Assess the competence, capabilities and objectivity of the actuary • 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 • Obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Financial instruments	Accounting standards and the CIPFA code require detailed disclosure notes to be published in the accounts regarding financial instruments held by the council. These financial instruments can be in the form of loans and borrowings as well as assets and investments. Arriving at fair value of financial instruments is complex and requires specialist support as a part of the valuation process. In 2020/21 the council undertook an interest rate swap in the treatment of financial instruments, meaning the financial instruments were misstated in the prior year. This was an incorrect action and raised questions regarding the governance of the council. The interest rate swap was a poor decision and indicative of poor accounting practice in the treasury department and poor governance generally in this aspect of the accounts.	We will: • Review the council's processes implemented to establish the correct valuations of all financial instruments held • Test disclosures back to 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. • Our work on the Council's hedge fund transaction will also focus upon the related financial instrument transactions and disclosures necessary for this type of financial transaction.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified two recommendations in our 2019/20 audit in relation to the Council's estimation process for insufficient bad debt provision (although not material) and the need for management to take more ownership of estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties
- Valuation of the Waste Incinerator
- Valuation of Tamar bridge
- Depreciation
- Year end provisions. Year end accruals for both income and expenditure.
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Minimum revenue position – including its application and relationship between borrowing and the Capital Financing Requirement. This will also include the MRP estimate for investment properties including a comparison between the Council's policy and the CIPFA Code,
- PFI Liabilities.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made planning enquires via Inflo. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

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 our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - 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 significant risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

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

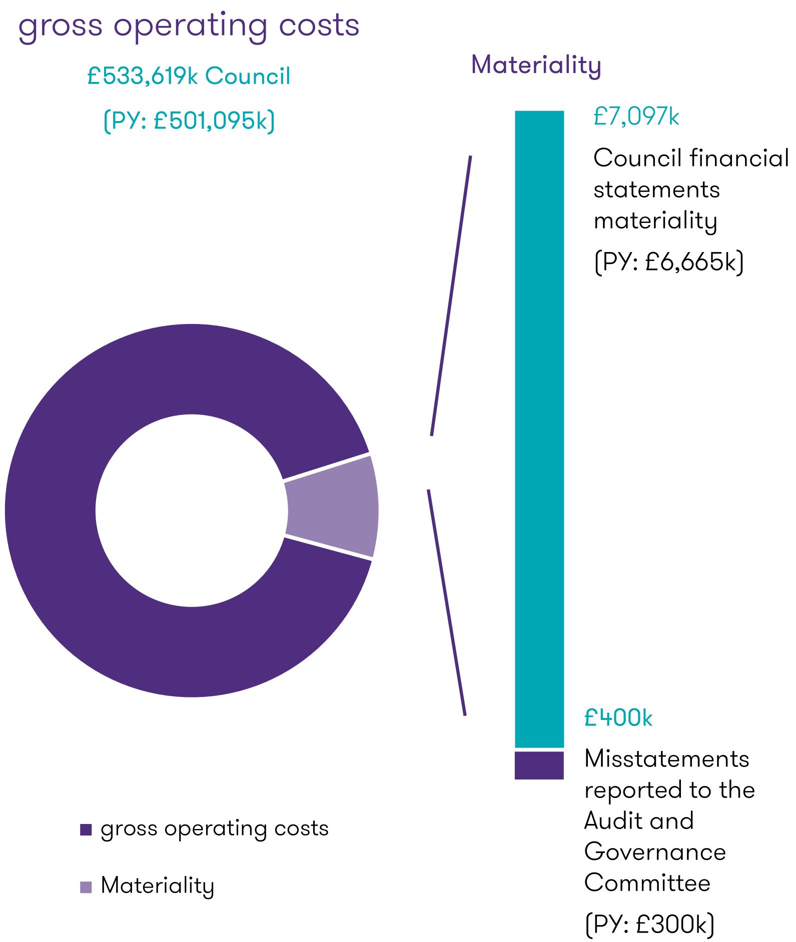
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7,097k (PY £6,665k) for the Council, which equates to 1.33% of your gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be the banding brackets 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.

Matters we will report to the Audit 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 and Governance 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.4m (PY £0.3m).

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

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Areas of focus for our VFM work

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have not identified any risks of significant weaknesses at the planning stage and will continue to update our risk assessment over the course of the audit. We have highlighted below our areas of focus and some of the elements of review that we will undertake.

Value for Money - areas of focus

Financial Sustainability

We will review the initial planning undertaken for 2020/21 prior to the impact of the Covid-19 pandemic, assessing the arrangements in place for adequate business and operational plans. As part of this area, we will also consider the impact of the Covid-19 pandemic on the Council's finances. We will focus upon the arrangements in place for the budget setting process and in particular – the Medium Term Financial Plan, monitoring of the overall finances, review and monitoring of savings plans. We will review the arrangements for the capital and investment programme and review the Council's Treasury management strategy and reserves.

Governance

We will review the overall governance arrangements across the Council and we will also review the new governance arrangements enacted as a result of our recent governance review.

Economy, Efficiency and Effectiveness

We will utilise data analytics and benchmarking tools/ data to compare the performance of the Council against other similar Councils. We will discuss what the Council does, itself to benchmark performance and how this is reviewed, developed and reported.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness that we may identify. These are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Areas of Focus*

Financial Sustainability

We will review the Council's budget setting and budget monitoring procedures taking into consideration the impact of the Covid-19 pandemic, assessing the arrangements in place for adequate business and operational plans. As part of this area, we will also consider the medium term financial plan, reserves review and the capital programme. We will also examine the Council's Treasury management strategy and any future borrowing requirements.

Governance

We will review the overall governance arrangements at the Council, with a specific review of the recommendations that we made in our Governance Review as presented to the Audit and Governance Committee on 26th July 2021.

Economy, Efficiency and Effectiveness

We will utilise data analytics and benchmarking tools to compare the performance of the Council against other, similar Councils. We will discuss what the Council does, itself to benchmark performance and how this is reviewed, developed and reported.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

**Our planning is indicative at this stage and will be revisited once the 2019/20 audit has been completed. We will continue our review of your arrangements, before we update this plan and continue to update arrangements , including reviewing your Annual Governance Statement, before we issue our auditor's annual report.*

Audit logistics and 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.

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

Audit fees

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In 2018, PSAA awarded a contract of audit for Plymouth City Council to begin with effect from 2018/19. The fee agreed for that year was £105,393. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit. The focus on audit work has also been heightened and alongside this, there is an increase in public scrutiny of accounts, the reporting within the accounts and the significant balances contained within,

As referred to on page 18, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £186,393 (30% of the original rebased fee for 2019/20) This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the 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 additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for PPE valuations and investment property valuations, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	**Actual Fee 2019/20**	**Proposed fee 2020/21**
Plymouth Council Audit	£167,893	TBC	£186,393*
Total audit fees (excluding VAT)	£x	TBC	TBC
* The 2020/21 fee is shown gross of the PSAA rebate of £20,000			

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£105,393
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£3,500
Materiality and New Standards	£6,000
Local issues	£13,393
Estimated Audit fee 2019/20 as per fee letter 27th April 2020	**£143,393**
Rebased for Miel and part Group	**£133,393**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors – new accounting treatment	£10,000
Estimated audit fees (excluding VAT)	**£186,393**

Independence and 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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. 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 Council's policy on the allotment of non-audit work to your auditors. 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.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	£25k	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 £25,000 in comparison to the total fee for the audit of £14,045 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teacher's Pension	£7.5k	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £3,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total Audit related fees	£32.5k		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✔
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✔
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✔
ISA (UK) 230 – Audit Documentation	January 2020	✔
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✔
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✔
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✔

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✔
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✔
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✔

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