

Plymouth City Council Audit Update Report and Sector Update

Year ending 31 March 2022

July 2022



Contents

Section	Page
Introduction	3
Update July 2022	4

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Council. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction

Your key Grant Thornton team members are:

Paul Dossett - Key Audit Partner

T 020 7728 3180

E paul.dossett@uk.gt.com

Sam Harding- Manager

T 0117 305 7874

E sam.g.harding@uk.gt.com

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

Update July 2022 – 2019/20 Audit

Audit of the 2019/20 financial statements

As reported in our updates to previous Audit and Governance Committees, our audit work is ongoing. We continue to focus our attention on the Pension Deficit transaction and have commissioned our own QC to provide a view regarding the legality of the transaction and the associated rates and adjustment certificate provided by the Actuary. There is a difference of view between the QC instructed by the Council and our QC we are continuing to liaise with officers to resolve this issue with a detailed exchange of letters and an agreed way forward for next steps. We are also considering the wider VFM money of the associated £1.375m spent to facilitate the transaction.

In accordance with auditing and quality standards, we are required to revisit the documentation provided by the Council in relation to government grants received in advance, grants, financial instruments, capital financing and journals. Our work in this area is progressing with additional journals selected for testing. No further areas of concern have been identified from our work reviewing supporting documentation.

Our understanding is that management has instructed internal audit to carry out a review of processes within the Council giving rise to issue. This work will be used to inform and support our risk assessment.

We have identified a small number of additional areas where further work is ongoing, these include the adequacy of the Council's national non domestic rates appeals provision, the sufficiency of evidence to support the allowance for expected credit losses in financial instruments and the classification of the Council's financial instruments against the requirements of Internal Financial Reporting Standards. It is expected that further adjustments will be required to the financial statements once these issues are resolved.

We will continue to update the Audit and Governance Committee regarding progress.

Infrastructure assets

At the Audit Committee in March, we highlighted a nationally emerging issue regarding accounting for infrastructure assets. This impacts on all local authorities with material infrastructure assets such as highways and flood defences. As a firm we will not be concluding any further audits until this issue is resolved.

In summary, there is a risk that where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, they may not readily be able to identify the original assets being replaced or enhanced.

This could result in an overstatement of both gross book values (GBV) and accumulated depreciation, and potentially also net book values (NBV) where assets lives have not been assessed regularly and on an appropriate basis.

CIPFA have described this as a complex and serious issue and have set up a group which will consider the issues arising, and how it might assist in their resolution.

Update July 2022 – 2019/20 Audit

Infrastructure continued.

Plymouth City Council has infrastructure assets with a GBV of £288 million at 31 March 2021 (NBV of £166 million) and we will need to await the conclusion of CIPFA's work before we are in a position to complete the 2019/20 audit. The details on how CIPFA is approaching this issue and the proposed timetable for completing its work can be found at:

[Urgent Infrastructure Assets Task and Finish Group | CIPFA](#)

Update as at July 2022 – Background

Financial Statements Audit 2020/21

We provided the Audit and Governance with an indicative audit plan for 2020/21 at the Audit and Governance Committee on 29 November 2021.

Our audit plan will be reviewed and updated appropriately once the 2019/20 audit has been finalised.

Value for Money 2020/21

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay. This letter was issued on 28 September 2021.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements.

Our initial risk assessment has been built on our understanding of your arrangements, and will continue to be updated as we finalise our 2019/20 audit work. Our key areas of focus will be reported under the following criteria:

- Financial sustainability: how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

We will keep our risk assessment under continuous review. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to you. Our final commentary in the Auditors’ Annual Report will include:

- a summary of our findings on any risks identified during our work;
- our judgements on the adequacy of the Council’s arrangements for each of the three reporting criteria, as set out above;
- any recommendations made to management as a result of our work; and
- a follow up of progress against any recommendations raised in previous audits.

Progress at July 2022(cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2021/22 claim is due for completion in January 2023.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2021/22 will be completed in the autumn.

Meetings

We meet with Finance Officers on a regular basis and continue to be in discussions with finance staff regarding emerging developments and, in particular, the Pension Deficit transaction.

Events

We provide a range of workshops, along with network events for members and publications to support the Council.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, 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 additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited.

Further details of our proposed fee for 2021/22 are set out on pages 10-12.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Update 2020/21

2020/21 Deliverables	Planned Date	Status
Audit Plan We presented an indicative audit plan to the Audit and Governance Committee on 29 November 2021. We will continue to review and update our audit planning as a result of any further arising from our 2019/20 audit. We will also issue a final audit plan once the 2019/20 audit has been completed. This will include an update to our proposed approach to the audit of the Council's Value for Money arrangements for 2020/21.	November 2021	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	TBA	
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee.	TBA	
Auditors Report This includes the opinion on your financial statements.	TBA	
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	TBA	
2020/21 Audit-related Deliverables	Planned Date	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform. We issued our report on 1 December 2021.	December 2021	Completed
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform. The certification work for the 2020/21 claim began in October 2021. The Council have asked for and DWP have granted the Council an extension to the deadline of 31 March 2022 for this work. We issued our report on 8 April 2022.	31 March 2022	Completed

Audit Update 2020/21

2021/22 Deliverables	Planned Date	Status
Audit Plan We will consider and present our Audit Plan to you in due course.	TBA	
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	TBA	
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee.	TBA	
Auditors Report This includes the opinion on your financial statements.	TBA	
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	TBA	
2021/22 Audit-related Deliverables	Planned Date	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	December 2022	Not yet due
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform. We have commenced planning work and are in the process of submitting our samples for testing.	January 2022	Not yet due

Audit fees

In 2017, PSAA awarded a contract of audit for Plymouth City Council to begin with effect from 2018/19. The fee agreed in the contract was £105,393 which was uplifted to £111,393 for 2021/22. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

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 detailed in our Audit Plan in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

Our proposed fees for 2021/22 (alongside the fees for 2020/21) are shown overleaf.

Audit fees

	Proposed Fee 2020/21	Proposed fee 2021/22
Council audit (scale fee)	£105,393	£111,393
Council – additional fees (including VFM fee)	*£78,000	* £99,000
Total audit fees (excluding VAT)	*£183,393	* £210,393

* Additional fees to be approved by PSAA and subject to further risk assessment.

Assumptions

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

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- 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 2021/22

	Council
Scale fee published by PSAA	£111,393
<i>Ongoing increases to scale fee first identified in 2019/20 and 2020/21:</i>	
Raising the bar/regulatory factors/ enhanced procedures	£9,000
Increased audit requirements of revised ISAs	£15,000
Additional work on financial instruments	£10,000
MRP and investment properties	£10,000
Ongoing work resulting from the Miel transaction	£10,000
Additional VFM risk on financial sustainability into the medium term	£10,000
VFM	£20,000
<i>New issues for 2021/22:</i>	
Infrastructure assets	£5,000
Remote working	£10,000
Total audit fees (excluding VAT)	£210,393



© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.