

Informing the audit risk assessment for Plymouth City Council 2020/21

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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 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 your business or any 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Plymouth City Council's external auditors and Plymouth City Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Plymouth City Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Plymouth City Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The Covid-19 pandemic is by far the most significant event to have an impact on the financial statements for 2020/21 and this will have applied across the country. On a local level, accounting for the Miel transaction will impact on the financial statements for 2019/20 and 2020/21.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Plymouth City Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>We review the appropriateness of all of the accounting policies every year. We have added a new accounting policy for Interest Rate Swap Accounting in the financial statements for 2020/21 to take account of the interest rate swap transaction that took place in April 2020.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council has a number of financial assets and liabilities, details of which are to be found in the notes to the financial statements. The Council employs Treasury Management advisers Arlingclose to advise on its financial assets and liabilities. The Council has used interest rate swaps to manage its exposure to interest rate risk arising from its portfolio of short-term borrowing.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No.
6. Are you aware of any guarantee contracts? If so, please provide further details	There are a small number of pension arrangements which are guarantees for the pensions for staff who have transferred to other organisations who were previously employed by the Council. None of these are material and they are included within the figures reported in the pension notes to the Statement of Accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	The Council monitors its contingent assets and liabilities on a quarterly basis. The Council is not aware of anything that may affect the financial statements of a material nature.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Plymouth City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>During the year the Council has used the following firms of solicitors:</p> <ul style="list-style-type: none"> • Browne Jacobson, Mowbray House, Castle Meadow Nottingham NG2 1BJ; • Murrell Associates, 4 High Cross, Truro, Cornwall, TR1 2AJ; • James Button, 7 Devonshire Drive, Rowsley, Matlock, Derbyshire, DE4 2HB; • Sedgwick International UK, Language Office Campus, Block A, Ashleigh Way, Plymouth PL7 5JX; • Wombles Bond Dickinson, Southampton; • Davitt Jones Bould, Taunton. <p>None are working on open litigation or contingencies from prior years.</p>

General Enquiries of Management

Question	Management response
<p>9. Have any of the Plymouth City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>None known by the Counter Fraud Services Team.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<ul style="list-style-type: none"> ○ Arlingclose – Treasury Management and Interest Rate Swap. ○ Chartered Institute of Public Finance (CIPFA) – General Accountancy advice, Miel & Interest Rate Swap. ○ KPMG – Miel. ○ QC advice – Miel. ○ Stephen Sheen – general accountancy advice. ○ PSTax – Employee and VAT advice. ○ Elysson – VAT advice.
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details.</p>	<p>The Council does an assessment of the expected credit loss provision for its Long Term Debtors, Bank Balances, Short term debtors and Long Term Investments.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Plymouth City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Plymouth City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Plymouth City Council assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>Work of the Internal Audit Service (IAS), provided by the Devon Audit Partnership (DAP), has not identified any control weaknesses which could result in a material misstatement due to fraud. Purchasing card policy has been strengthened to ensure it is robust, specifically with regards to fraud and misuse.</p>
<p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p>	<p>Plymouth City Council (PCC) has continued to retain the services of the Devon Audit Partnership Counter Fraud Team (CFT) who are accredited fraud investigators. The team deal with referrals from both internal and external sources. The CFT have worked closely with the IAS to provide post event assurance for business rate grants, investigating all cases highlighted as potentially fraudulent.</p>
<p>How does the Plymouth City Councils risk management processes link to financial reporting?</p>	<p>2018 new Anti Fraud, Bribery and Corruption Policy and Anti-Fraud, Bribery and Corruption Strategy and Response Plan. 2021 Updated Anti-Fraud, Bribery and Corruption Policy and Anti Fraud, Bribery and Corruption Strategy and Response Plan. 2021 Whistleblowing Policy updated (last review 2018). PCC utilises the National Fraud Initiative to identify and investigate data matches.</p>
	<p>Strategic Risk Register and operational Risk Register and the Annual Governance Statement, monthly reports to Cabinet, performance score card – outturn forecast.</p>

Fraud risk assessment

Question	Management Response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Council processed Covid-19 Business Grants of approximately £92m in 2020/21. These were audited by DAP who recorded a good level of assurance with regard to their administration.</p> <p>All expenditure is subject to the internal controls of the Council.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Plymouth City Council as a whole, or within specific departments since 1 April 2020? If so, please provide details</p>	<p>None have been considered material; fraud occurs in multiple known areas within Plymouth City Council processes. Current and historical areas of criminal fraud related offences include Revenues and Benefits – Parking – Community Connections – Insurance claims – Concessionary Travel – Social Services – Procurement Cards. However Annual and Mid year reports to Audit and Governance Committee, liaison with PCC Legal Team and Management on potential prosecution cases.</p> <p>Sharing with managers intelligence from the National Anti Fraud Network.</p> <p>eLearning Fraud Awareness training (compulsory for all new starters).</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Risk Management Strategy is formally adopted by the Audit and Governance Committee and the annual Risk Monitoring Report is also presented to the Audit & Governance Committee annually by the Head of Governance, Performance and Risk. It is the role of the Audit and Governance Committee within the Council's Constitution to</p> <ul style="list-style-type: none"> a) Approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the authority; b) To review and advise the Cabinet and Council on the content of the corporate governance report in the annual report and to approve the statement of accounts; c) To monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders Contracts; d) To keep under review corporate policies such as Anti- Fraud Strategy. <p>The Devon Audit Partnership reports twice yearly to the Audit and Governance Committee on Counter Fraud Services.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Plymouth City Council where fraud is more likely to occur?</p>	<p>Single person discounts, Council Tax Support, C19 Grants, Blue Badge misuse, Parking Permits, Concessionary Travel passes, Devon Homes Choice applications, Homelessness applications, PCC Procurement Cards.</p> <p>All areas of business are at risk of fraud and related offences. But these risks are covered by the fraud prevention strategy managed by the fraud team, regular reporting and reviews of the fraud environment.</p> <p>High transaction areas such as Revenues and Benefits, Parking and Social Housing.</p> <p>Financial systems which are material to the statement of accounts such as Council Tax, Housing Benefits and Business Rates are subject to annual review by internal audit to ensure that system controls remain robust and any emerging weaknesses are identified and management action taken to address the issue.</p>
<p>¹²6. What processes do Plymouth City Council have in place to identify and</p>	<p>PCC engage the Devon Audit Partnership (Plymouth is a founding member of the partnership) to respond to potential frauds as they are identified the team consists of Accredited Counter Fraud Specialist and Technicians</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Plymouth City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Annual risk based audit plan which can be 'flexed' to respond to new and emerging risks. Audit engagements consider both the design and compliance with the internal control frameworks, including segregation of duties. All "key" financial systems are subject to annual review.</p> <p>All control weaknesses are identified within the audit report and management responses obtained to the audit recommendations which include responsible officer and target date for implementation. Audit recommendations are now tracked and reported to Audit & Governance Committee.</p> <p>Reports issued to management, input on amendment of Policy's such as the Procurement Card Policy to tighten up conditions of use and potential consequences.</p> <p>National Fraud Initiative (NFI) Bi Annual Data matching. Publicising of Prosecutions undertaken by PCC to deter those who would commit similar offences. Regular 'Alerts disseminated to relevant Management Teams from the National Anti-Fraud Network (NAFN) which identifies new and emerging risks as well as reminding about known risks which may have adapted a new strategy.</p> <ul style="list-style-type: none"> 2018 new Anti Fraud, Bribery and Corruption Policy and Anti-Fraud, Bribery and Corruption Strategy and Response Plan. 2021 Updated Anti-Fraud, Bribery and Corruption Policy and Anti Fraud, Bribery and Corruption Strategy and Response Plan. 2021 Updated Whistleblowing Policy.
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Unknown at this time</p>

Fraud risk assessment

Question	Management response
<p>9. How does Plymouth City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported? If so, please provide details</p>	<p>Employee Handbook – Terms and Conditions – Council Operating Manual – Anti-Fraud, Bribery and Corruption Policy – Anti-Fraud, Bribery and Corruption Strategy and Response Plan Corporate eLearning Fraud@thecouncil</p> <p>Policy and Strategy outline reporting lines and responsibilities for fraud reporting. Whistleblowing Policy. Internal Audit mailbox. DAP Website provides and additional reporting route.</p> <p>All issues suspicions in connection with fraud or related offences are expected to be reported as per the policy.</p> <p>No significant issues reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Some posts have greater responsibilities, but this is managed within the scheme of delegation.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No instances relating to party relationships known to the counter fraud services team</p> <p>Risks not assessed to counter fraud teams knowledge.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Annual Report and Half Yearly report for note at Audit and Governance Committee. The Internal Audit Half Yearly and Annual Reports summarise the findings of audit reviews, including individual opinion statements and the overall Head of Audit opinion at year end.</p> <p>Audit and Governance Committee have the power to direct the pro-active and or reactive work as required if areas of concern are identified. Implementation of audit recommendations are now tracked and reported to A&G Committee.</p> <p>No recommendations made in respect of counter fraud or internal audit work.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None identified by the counter fraud or internal audit teams.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None identified by the counter fraud or internal audit teams.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that Plymouth City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Plymouth City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Plymouth City Council 's regulatory environment that may have a significant impact on the Plymouth City Council 's financial statements?</p>	<p>The council has an in-house policy team which provides all departments with updates in relation to changes in legislation and links to relevant government guidance. The in house legal team is available to provide legal advice to all departments and has regular liaison meetings with key services responsible for regulation and enforcement such as the planning and licensing services. Procedures are in place within the council's democracy and governance teams to ensure that all published decisions taken by the council are sent to legal services in advance and are not progressed without sign off from the in house legal team.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The council has an in-house policy team which provides all departments with updates in relation to changes in legislation and links to relevant government guidance. The in house legal team is available to provide legal advice to all departments and has regular liaison meetings with key services responsible for regulation and enforcement such as the planning and licensing services. Procedures are in place within the council's democracy and governance teams to ensure that all published decisions taken by the council are sent to legal services in advance and are not progressed without sign off from the in house legal team.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>There have been no instances of non compliance or suspected non compliance with laws and regulation with an ongoing impact on the 2020/21 accounts.</p>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Of the litigation currently in progress, none is considered material to the Statement of Accounts.
5. What arrangements does Plymouth City Council have in place to identify, evaluate and account for litigation or claims?	All claims against the council are referred to the in-house legal team or the insurance team. Staff within legal services evaluate potential claims and advise staff throughout the council on the best way to respond to such claims and will instruct external lawyers in cases where the in house team does not hold the required expertise.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	The Council has just undergone a Business Risk Review with HMRC. The Council has a pro-active approach to VAT compliance, working hard to minimise the risks associated with non-payment of VAT. There have been recent instances where the council has made voluntary disclosures to HMRC where it has become aware of the incorrect treatment of VAT. These issues are not material to the audit criteria. Other than the report from the HSW Executive, there have been no other reports from regulatory bodies indicating non compliance.

Related Parties

Matters in relation to Related Parties

Plymouth City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Plymouth City Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any body that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Plymouth City Council's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Plymouth City Council whether Plymouth City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>A new wholly owned subsidiary was created to operate the museum – Arca Plymouth Ltd. The council has the right to appoint or remove the majority of the board of directors and holds directly or indirectly 75% or more of the voting rights.</p> <p>As at the 31 March 2021, the Council was a creditor on the Arca Plymouth Ltd accounts owed £368k and the Council was a debtor to Arca and owed £122k.</p> <p>The Council also created The Box Foundation which is a charitable trust. The Council is a trustee but does not have overall control. There were no related party transactions between The Box Foundation and the council as at the end of March 2021.</p>
<p>2. What controls does Plymouth City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The council has a system of identifying any conflicts of interest that councillors or officers may have in relation to decisions at the point that each decision is taken. Councillors will register any interests that they have when they are appointed to the council and are asked to update their register of interests annually following the council meeting. At all decision making meetings potential conflicts are identified for transparency. Where a councillor holds a discloseable pecuniary interest in the decision that is due to be taken they are required to leave the meeting whilst that decision is debated and determined. Induction training on this system is provided to all new councillors.</p> <p>All Staff are required to identify any potential conflicts of interest that may arise between their personal interests and the council to their manager as part of the councils initial induction procedures and those interests are recorded on the council's Core HR system. Individual managers are responsible for managing any conflicts that have been identified in such a way as to protect the public interest. Where this is not possible the work has to be reallocated.</p> <p>The Council also requires Councillors and staff to declare any gifts and hospitality that they receive and not to accept gifts or hospitality with a value of over £25.</p> <p>A disclosure of related party transactions is required to be completed by all Councillors and senior staff prior to year end. Accountancy staff also review the statement of accounts for related party organisations and Companies House information. Senior Finance staff are involved in the process for the creation of any new PCC related companies.</p>

Related Parties

Question	Management Response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The governance arrangements for the related parties follow the scheme of delegation in operation by the Council. Senior finance staff are also represented on the board of directors for most related parties.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The governance arrangements for the related parties follow the scheme of delegation in operation by the Council. Senior finance staff are also represented on the board of directors for most related parties.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Plymouth City Council will no longer continue?</p>	<p>The Council actively monitors government developments and initiatives via various sources which include the following: Local Government Information Unit (LGIU); Government websites & communication; Local Government Association (LGA); Special Interest Group of Municipal Authorities (SIGOMA); Officers frequently produce reports for senior management and members in relation to any potential changes that will have an impact on the statutory services the Council provides.</p>
<p>2. Are management aware of any factors which may mean for Plymouth City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>The Council is not aware of any factors which may mean that the statutory services it provides will be discontinued or that funding for these services will be discontinued. However, it is continually monitoring the impact on Council finances of government funding decisions.</p>
<p>3. With regard to the statutory services currently provided by Plymouth City Council, does Plymouth City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Plymouth City Council to cease to exist?</p>	<p>For the foreseeable future, Plymouth City Council expects to continue to deliver its statutory services.</p>
<p>4. Are management satisfied that the financial reporting framework permits Plymouth City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Management are satisfied that the financial reporting framework permits Plymouth City Council to prepare its financial statements on a going concern basis and that this will provide a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Property, Plant and Equipment valuation estimates, Investment Properties valuation estimates, Pension Liability valuation estimates, Provisions valuation estimates, Provision for bad debt valuation estimates, Depreciation valuation estimates, Accrued income and expenditure estimates, PFI valuation estimates, Appeals valuation estimates, Minimum revenue provision valuation estimates, Contingent assets and liabilities, Risk management.</p>
<p>2. How does the authorities risk management process identify and address risks relating to accounting estimates?</p>	<p>The Council employs qualified professionals to prepare estimates that are needed to inform or facilitate its business operations. Furthermore, the council employs a contingent of professionally qualified staff in several areas of professional competence to ensure that estimates supplied externally are used correctly and suitably in the administration of its business. The conclusions of this work are used for executive decision making and the financial statements are reviewed by the AGC in line with national practice in the sector.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>By following best practice and ensuring that staff are fully trained and undertake regular CPD.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Receiving regular reviews of the draft Statement of Accounts, review of Treasury Management practice and reading through the policies contained in the Statement of Accounts.</p>
<p>5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?</p>	<p>We took advice from LG Futures in relation to the Council Tax for bad debt and for the NDR estimation for bad debt and appeals due to COVID-19.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>By following best practice and ensuring that staff are fully trained and undertake regular CPD. Where specialised skills are required TCWG ensure that staff have access to external bodies that have specialised knowledge to provide support. Staff have access to the latest legislation, The CIPFA code, annual training and accountancy materials.</p>
<p>7. How does the authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The authority takes a risk based approach and is aware of the materiality levels for an authority of its size and complexity. The Council has also discussed the requirements for significant accounting estimates (where material) with the service provider and they have adapted their approach. In the case of the Tamar Bridge and the Energy from Waste plant, the bridge valuation is now undertaken annually by external valuers. Where a significant accounting estimate is concerned the Council may seek alternative advice from more than one expert to support the accounting estimate.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>The Council employ professionally qualified finance staff to provide the accounting estimates. Year-end training is provided for the Service Accountants and regular training is provided to the financial reporting team as well as access to accounting professionals and consultants to support the provision of significant accounting estimates. Regular discussions with other local authorities through the Devon Accounting Group and the Devon Business Rate Pool.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Council employ professionally qualified finance staff to provide the accounting estimates. Year-end training is provided for the Service Accountants and regular training is provided to the financial reporting team as well as access to accounting professionals and consultants to support the provision of significant accounting estimates. For example, LG Futures have been employed during 2020/21 to advise on the appeals and provisions process for NDR.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	TCWG are satisfied that they are.
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Regular reporting on the adequacy from internal and external audit.

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Valuations are reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global	All property assets valued over £4m (70%) are revalued annually to avoid the risk of material valuation uncertainty.	In-house valuers are RICS qualified valuers	Valuations are reported on the basis of 'material valuation uncertainty'. At the current time it is not possible to accurately predict the longevity and severity of the impact of COVID-19 on the economy. Property valuations will be kept under review as the valuers assess the future impact of COVID-19 on property markets.	No
Investment property valuations	Valuations are reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global	These property valuations are undertaken every year	In-house valuers are RICS qualified valuers	The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The COVID-19 global impact on financial markets has made judgements on valuations more challenging due to market uncertainty and a higher degree of caution should be attached to valuations than would normally be the case.	No
Depreciation	Depreciation is not an estimate and details of the Council's policy on depreciation is documented within the policies included in the Statement of Accounts. The depreciation periods currently used range from 5 to 60 years depending on the life of the asset. Property assets valued at over £4m are valued annually and therefore depreciation is no longer applied.	Not an estimate	Policies are in line with those provided in CIPFA guidance	Not an estimate	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The pension cashflow data supplied to the Devon LGPS comes from the monthly data reconciled as part of the Council's payroll reconciliation. The only estimates involved are for month 12 and any movement in the data supplied would not be material.	The Devon LGPS employs Barnett Waddingham as actuaries for the pension fund.	An assessment of the degree of uncertainty is reported in the pension notes to the Statement of Accounts. Any changes to the assumptions made by the actuary would either increase or decrease the net pension liability on the balance sheet and the cost would be shown in the CIES. The changes do not impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.	No
Level 2 investments	Details of the methods/models used for reporting financial instruments are contained in the Council's notes to the Statement of Accounts. Valuations are provided by Arlingclose based on the most up to date valuations as at the 31 March.	The council's investments as at the end of March are supplied to Arlingclose for valuation purposes	Arlingclose provide the fair value measurements for the Council's financial instruments.	We are advised by Arlingclose our Treasury Management advisors.	Yes, we have used Arlingclose to provide fair value valuations
Level 3 investments	See details for Level 2 Investments	See details for level 2 Investments	See details for level 2 Investments	See details for level 2 Investments	See details for level 2 Investments
Fair value estimates	See details for Level 2 Investments	See details for level 2 Investments	See details for level 2 Investments	See details for level 2 Investments	See details for level 2 Investments

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	These will vary depending on the type of provision being reviewed. Method and models are based on policies adapted for historic experience and the success rates of claims/risk.	Provisions are based on real data and trend analysis.	This depends on the type of provision and whether it requires specialist knowledge. We used LG Futures for NDR provision for bad debt and appeals	Provisions are updated each year taking into account real data and trend analysis.	Yes, for NDR bad debt and appeals using LG Futures.
Accruals	Activity is accounted for in the year it takes place, not simply when cash payments are made or received.	Requested accruals are processed in line with our standard finance procedures and policies, supporting information is retained for audit trail purposes.	The services provide information about expenditure and income expected but not yet received.	Level of uncertainty is reduced as accruals based on detailed transactional information which provide the evidence for the accrual rather than relying on the accountant to estimate.	No
Credit loss and impairment allowances	These will vary depending on the type of provision being reviewed. Method and models are based on policies adapted for historic experience and the success rates of collection.	Credit loss and impairment allowances are based on real data and historic collection rates.	See provisions above	Increases assessment of the degree of uncertainty of collection were built into assumptions for 2020/21 due to COVID-19.	Yes, for NDR and Council Tax and other Council bad debt due to impact of COVID-19.

Appendix A - Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the leases at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).	Year-end reporting by Service Accountants	Arlingclose provided the fair values for the leases	Further details are contained in note 1.18 to the Statement of Accounts on page 40.	No
PFI Liabilities	Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.	Year-end reporting by Service Accountants	Arlingclose provided the fair values for the PFI leases	Further details can be found in note 1.20 to the Statement of Accounts on page 43. The models in use were provided by external accountancy consultants at the time the Council recognised the assets on its Balance Sheet.	No



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