

Plymouth City Council Audit Progress Report and Sector Update

March 2023

20 March 2023 - Audit and
Governance Committee



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Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2023

Financial Statements Audit

2019/20 financial statements

We presented our 2019/20 audit findings, in our [2019/20 Audit Findings Report](#), to the September 2022 Audit and Governance Committee. Our work is substantially complete, however we are awaiting further information on the pension transaction before we can conclude our audit.

The Council will need to reflect on the impact of the pension transaction within its Annual Governance Statement and we will review the other information to be published with the financial statements for consistency with our knowledge of your organisation once this is resolved.

2020/21 financial statements

We presented a Revised 2020/21 Audit Plan to the November 2022 Audit and Governance Committee. Although the 2019/20 audit opinion has yet to be issued, we began our fieldwork for the 20/21 financial statements at the beginning of December 2022. Our fieldwork includes:

- updated review of the Council's control environment
- updated understanding of financial systems
- review of Internal Audit reports on core financial systems
- understanding how the Authority makes material estimates for the financial statements
- some substantive work on income and expenditure and balance sheet items.

We anticipate that the audit fieldwork will be completed in Summer 2023, and that we will present our findings, to date, in our 2020/21 Audit Findings Report to the Committee in November 2023.

However we will not be able to issue the 20/21 audit opinion if the 19/20 audit opinion is still outstanding at that time.

2021/22 financial statements

The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28. For the 2021/22 financial statements, we will

- present the [2021/22 Audit Plan](#) to the January 2024 Audit and Governance Committee;
- audit the 2021/22 financial statements in Spring 2024.

We need to discuss and agree with officers how we both work to auditing the annual accounts within the normal local government cycle for future financial years.

Progress at March 2023 (con)

Value for Money

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 was 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.

We presented the [Interim 2020/21 and 2021/22 Auditor’s Annual Report](#), with our VFM commentary in it, to the November 2022 Governance and Audit Committee. We produced this report covering two financial years because:

- we have been unable to close the 2019/20 financial statements audit, and complete the 2020/21 and the 2021/22 financial statement audits; and
- the Council is facing a financial crisis in the medium-term, from 2023/24 and beyond, and we need to report on the Council’s VFM arrangements to the Committee in a timely manner.

Overall, we identified three key recommendations, in response to the significant weaknesses in Financial Sustainability and 11 opportunities for improvement, across the three Code’s criteria as follows:

Financial sustainability

- **Significant weaknesses in arrangements still exist in overall arrangements resulting in:**
 - three key recommendations;
 - four improvement recommendations made.

Governance

- No significant weaknesses in arrangements identified during our fieldwork, however
 - three improvement recommendations made.

Improving economy, efficiency and effectiveness

- No significant weaknesses in arrangements identified during our fieldwork however,
 - four improvement recommendations made.

We present an updated 2020/21 and 2021/22 Auditor’s Annual Report, with our VFM commentary in it, to this March 2023 Audit and Governance Committee with more detailed management responses.

Certification of the 2021/22 Housing benefit claim

We certify the Authority’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 began in June 2022.

DwP extended the deadline for reporting the findings of this work to 30 April 2023. We will report our findings to the Governance and Audit Committee in our Certification Letter in June 2023.

Infrastructure Assets Update

Background

Most local government (LG) entities, excluding police bodies, will own infrastructure assets. The balances for highways authorities will be particularly significant and are likely to be material. For LG entities with material infrastructure assets there is therefore a potential risk of material misstatement related to this balance.

The inherent risks which we identified this year in relation to infrastructure assets were:

- An elevated risk of the overstatement of gross book value and accumulated depreciation figures, due to lack of derecognition of replaced components
- A normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairments of infrastructure assets, and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.



How these issues have been addressed?

Since these issues were first identified we have been working with CIPFA and the English and Scottish Governments to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions have been put in place in the interim. These short-term solutions include the issue of Statutory Instruments (SIs) by government and an update to the CIPFA Code.

The CIPFA Code update was issued on 29 November 2022. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022 – see [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022 \(legislation.gov.uk\)](#). CIPFA issued [CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution](#) on 11 January 2023, which includes further guidance and illustrative examples on the depreciation of infrastructure assets and the associated useful economic lives (UELs).

Where the infrastructure asset balances are material to your financial statements, we are currently considering how the SI and Code update have been considered by the Authority, e.g. how derecognised components have been accounted for and how the financial statement disclosures have been updated. We are currently carrying out further audit procedures to assess the material accuracy of in year movements including infrastructure asset additions, impairments and depreciation charges.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Delayed publication of audited local authority accounts

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Local government procurement and contract management-

Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector¹. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

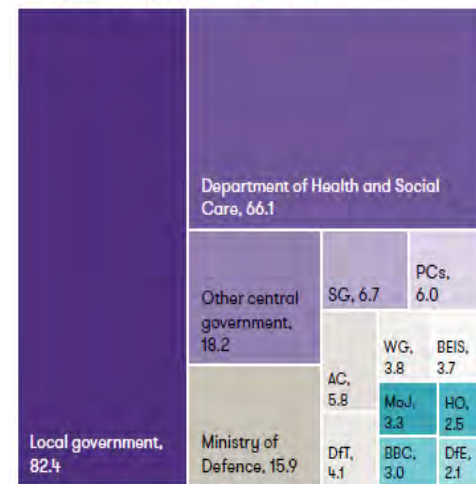
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

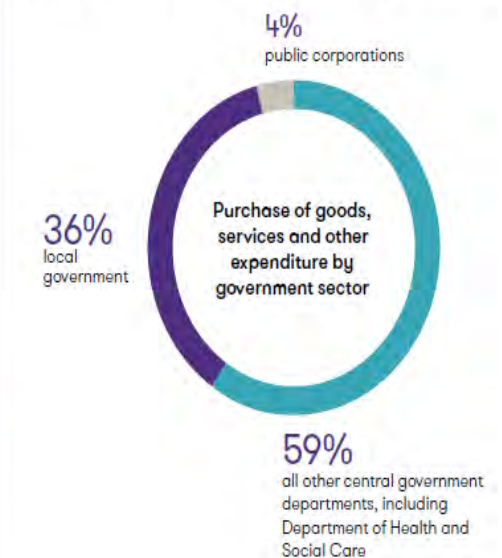
UK public spending

Public spending on goods and services, £ billions - analysis by segment and department²



PCs Other Public Corporations AC Academies
 DfT Department for Transport MoJ Ministry of Justice
 WG Welsh Government BBC British Broadcasting Corporation
 HO Home Office
 DfE Department of Education BEIS Department of Business, Industry Strategy
 SG Scottish Government

Goods, services and other expenditure by segment⁴



¹ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

² Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021

³ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

⁴ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

SEND deficits kept off budgets for another three years

The government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12th December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before today's announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".

Stonewall Gold Employer: GT's LGBTQIA+ inclusion journey

Background

15 Feb 2023, Stonewall, Europe's largest charity for Lesbian, Gay, Bi, Trans, and Queer (LGBTQIA+) rights, launched its widely anticipated Top 100 Employers List – recognising us for our work in supporting LGBTQIA+ colleagues to be the best versions of themselves at work and awarding us Gold Employer, the highest award.

We're proud to announce that we've ranked among the UK's leading employers from the public, private, and third sectors in the Stonewall Workplace Equality Index (WEI). We've also been recognised as a Gold Employer. Overall, we've ranked 38th in the latest WEI results, and 26th in the private sector, and 9th in the financial services sector.

Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

“Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared.

This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is **set to be broken**. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole.

CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change”.

[Click here for link to the article](#)





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