Plymouth City Council
Audit Progress Report and Sector Update

November 2023

Contents

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

Introduction

Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T 0117 305 7699
E jon.roberts@uk.gt.com

David Johnson
Audit Manager
T 0117 305 7727
E david.a.johnson@uk.gt.com

Oscar Edwards
Audit Manager
T 0117 305 7705
E oscar.r.edwards@uk.gt.com

This paper provides the Audit & 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 & 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 November 2023

Financial Statements Audit

2019-20

The audit of the 19/20 accounts remains incomplete. We have written to the Council formally reaffirming our position set out in the July progress report in respect of accounting for the pensions transactions. We noted in our progress report presented at the September Audit and Governance Committee that the Council had started the process of requesting a capitalisation direction from DLUHC. This process is still ongoing and we remain committed to engaging constructively with all parties to get this matter resolved. We will continue to work with management to get this issue resolved and will update members through our reporting at the Audit and Governance Committee.

2020-21

The 2020-21 Audit is still ongoing and we continue to have conversations with management about the completion of this work. We began our work on your draft financial statements in December 2022.

We presented the updated audit plan in November 2022 and the significant risks we identified within our plan were as follows:

- Management override of control
- Valuation of land and buildings including Investment properties
- Revenue Recognition – Government Grants
- Fraud in expenditure recognition
- Valuation of net pension fund liability
- Financial instrument disclosures
- Group accounts, consolidation and reporting where necessary

We have continued to assess the risks for the audit and have subsequently revised the significant risks. We no longer consider that the following are significant risks and have scoped our response accordingly:

- Revenue recognition – Government Grants as these are considered simple management decision with no estimation or subjectivity required
- Group accounts, consolidation and reporting where necessary as the Council do not have any subsidiaries that have been consolidated

All other significant risks remain the same and we continue to work on these areas. An update on progress against these is included within this report.

The Council are facing a unique and unprecedented set of challenges linked to the cost of living and the increase in inflation and interest rates and the ongoing backlog in audit requiring management time to respond to audit queries. The work is largely complete with the exception of substantive transaction testing and, in agreement with management, we paused the audit in November 2023, for a two week period to allow finance staff to review and respond to our sample queries. We continue to work through the samples to complete the audit and will report any findings with members.

We initially proposed a completion date for our audit fieldwork by November 2023. However, outstanding information, required to ensure our audit responsibilities are fully met our work will continue beyond the November 2023 Audit and Governance Committee date.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment)

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards.

Progress against significant risks 2022-23

Significant risk (from audit plan)	Progress to date
Management override of control Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals, including undertaking a walkthrough of the process and controls. No issues were identified from completion of this • obtained a full download of the general ledger alongside the trial balance and uploaded these onto our data analysis software, Inflo. • Inflo undertakes a number of checks on the data such as unbalanced transactions, unbalanced user IDs and transactions with blank account descriptions. Where any differences were noted by Inflo, we followed these up with the Council and obtained sufficient explanations and corroborations for these. • reviewed manual journals within inflo to identify those deemed to be high risk to be selected for testing. We selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries and completed our testing upon receipt of the supporting documentation. As in prior years we identified that posters are able to authorise their own journals. We have undertaking testing to address the identified risks and no issues have been identified. No further issues have been identified.
Valuation of the 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 have: • Updated our understanding of processes and controls put in place by management and evaluated the design of the associated controls • Evaluated the instructions issued by management to their management expert (the actuary) for the estimate and the scope of their work • Assessed the competence, capabilities and objectivity of the actuary • Tested 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 • Undertaken 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 • Obtained 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 No issues have been identified in relation to this area

Progress against significant risks 2022-23

Significant risk (from audit plan)	Progress to date
Valuation of land and buildings including Investment Properties 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 have: • Evaluated 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. • Evaluated the competence, capabilities and objectivity of the valuation experts used by the Council across all categories of assets • Written to the valuers to confirm the basis on which the valuations have been carried out. • Reviewed the data and assumptions made regarding the year end valuation of the Councils Investment property portfolio • Written to the auditors of Cornwall County Council for assurances over the valuation of the Tamar Bridge • Employed our own external 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. • Challenged the information and assumptions used by the valuers to assess completeness and consistency with our own understanding • Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • Tested the year end closing balance for property, plant and equipment • Evaluated 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. • Evaluated the assumptions made for the valuation of investment properties, including data used and yield assumptions. • Evaluated of the impact of COVID-19 on valuations – particularly investment properties held by the Council. Our testing has identified issues in relation to: • No formal terms of engagement document has been issued for either internal or external valuers • No formal overriding valuation report has been provided to support the valuation process • Three cases where valuations have been applied to the wrong assets • An unregistered asset that further information has been requested for • Accumulated depreciation that has not been written out on revaluation • Reconciliation of the valuer's report to the FAR for a number of assets • Some assets for which floor plans have not been appropriately evidenced • Obsolescence factor not appropriately applied. Our work in this area is not yet finished we will report further on these issues in the Audit Findings Report along with any further issues identified

Progress against significant risks 2022-23

Significant risk (from audit plan)	**Progress to date**
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 have 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 have: • inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected 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; and • investigated 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. Our work in this area is still ongoing and we will report any findings to members in the Audit Findings Report
Financial Instrument 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 have: • Reviewed the council's processes implemented to establish the correct valuations of all financial instruments held • Tested disclosures back to figures within the main financial statements • Tested the disclosures in accordance with the CIPFA Code and accounting and auditing guidance • Reviewed the work of the council's experts in this area. We will: • 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. We have employed an auditor's expert to review the transaction • Review the updated consideration provided by management's expert and the appropriateness of the interest rate swap Our work is still ongoing, including the review of management's expert review and we will report any findings to members in the Audit Findings Report. At this stage, we remain of the view that that matter should not be recorded under hedge accounting due to the hedge documentation not being in place until circa a year after taking out the swap.

Progress at October 2023 (cont.)

Value for Money

The Value for Money work for 2020/21 and 2021/22 was reported in November 2022. The work for 2022/23 is ongoing.

We have commenced this 2022/23 work and have so far held meetings with Senior Management, with more to be completed, and undertaken a desktop review of documentation to support management's assessment and inform our overall judgement. The areas of potential significant weakness as:

- Financial sustainability and the risk that without robust management and a full consideration of all risks facing the Council that financial performance will deteriorate and there will be an over reliance on the use of reserves to meet shortfalls

We are working toward issuing the findings by the end of the Calendar year.

Other areas

Certification of claims and returns

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 is now complete and work for 22/23 will start in February 2024.

Meetings

We met with Finance Officers in October and November as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit & Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	November 2022	Completed
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	November 2023	Completed
Audit Findings Report The Audit Findings Report will be reported to the January Audit & Governance Committee.	January 2024	Not yet due
Auditors Report This includes the opinion on your financial statements.	January 2024	Not yet due
Auditor's Annual Report (2022/23) This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2024	Not yet due

2020/21 Audit-related Deliverables	Planned date	Status
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.	September 2023	Completed

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing 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 & Governance 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:

Public Sector

Local government

Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers
- an agreed approach to dealing with the backlog of local government audits
- Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit & Governance Committees and auditors, and include a checklist for consideration by management and Audit & Governance Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton]

Current local audit deadline 'unachievable'- Grant Thornton

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

"Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies," the firm said.

In certain instances, audits are open as far back as 2017-18.

"Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

"This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable."

Current local audit deadline 'unachievable'- Grant Thornton(cont.)

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show "significant failures in financial reporting and an unwillingness to improve".

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

"Unfortunately, the quality of too many financial statements and working papers are not adequate," Grant Thornton said.

"Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime."

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/

DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit & Governance Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/

Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/

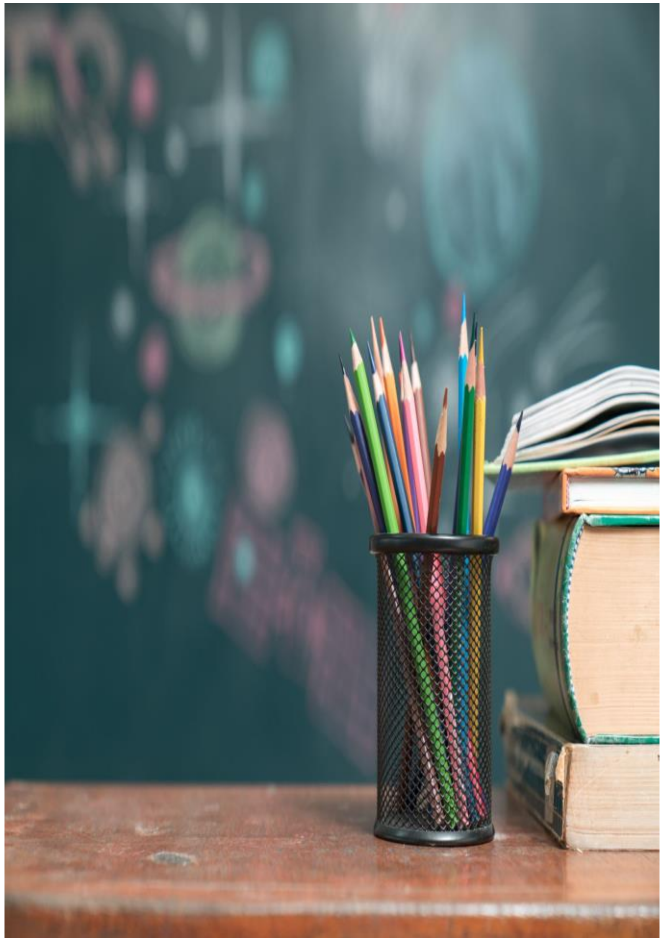
The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

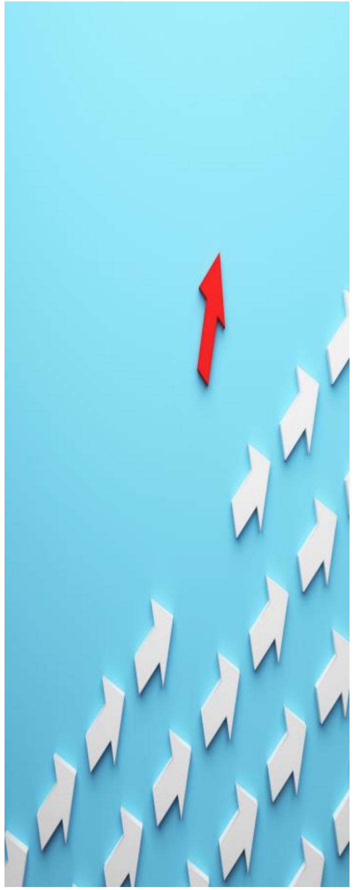
The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read the full report here

https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/



LGPS valuation gives 'cause for optimism' – Hymans Robertson



Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years."

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)

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 the 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".

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