

PLYMOUTH CITY COUNCIL

External Audit Progress report prepared for the Audit Committee

Meeting scheduled for 29 June 2017

INTRODUCTION

In March earlier this year we presented our 2016/17 Audit Planning Document to the Audit Committee. One of the key reasons for making this presentation is to highlight and explain to the Audit Committee the key issues which we believe are relevant to the audit of the financial statements and the Council's use of resources for the year ending 31 March 2017.

The Audit Planning Document therefore forms a key part of our communication strategy with the Audit Committee and which is designed to promote effective two-way communication throughout the audit process.

Planning is an iterative process and our audit plan is routinely updated as our audit progresses. This update report has been prepared to communicate the changes that have occurred since March and also to set out the key dates for completing the significant elements of our work.

We have therefore provided an update to the risks and, in Appendix 1 we have provided updated timings for when we expect to complete the different elements of our work.

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UPDATE ON THE 2016/17 AUDIT PLAN

Since preparing our audit plan, we have reconsidered the risks identified to respond to the Council's circumstances and reflecting findings from the external quality review of our 2015/16 work.

The first two areas that have been subject to change relate to the financial statements and the valuation of property, plant and equipment (PPE) and to the valuation of the net pension liability in connection with the local government pensions scheme (LGPS).

We have not changed the nature of the risk from when we issued our planning document in March. However, since issuing the plan, we have revised the level of significance of two financial statement related risks that were previously classified as "Normal" risks to that of a "Significant" risk due to the level of estimation that both areas contain.

Financial Statement Risks

Details of the amended audit risk areas relating to our financial statements work are set out below:

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA
Property, plant and equipment valuations	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.	We will review the instructions provided to the valuer and review the valuer's qualifications in order to confirm we can rely on the management expert.	We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.
	The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years.	We will review the valuation performed and test a sample of assets to confirm the valuation has been correctly accounted for.	
Pensions liability	The Council's pension liability comprises the Council's share of the market value of assets held in the Devon Pension Fund less the estimated future liability to pay pensions.	We will agree the disclosures to the information provided by the pension fund actuary.	We will agree the disclosures to the report received from the actuary.
	The pension fund liability is calculated by actuaries with specialist knowledge and experience. The calculation uses membership data held by the pension fund and uses factors such as mortality rates and expected future pay rises to calculate the liability.	We will contact the Devon Pension Fund auditor and request confirmation of the controls in place for providing accurate information to the actuary.	We will use the NAO commissioned consulting actuary report to review the actuary's methodology and reasonableness of the assumptions.
	There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions.	We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. (See note below following issue of the NAO commissioned expert's report).	We will obtain a confirmation from the Pension Fund auditor about aspects of the valuation of the pension fund assets and liabilities.

Assumptions underpinning the Local Government Pensions Scheme disclosures

To support auditors in undertaking their work, the NAO has commissioned its own pensions expert to complete a programme of work which was then made available to local government auditors. The NAO commissioned work was performed by PwC and covered a range of areas including assessing the reasonableness of the assumptions used by the different firms of actuaries working for the different local authority pension funds. These assumptions are then utilised in calculating the figures that will be included in the financial statements of individual local authority members.

The Council is a member of the Devon Pension Fund for whom the actuary is Barnett Waddingham. PwC concluded in their report (and issued in May 2017) that Barnett Waddingham had used assumptions that were not in line with the PwC expected range. Specifically, PwC reported:

“For employers advised by Barnett Waddingham, the discount rates proposed fall outside of our expected ranges as the methodology is not as robust as we would expect, particularly under market conditions at 31 March 2017.”

The total value of pension fund liabilities at 31 March 2016 amounted to more than £1,000 million and therefore even small variations in the discount rate could potentially produce a material error. Therefore, the high value of the pension fund liabilities means that even a small error in the discount rate introduces the risk of a material error in the Council’s accounts.

To address this issue, we will need to undertake additional audit work to assess the potential impact of the issue raised by PwC. Much of the work will be highly specialist and need to be performed by specialist actuaries who will need to assess the potential error that the use of the discount rates used by Barnett Waddingham could potentially produce when compared to discount rates that are within the expected range.

In accordance with the PSAA framework we will need to communicate with Public Sector Audit Appointments (PSAA) to discuss the fee implication and the recovery of our additional costs associated with this work.

Use of Resources

We have also considered the use of resources element of our work but have concluded that there are no variations necessary to the risks identified earlier in our planning and outlined in our audit planning document presented to the Audit Committee in March 2017. These risk areas related to sustainable finances and working with partner organisations and both of these risk areas remain valid for our audit.

Update to audit timings

We have set out above the changes to our risk assessment that affect the financial statements and which will impact upon our approach. The changes are relatively minor and as the two areas relating to valuations were already within our audit plan and represent an increased focus on an area already identified as a risk rather than a substantive change to our plan.

The issue regarding the assumptions used by Barnett Waddingham and identified by PwC in their report will need to be addressed and we will notify the Audit Committee of the outcome of our discussions with PSAA.

We have begun the task of setting out in detail when we will perform our audit procedures and when we plan to complete our work and report to the Audit Committee.

An updated schedule of the key elements of our audit and when we expect to complete our work is set out in Appendix 1.

Appendix 1

2016/17 Annual Audit Plan - key dates

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	<p>Risk assessment and formulation of the audit plan.</p> <p>The detailed audit plan was presented to the Audit Committee in March 2017 and an update provided in this report.</p>	Complete	<p>Audit Plan 2016/17</p> <p>The plan was issued and presented to the Audit Committee in March 2017 and an update will be provided at the June 2017 meeting.</p>
Financial Statements and use of resources audit	<p>Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year.</p> <p>The deadline for the Council to prepare its draft accounts for audit is 30 June 2017. However, in preparing for the "faster close" deadline date that will be applicable in 2018 of May 2018, the Council has planned to be in the position to provide us with the draft accounts by early June.</p> <p>The deadline for issue of our audit opinion is 30 September 2017.</p>	Main audit visit to commence on-site on 19 June following receipt of the draft financial statements on 8 June 2017.	<p>Final Report (ISA 260) to the Audit Committee</p> <p>Our report will be presented to the Audit Committee at a date to be agreed but by 30 September 2017.</p> <p>Opinion on the financial statements and use of resources</p> <p>Deadline for issuing the audit opinion is 30 September 2017.</p>
Whole of government accounts audit	<p>Audit of the consolidation pack for consistency with the audited statement of accounts.</p> <p>Initial guidance has identified a 29 September 2017 deadline for submission.</p>	To be completed after the main fieldwork is complete.	Opinion on the WGA Consolidation Pack by the deadline.
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year.	To be prepared after ISA 260 report has been presented to the Audit Committee.	Annual Audit Letter Annual Audit letter to be issued in October 2017.

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