

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

# The Audit Findings for Plymouth City Council

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**Year ended 31 March 2019**

**16 July 2019**



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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## Headlines

This table summarises the key findings and other matters arising from the statutory audit of Plymouth City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

At the time of writing, 16 July 2019, our audit work was still in progress. We will provide members of the Council's Audit and Governance Committee with a verbal update on our work on 22 July 2019 and will then issue a final Audit Findings Report once our work has been completed.

The Accounts and Audit Regulations 2015 require Local Authorities to publish their financial statements by 31 July each year, irrespective of whether the audit has been completed.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the [group and] Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the [group and] Council and [the group and Council's/its] income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was undertaken on site during late June and July 2019.</p> <p>Our findings to date are summarised on pages 5 to 15.</p> <p>At the time of writing, we have identified 2 adjustments to the financial statements although there was no impact on the Council's Comprehensive Income and Expenditure Statement.</p> <p>Audit adjustments to date are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. Your previous External Auditors did not make any recommendations in 2017/18 and so no follow-up work was required.</p> <p>Our work is still in progress although, based on the work undertaken to date, there are no matters of which we are aware to date that would require modification of our audit opinion on your financial statements as shown in Appendix D. The key matters in progress at 16 July 2019 were:</p> <ul style="list-style-type: none"> <li>• journals testing (page 6)</li> <li>• property valuations testing (page 7)</li> <li>• testing of pension fund liability (page 8) including the impact of the McCloud judgement (page 10)</li> <li>• completion of detailed transaction testing for income and expenditure and the associated balance sheet items</li> <li>• review and testing of financial instruments, including associated disclosures and fair values</li> <li>• disclosure checklist and review of detailed disclosures e.g. financial instruments.</li> <li>• receipt of management representation letter</li> <li>• review of the final set of financial statements, including the Annual Governance Statement</li> <li>• final key audit partner review</li> </ul> <p>Subject to all of the above items listed above being completed satisfactorily the anticipated audit report will be unmodified as shown in Appendix D. We will provide a verbal update to the Audit and Governance Committee on 22 July 2019 and will engage with the Service Director for Finance and the Chair of the Committee should this position change. We will also issue a final report once our audit work is complete.</p>
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# Headlines

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have not completed our risk based review of the Council's value for money arrangements as we are still awaiting some information from Officers.

At the time of writing, we have therefore not been able to conclude whether Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We will provide a verbal update to the Audit and Governance Committee on 22 July 2019 and a final version of this Audit Findings Report will issued once our work has been completed.

Our observations based on the work undertaken to date are summarised on pages 16 to 19.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We will not be able to certify the completion of the audit when we give our audit opinion because we still need to complete our work on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.

## Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 11 March 2019, except as follows:

- an additional VFM Conclusion risk identified during our fieldwork regarding the Council's acquisition of investment properties outside Plymouth (see page 18)
- a revision to our revenue risk rebuttal (see page 6)
- we have had to undertake detailed, further work, in relation to the recent Mc Cloud high court ruling which has an impact upon the Pension fund liability (see page 10)
- Undertaken additional work on the Council's opening balances, recognising that Plymouth City Council is a new audit for Grant Thornton.

## Conclusion

Subject to satisfactory clearance of all outstanding items and work on your financial statements, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 22 July 2019, as detailed in Appendix D. These outstanding items are summarised on page 3 of this report.

We will provide an updated Audit Findings Report to the Audit and Governance Committee on the completion of our work.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan, although we have no longer applied a separate level of materiality for senior officer remuneration. This was because senior officer remuneration is not complex and is therefore not subject to the potential for error.

	Amount (£)	Comments
Materiality for the financial statements	£9.775m	This was 1.7% of the prior year gross expenditure. We used this for planning stage and the year on year consistency of the Council's expenditure meant that this continued to be relevant.
Performance materiality	£7.331m	This is 75% of the materiality of the financial statements as a whole.
Trivial matters	£0.489m	This is 5% of the materiality of the financial statements as a whole.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition for the majority of sources can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Plymouth City Council, mean that all forms of fraud are seen as unacceptable.

We therefore do not consider this to be a significant risk for Plymouth City Council. However, based on the findings of your previous External Auditors we did not rebut this risk for Government grants and other contributions and we therefore planned to undertake additional work in this area.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces 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, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals

Officers are currently providing the supporting information to enable us to test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.

As part of our audit we will:

- gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Based on the work completed to date, we have no issues we wish to report to the Audit and Governance Committee.

# Significant findings – audit risks

## Risks identified in our Audit Plan

3

### Valuation of land and buildings

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 (£728 million at 31 March 2018) 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, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Commentary

### Auditor commentary

The Council uses its own internal valuer for the majority of its land and buildings, with the exception of two assets where Plymouth City Council has a share of an asset with one or more other Local Authorities as follows:

- Devonport Energy from Waste Plant – joint with Torbay Council and Devon County Council – valuation provided by valuers appointed by Devon County Council
- Tamar Bridge – joint with Cornwall Council – valuation provided by valuers appointed by Cornwall Council and Engineers

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
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the three valuers to confirm the basis on which the valuations were carried out

We are in the process of:

- challenging the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- testing revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluating 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.

The Devonport Energy from Waste plant was revalued in the year by Devon County Council's valuers, although this was not reflected in the Council's fixed asset register and hence its financial statements.

The Tamar Bridge has not been revalued for four years and we are currently challenging and reviewing the fair value of the asset by using our own internal valuation expert. In the prior year your previous external auditors estimated that the bridge was undervalued by £2.8m (£1.434m attributable to Plymouth City Council).

Please also see page 11 for a further commentary on our work on this estimate.

## Significant findings – audit risks

### Risks identified in our Audit Plan

4

#### Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£562 million in the Authority's balance sheet) at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Commentary

#### Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability
- 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

We still need to:

- undertake 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
- obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our audit work to date has not identified any issues in respect of the valuation of the pension fund net liability.

Please also see page 12 for a further commentary on our work on this estimate.

## Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p data-bbox="64 277 685 301"><b>5 Proposal to reduce the pension fund net liability</b></p> <p data-bbox="134 329 787 496">In our Audit plan presented on 11 March 2019, we included a specific risk in relation to the plans that the Council were discussing to repay the entire pension fund liability for the Council. As this is a highly unusual transaction this was included in the plan to ensure focus upon the arrangements being put in place to undertake the transaction.</p> <p data-bbox="134 529 747 611">The Authority is considering options that could reduce the pension fund net liability, although any payment is not expected to occur until after the financial year end.</p> <p data-bbox="134 644 787 696">This type of transaction is material, complex and unusual and has therefore been assessed as a significant risk.</p>	<p data-bbox="806 272 1044 297"><b>Auditor commentary</b></p> <p data-bbox="806 351 1984 404">This transaction has not taken place. There is no impact on the Council's financial statements for 2018/19 either as an in-year transaction or as a subsequent event.</p> <p data-bbox="806 422 907 446">We have:</p> <ul data-bbox="806 458 1984 658" style="list-style-type: none"> <li>• appointed our own independent legal advisors to provide us with advice in this complex area</li> <li>• discussed with management the arrangements the Council has in place to assess whether it considers the proposed transaction to reduce the pension fund net liability to be financially sound and value for money</li> <li>• discussed with management the due diligence undertaken by the Authority</li> <li>• assessed the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate</li> </ul> <p data-bbox="806 672 1943 725">Whilst the transaction has not yet progressed, should the Council consider that this option is worth pursuing further, we have made the following recommendations to management:</p> <ul data-bbox="806 739 1995 1102" style="list-style-type: none"> <li>• obtain independent actuarial advice regarding the estimated pension liability amount</li> <li>• obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money</li> <li>• obtain independent legal advice as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability</li> <li>• obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations</li> <li>• obtain independent accounting advice and</li> <li>• ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis.</li> </ul>

## Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>1 Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £7.931m, and an increase in service costs for the 2019/20 year of £645k.</p> <p>Management's view is that the impact of the ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.</p>	<p>We have completed an overview of the analysis performed by the actuary and, based on this, consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>We are of the view that there is sufficient evidence to indicate that a liability is probable. We do not propose to challenge the Council's decision not to amend its financial statements.</p> <p>As noted on page 3, there is more work to do in this area.</p>
<p><b>2 IT General Controls</b></p>	<p>Our specialist IT auditors undertook a review of the Council's IT general controls.</p>	<p>No significant deficiencies (where there is a risk of significant misstatement) were identified and we therefore did not need to amend our audit approach. A small number of recommendations were made and the Council has agreed these.</p> <p>Although there are no issues we wish to draw to the Audit and Governance Committee's attention within this report, our IT findings are a separate agenda item for the Committee meeting on 22 July 2019.</p>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment based on work to date
<b>Land and Buildings – Other - £479m</b>	<p>Other land and buildings comprises £360m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£119m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Tamar Bridge is valued separately.</p> <p>The Council has engaged its own internal valuers for the majority of assets, using the valuers of Cornwall Council and Devon County Council to provide other valuations as detailed on page 7.</p> <p>Plymouth City Council's valuers complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 35% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £22m. Management's assessment of assets not revalued has identified no material change to the values.</p>	<p>Please also see the findings on page 7 regarding the valuation of land and buildings.</p> <p>As part of our work in this area we have:</p> <ul style="list-style-type: none"> <li>assessed management's expert</li> <li>reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate</li> </ul> <p>As noted on page 7, we are in the process of:</p> <ul style="list-style-type: none"> <li>challenging the information and assumptions used by the valuers to assess completeness and consistency with our understanding</li> <li>testing revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>evaluating 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</li> <li>using our own valuers expert to review the arrangements for the Tamar Bridge.</li> </ul>	<p style="text-align: center;"> <b>Green</b></p>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

# Significant findings – key judgements and estimates

Assessment  
based on  
work to date

	Summary of management's policy	Audit Comments	Assessment based on work to date																								
<p><b>Net pension liability – £541m</b></p>	<p>The Council's net pension liability at 31 March 2019 is £541m (PY £562m) the majority of which relates to the Devon Pension Fund, with a non-material amount relating to the Tamar Bridge and Torpoint Ferry Joint Committee.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There was a £57m net actuarial gain during 2018/19.</p>	<p>Please also see the findings on page 8 regarding the valuation of the net pension liability.</p> <p>As part of our work in this area we have:</p> <ul style="list-style-type: none"> <li>Assessed management's expert</li> <li>Used our auditor's expert (PwC) to assess the actuary and the assumptions made by the actuary. The key assumptions underpinning the actuarial valuation are:</li> </ul> <table border="1" data-bbox="797 492 1792 949"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.35% to 2.45%</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.4%</td> <td>2.4% to 2.45%</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>3.9%</td> <td>3.1% to 4.35%</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.1 years</td> <td>22.2 to 25.0 years</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.2 years</td> <td>25.0 to 26.6 years</td> <td>● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35% to 2.45%	● Green	Pension increase rate	2.4%	2.4% to 2.45%	● Green	Salary growth	3.9%	3.1% to 4.35%	● Green	Life expectancy – Males currently aged 45 / 65	24.1 years	22.2 to 25.0 years	● Green	Life expectancy – Females currently aged 45 / 65	26.2 years	25.0 to 26.6 years	● Green	
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		<p>As noted on page 8, we still need to:</p> <ul style="list-style-type: none"> <li>undertake 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</li> <li>obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>																									

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

# Significant findings - Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

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### Management's assessment process

Management have advised us that they have prepared the financial statements on a going concern basis, although this has not been referred to in the Council's financial statements.

Management's view is that the concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future as an authority can only be discontinued under statutory prescription. Although Central Government funding is being cut significantly, management is of the view that this will have no effect on Plymouth City Council as a going concern.

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### Work performed

We have asked for management to provide an assessment of the application of the going concern principle and to assess what disclosures should be included in its financial statements.

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### Concluding comments

- We have asked management to provide a detailed assessment regarding the applicability of the going concern principle, taking into account the Council's level of reserves and the savings that will be required in order to deliver a balanced budget.
  - CIPFA's code of practice on local authority accounting for 2018/19 is clear that an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The issue is simply one around the disclosure within the Council's financial statements.
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## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② <b>Matters in relation to related parties</b>	Based on the work completed to date, we are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date.
④ <b>Written representations</b>	A letter of representation has been requested from the Council and this is included in the Audit and Governance Committee papers for the meeting in July 2019. We will update this letter should any specific representations be required.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Council's bankers and other organisations with which the Council has investments and loans. This permission was granted and the requests were sent. Not all have yet been returned with positive confirmation and these have been chased up. We will complete alternative audit procedures if satisfactory responses are not forthcoming.
⑥ <b>Disclosures</b>	As noted on page 3, we have yet to complete the disclosure checklist.
⑦ <b>Audit evidence and explanations/significant difficulties/other financial reporting issues</b>	All information and explanations requested from management to date has been provided. The Council provided us with a group accounts assessment during our audit. Whilst we concur with the Council's view that group accounts are not required in 2018/19, this assessment needs to be undertaken before the Council prepares its financial statements each year. Looking ahead to 2019/20,

## Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. This work has not been completed.
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>As noted on page 3, we have not completed our work on the Council's Annual Governance Statement.</p> <p>We have not applied any of our statutory powers or duties.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m for Income and Expenditure we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work has a later deadline of 13 September 2019 and cannot commence until our audit of your financial statements has been completed.</p>
④ <b>Certification of the closure of the audit</b>	We are unable to certify the closure of the 2018/19 audit of Plymouth City Council in the audit opinion, as detailed in Appendix D, until our work on the Whole of Government Accounts (WGA) consolidation pack has been completed.

# Value for Money

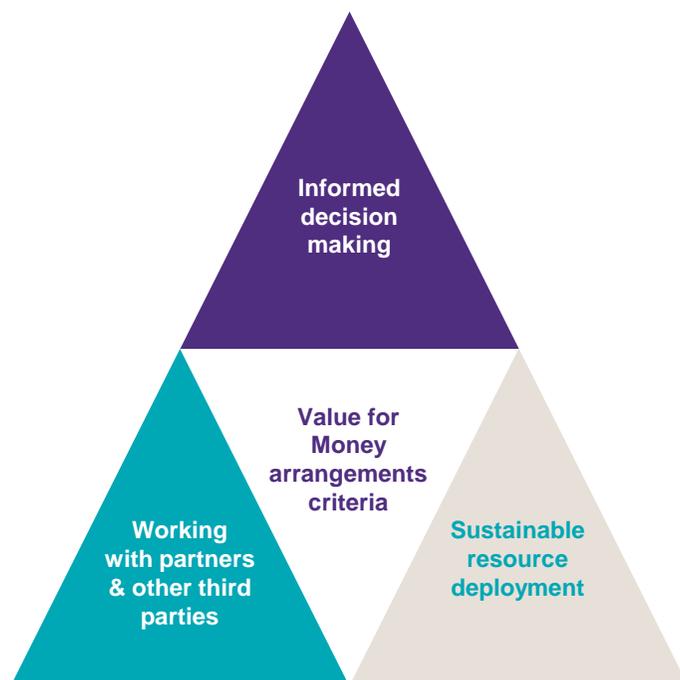
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in early 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to the Council's Audit and Governance Committee in our Audit Plan on 11 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and we identified one further significant risk where we needed to perform further work. This additional risk is regarding the Council's acquisition of investment properties outside Plymouth. Please see page 18 for further information.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the 2018/19 outturn
- the savings of £25.6m required in 2019/20 in order to achieve a break-even position
- the level of general reserves as at 31 March 2019 as any future overspends must met from reserves
- the governance arrangements in place for the Council's out-of-area investment properties

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

## Overall conclusion

As noted on page 4, we have not completed our risk based review of the Council's value for money arrangements as we are still awaiting some information from Officers.

The text of our proposed report can be found at Appendix D, although this is subject to the completion of our work.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations to date and management's response to these can be found in the Action Plan at Appendix A.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

### Significant risk from the audit plan

#### Delivering the budget for 2018/19 and achieving a sustainable financial future

Achieving the budget in 2018/19 will be difficult due to increased demand and overspends within Adult's Social Care and Children's Social Care.

Looking ahead, ensuring a sustainable financial future will be challenging due to significant savings required over the next two years and the pressures noted in the two high-spend areas noted above.

### Audit work and Findings

The 2018/19 outturn position for the Council is an overspend of £1.117m which was financed by the Council's General Fund. The Council had forecast an overspend throughout the 2018/19 financial year, but from month 6 did manage to reduce the extent of this overspend by introducing more stringent financial controls.

In 2018/19 the Council was aiming to deliver savings in the region of £11.5m, however, overspends occurred in the Customer and Corporate Directorate and the People Directorate. The largest overspend was within Children and Young People, £4m, due to increased demand and costs of looked after children's placements.

This is an improved financial position on the previous year, however it reduces the amount of the Council's General Fund balance to only £8.05m. The Council has other earmarked General Fund reserves of £24.7m, although it acknowledges that the main General Fund balance is 4.3% of its net revenue budget compared to its target of 5%.

Going forward the financial pressures remain and the Council faces significant challenges to deliver its savings in 2019/20 and beyond. As at the end of month 2 (the end of May 2019) the Council is forecasting an overspend of £3.958m (£1.44m Customer and Corporate Directorate and £2.057m within the Children's Directorate). If the Council was not able to reduce this overspend the General Fund reserve would be reduced to £4.092m at the end of the year, a significant reduction.

In 2019/20 the Council is aiming to deliver savings of £25.619m, of which at the time of reporting £6.5m are at risk and do not have plans in place. The Council has improved the monitoring and financial control over its savings plans, with the introduction of risk assessing savings plans and introduced a 'fresh look' approach to identify new ways of working to identify savings, however this approach has not identified significant savings that will benefit 2019/20. These new measures highlight the scale of the challenge faced by the Council.

Review of the savings plans provided for the People Directorate indicates that the Council is aiming to deliver savings from a range of different service lines, is reliant on maximising income and grants and assumes that savings will be delivered from quarter 1. The month 2 report on progress to date on all savings plans, identifies that the Council is heavily reliant on one-off savings and vacancy management and that savings require lapsed time before they will be delivered. These approaches are not sustainable.

Further information has been requested on the savings plans in place, to enable us to assess if the plans are robust.

### Conclusion

The Council faces significant challenges to deliver the savings (£25.6m) required in 2019/20. Failure to deliver these savings and manage demand within its Children's service will lead to budget overspends that reduce reserves to unacceptably low levels.

The Council is also reliant on a significant amount of one-off savings and vacancy management. These approaches are not sustainable and will increase the financial pressures in 2020/21.

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**Key findings**

We identified the following significant risk after we had completed our initial risk assessment.

**Significant risk identified since our audit plan was issued****Acquisition of investment properties outside Plymouth**

Plymouth City Council has recently acquired a number of investment properties outside the City. This type of activity is attracting a lot of interest nationally, including from the National Audit Office (NAO) and CIPFA, as such investments can potentially carry a higher level of risk as they are pure investments and do not align to any of a Council's strategic ambitions such as economic development.

There is a risk that the governance arrangements for such investments are inadequate.

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**Audit work and Findings**

This risk was identified after we had completed our initial risk assessment.

We are awaiting information from Officers to enable us to undertake this work.

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**Conclusion**

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## Ofsted findings

### Background Children's social care services

In October and November 2018 Ofsted undertook an inspection of children's social care services at Plymouth City Council. Their findings were reported in January 2019.

### Summary of Ofsted's Findings

The judgements made by Ofsted were as follows:

Judgement	Grade
The impact of leaders on social work practice with children and families	Requires improvement to be good
The experiences and progress of children who need help and protection	Requires improvement to be good
The experiences and progress of children in care and care leavers	Requires improvement to be good
Overall effectiveness	Requires improvement to be good

### Audit Assessment Although the Council's services were assessed as 'requiring improvement' Ofsted did report a positive direction of travel.

They reported that since the single inspection framework (SIF) inspection in 2014 and the focused visit in 2018, senior leaders have taken clear action to improve the quality of social work practice, and the vast majority of children, young people and families in Plymouth get the right help at the right time.

Ofsted stated that there is a clear commitment to and corporate ownership of children's services, as well as effective strategic partnerships that are well developed. Senior leaders have a good understanding of strengths and areas for improvement. There has been significant progress in establishing an environment in which good social work can flourish by significantly reducing social workers' workloads, increasing management capacity and providing a wide range of learning and development opportunities. They noted significant practice improvements are evident in a number of areas previously identified as weak.

Ofsted noted improvements were required in:

- The quality of strategy discussions, including records of decision-making and action plans.
- The quality of written plans.
- Sufficiency of local placements to meet the needs of older children.
- The quality of recording of supervision and management oversight.
- The quality of services to care leavers, including education, employment and training opportunities.
- The quality of and learning from auditing of casework.

We have not yet determined whether Ofsted's findings will impact on our overall VFM conclusion.

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix c.

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services are proposed and we have set out the anticipated fees, the threats to our independence and safeguards that have been applied to mitigate these threats.

	Proposed Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits Subsidy return	£14,041	Self review Management	Work undertaken after completion of the audit and there are not expected to be material changes arising to subsequent financial statements. Any changes that need to be made to recorded contributions are determined by officers based on our work; they also agree the factual accuracy of any findings we make to the Department for Work and Pensions (DWP)
Certification of Teachers' Pensions return	£4,200	Self review Management	Work undertaken after completion of the audit and there are not expected to be material changes arising to subsequent financial statements. Any changes that need to be made to recorded contributions are determined by officers based on our work; they also agree the factual accuracy of any findings we make to Teachers Pensions.
<b>Non-audit related</b>			
None.			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services were set out in our audit plan have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified 4 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1  Red	<b>Delivering the budget for 2018/19 and achieving a sustainable financial future</b>	<p>The Council should look for new ways of delivering savings, which are recurrent and not as heavily reliant on one off savings and vacancy management, in order to ensure they are realistic and robust.</p> <p><b>Management response</b> The Council recognises the financial challenges that have arisen from the 2018/19 outturn position and the budget challenges faced in the current and future years. The priority is to address the budget pressures which have been identified at month 2. CMT and Cabinet will continue to explore options to maximise income and identify cost savings and efficiencies, as part of the regular budget monitoring process, to achieve a balanced budget at year end.</p> <p>The Council is in the process of developing its Medium Term Financial Plan and will continue to explore innovative solutions to the resourcing challenges presented by the shift and uncertainty within local government. The uncertainty for medium term financial planning is compounded by national issues and fact local government has had no indication of its future funding and progress on fundamental changes to local government finance such as Fair Funding and Business rates Retention.</p>
2  Amber	<b>Revaluation of Devonport Energy from Waste plant</b>	<p>The Council should engage with Devon County Council's valuers to ensure that it is aware of all revaluations that are undertaken.</p> <p><b>Management response</b> In future we will ask the valuers (NPS) direct for a copy of the valuations.</p>

#### Risk rating

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

# Action plan

We have identified 4 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
3	 <b>Red</b>	<b>Proposal to reduce the pension fund net liability</b>	<p>The Council should:</p> <ul style="list-style-type: none"> <li>• obtain independent actuarial advice regarding the estimated pension liability amount</li> <li>• obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money</li> <li>• obtain independent legal advice as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability</li> <li>• obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations</li> <li>• obtain independent accounting advice and</li> <li>• ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis.</li> </ul> <p><b>Management response</b></p> <p>There is ongoing work to reduce the pension fund liability. All of the recommendations are noted.</p>
4	 <b>Amber</b>	<b>Group Accounts</b>	<p>The Council should undertake a group accounts assessment early-on in the accounts production process for 2019/20 taking in qualitative and quantitative factors.</p> <p>Disclosures regarding the various components should be clearly presented within the financial statements.</p> <p><b>Management response</b></p> <p>We will review the process for the group accounts assessment to see how we can bring this work forward.</p>

#### Risk rating

- High – Significant effect on control system (Red)
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 None identified to date			
2			
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
None identified to date			✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Management's view is that the impact of the McCloud ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.	No impact	£7,931	No impact
2 The Devonport Energy from Waste plant was revalued in the year by Devon County Council's valuers, although this was not reflected in the Council's fixed asset register and hence its financial statements.	Immaterial depreciation	£5,587	Immaterial depreciation
<b>Overall impact</b>	<b>£0</b>	<b>£13,518</b>	<b>£0</b>

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
There are no unadjusted misstatements				

## Fees

We confirm below the expected fees to be charged for the audit. Overleaf we set out the expected fees for the provision of non audit services.

### Audit Fees

	Fee per audit plan	Expected fee	Comments (See Note 1)
Council Audit	105,393	TBC	This is the scale fee set by Public Sector Audit Appointments Ltd
Assessing the impact of the McCloud ruling		3,000	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have been considering the impact on the financial statements along with any audit reporting requirements.
Pensions – IAS 19		3,000	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.
PPE Valuation – work of experts		TBC	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.  We have also engaged an auditor's expert to support our work on the Tamar Bridge valuation.
Significant risk – Proposal to reduce the pension fund net Liability		TBC	We have been engaged with Officers on this issue since it was first raised with us. We have commissioned our own legal advice given the unusual nature of this transaction and the significance of the amount involved
<b>Total audit fees (excluding VAT)</b>	<b>£105,393</b>	<b>TBC</b>	

Note 1 –Any adjustments to the scale fee need to be approved by Public Sector Audit Appointments Ltd.

# Fees

Below are the expected fees for the provision of non audit services.

## Non Audit Fees

Fees for other services	Proposed Fees £'000	Comments
<b>Audit related services:</b>		
Certification of Housing Benefits Subsidy Return	14,041	Please see note 2
Certification of Teachers' Pensions Return	4,200	Please see note 2
<b>Non-audit services:</b>		
None.		
<b>Total</b>	<b>£18,241</b>	

Note 2 – this work has a deadline of 30 November 2019 and has not yet commenced. We will advise a future meeting of Audit and Governance Committee on the outcome of this work and the final fee.

# Fees

We set out below the fees from the previous pages and how these agree to the disclosure within note 27 of the Council's financial statements.

## Audit Fees

	Proposed fee	Final fee	Per Note 27
Council Audit	105,393	TBC	105,000
Assessing the impact of the McCloud ruling		3,000	Not included (see note 3)
Pensions – IAS 19		3,000	Not included (see note 3)
PPE Valuation – work of experts		TBC	Not included (see note 3)
Significant risk – Proposal to reduce the pension fund net Liability		TBC	Not included (see note 3)
Certification of Housing Benefits Subsidy Return	14,041		14,000
Certification of Teachers' Pensions Return	4,200		4,000
<b>Total audit fees (excluding VAT)</b>	<b>£123,634</b>	<b>£XX,XXX</b>	<b>£123,000</b>

Note 3 – The Council was not aware of this additional work when it prepared its draft financial statements in May 2019. We will advise the Audit and Governance Committee of the final fees once we have completed our work, discussed the fees with officers and received approval from Public Sector Audit Appointments Ltd.

# Audit opinion

**SUBJECT TO ALL OUTSTANDING ITEMS AND WORK BEING CONCLUDED SATISFACTORY WE WOULD INTEND TO ISSUE AN UNMODIFIED OPINION ON THE FINANCIAL STATEMENTS. FURTHER WORK IS TO BE PERFORMED ON THE COUNCILS ARRANGEMENTS FOR VFM AND THE VALUE FOR MONEY CONCLUSION**

This opinion is draft and is subject to change

## Independent auditor's report to the members of Plymouth City Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Plymouth City Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

This opinion is draft and is subject to change

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Service Director for Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Service Director for Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Service Director for Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# Audit opinion

## This opinion is draft and is subject to change

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## This opinion is draft and is subject to change

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Service Director for Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Service Director for Finance. The Service Director for Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Service Director for Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# Audit opinion

## This opinion is draft and is subject to change

In preparing the financial statements, the Service Director for Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## This opinion is draft and is subject to change

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Audit opinion

**This opinion is draft and is subject to change**

## Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Bristol

[Date]



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