



Oversight and Governance

Chief Executive's Department
Plymouth City Council
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SUPPLEMENT

AUDIT AND GOVERNANCE COMMITTEE

Monday 30 July 2018
3.00 pm
Council House, Plymouth

Members:

Councillor Kate Taylor, Chair
Councillor Dr Mahony, Vice Chair
Councillors Mrs Pengelly, Stevens and Smith.

Independent Members:

Mr R Clarke
Mr I Stewart

Please find enclosed additional information for your consideration under agenda item 5.

Tracey Lee
Chief Executive

Audit and Governance Committee

5. Statement of Accounts 2017/18 - To Follow:

(Pages 1 - 12)

Appendix B



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Bridgewater
House
Finzels Reach
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Finance Section

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Please ask for: Andrew Hardingham

30 July 2018

Dear Sirs

Financial statements of Plymouth City Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Interim Strategic Director for Transformation and Change and Section 151 Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We note the unadjusted items you identified. We consider the potential and actual differences to be immaterial in the context of the financial statements taken as a whole.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

(a) Pension Fund

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (RPI): 3.3%
- Rate of increase in salaries: 3.8%
- Rate of increase in pensions: 2.3%
- Rate of discounting scheme liabilities: 2.55%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of other land and buildings and investment properties

We are satisfied that the useful economic lives of the other land and buildings and their constituent components, used in the valuation of other land and buildings, and the calculation of the depreciation charge for the year, are reasonable. We confirm that the valuations, including desktop valuations, applied in the year, as provided by the valuer and accounted for

in the financial statements, are reasonable and consistent with our knowledge of the business and are not materially misstated at year end. In particular, we are satisfied that:

- Specialised operational land and buildings where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings are based on existing use prices.

We are satisfied that investment properties have been appropriately valued at fair value, based on highest and best use.

(c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax receivables, business rates receivables and housing benefit overpayments are reasonable, based on write-off rates or collection rate data.

(d) NDR Provision

We are satisfied that the provision for NDR is reasonable.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Andrew Hardingham

Interim Strategic Director
for Transformation and Change

30 July 2018

Councillor Kate Taylor

Audit and Governance Committee Chair

Signed on behalf of the Audit and
Governance Committee

30 July 2018

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PLYMOUTH CITY COUNCIL

Subject: Statement of Accounts 2017/18
Committee: Audit Committee
Date: 30 July 2018
Cabinet Member: Councillor Lowry
CMT Member: Andrew Hardingham, Interim Strategic Director for Transformation and Change
Author: Carolyn Haynes (Financial Controller)
Contact details Tel: 01752 398927
email: carolyn.haynes@plymouth.gov.uk
Ref: FIN/CH
Key Decision: No
Part: I

Purpose of the report:

The Council's draft Statutory Statement of Accounts for year ending 31 March 2018 was prepared and approved ready for our external auditors by the Interim Joint Strategic Director for Transformation and Change on 31 May 2018.

The Accounts have now been audited and are being presented to Audit Committee for approval. The Accounts and Audit Regulations require the accounts to be formally approved and published on or before 31 July 2018.

Issues raised by the auditor are outlined in the report, including a summary of the changes made since the draft accounts were produced. The revised Statement of Accounts for 2017/18 is attached at Appendix A. This might be subject to minor changes to wording and the changes will be highlighted at the committee meeting.

The Corporate Plan 2018/19 – 2021/22:

The Council's expenditure forms the basis on which the Corporate Plan can be delivered.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land**

The 2017/18 final accounts will have implications on the Medium Term Financial Plan. The level of Working Balance and reserves will affect the level of funding available in future years and variations in service expenditure will also need to be reviewed to assess the effects on future years.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

N/A.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? Not for this report as this is a statement of actual spend rather than new allocations which could impact on equality and/or diversity.

Recommendations and Reasons for recommended action:

That the Audit Committee:

1. Note the amendments made to the Statement of Accounts for 2017/18 as agreed with the Auditor, and outlined in this report.
2. Approve The Statement of Accounts for 2017/18 as attached at Appendix A.
3. The Letter of Representation attached at Appendix B is authorised and submitted to the Auditor.

Alternative options considered and rejected:

None – It is a statutory requirement to produce and approve the Statement of Accounts.

Published work / information:

- [Statement of Accounts 2017/18 Report to May 2018 Audit Committee](#)
- [Draft \(Pre Audit\) Statement of Accounts 2017/18](#)
- [Annual Governance Statement 2017/18](#)
- [Financial Outturn 2017/18 Report](#)

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	
Not applicable										

Sign off:

Fin	Akh1 8.19. 54	Leg	Lt/3098 4/2607	Mon Off		H R		Assets		IT		Strat Proc	
Originating SMT Member – Andrew Hardingham													

Has the Cabinet Member(s) agreed the contents of the report? Yes

Statement of Accounts 2017/18

1. Introduction

- 1.1 The draft Statement of Accounts 2017/18 were approved by the Interim Strategic Director for Transformation and Change on 31 May 2018. The formal audit commenced on 29 May 2018. The External Auditor's Audit Findings Report (ISA 260 Report), including the outcome on the annual accounts audit and an action plan addressing key audit issues, is being presented to this meeting. The Accounts and Audit Regulations require the Statement of Accounts to be approved by the Council by 31 July 2018. For Plymouth, this responsibility has been delegated to the Audit Committee.
- 1.2 The Statement of Accounts for 2017/18 is attached at Appendix A.
- 1.3 The Annual Governance Statement for 2017/18 was considered and formally approved by Members at the 31 May Audit Committee.
- 1.4 The Council is also required to identify and report on any post balance sheet events that have occurred since 31 March 2018. The Statement of Accounts should therefore include [reference to] all relevant post balance sheet events up to and including the 31 July 2018.
- 1.5 As part of the final audit requirement, and prior to the issue of the audit certificate, the Council is required to complete and sign a formal letter of representation and submit this to the auditor. This letter may be signed by the Interim Strategic Director for Transformation and Change and the Chair of Audit Committee and is attached at Appendix B.
- 1.6 The Accounts have been produced in line with the relevant CIPFA Codes of Practice for 2017/18. The auditor has outlined in the ISA 260 report being presented to this Committee that he is satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2017/18 (The Code).
- 1.7 This is the first year where we were required to meet the new deadlines for publishing the draft Statement of Accounts for external audit by the 31 May and approval following audit by 31 July.

2. The 2017/18 Codes of Practice

The main Code of Practice relevant to the production of the Statement of Accounts which CIPFA publish on an annual basis is the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

- 2.1 The Code is based on approved standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Committee (IFRIC) except where these are inconsistent with specific statutory requirements.
- 2.2 CIPFA and CIPFA/LASAAC consulted widely on the 2017/18 code in preparation for the changes, particularly the Telling the Story consultation in the summer of 2015. CIPFA also engaged a working group to consider a wide range of proposals for change. Following feedback from consultations from local authority accounts preparers and the work of the Working Group, the Telling the Story consultation set out proposals for change that CIPFA/LASAAC considers will reconnect the financial statements of local authorities with the way those authorities are both organised and funded.

The changes to the 2017/18 Code therefore have two main strands:

- Amendments to introduce key reporting principles for the Narrative Report
- Clarification on the reporting requirements for accounting policies and going concern reporting

3. Issues arising since publication of the 2017/18 draft Accounts

3.1 The following paragraphs outline the relevant issues that have arisen since the publication of the draft Accounts in June.

3.2 Post Balance Sheet Events (PBSE)

3.2.1 Although the Statement of Accounts shows the financial outturn position for 2017/18 and Balance Sheet position as at 31 March 2018, the Council is required to report material events occurring after 31 March 2018.

3.2.2 Since the year ending 31 March 2018 the Council has purchased two material capital assets in Plymouth these are Derry's Cross Leisure Complex and Ballard House PBSE Note 6 (page 38).

3.3 Agreed Audit Amendments

3.3.1 The auditor's report identified one material misstatements which has been adjusted for, this relates to the reclassification of grants received in advance of £54.798 million being moved from short term to long term liabilities (see note 29.1 Capital Grant Receipts in Advance – Long Term Liabilities on page 77). This has nil effect on the provision of services. There are three unadjusted audit differences which have been reported in the BDO ISA260 report. In terms of amendments to disclosure notes, there were a few issues which came to light during the audit which have now been added to the Statement of Accounts.

3.3.2 Further details on the above amendments are reported in the External Auditor's report also on this agenda.

In addition, there have been a small number of grammatical and punctuation corrections to the document identified by both Officers and the Auditor, including the insertion of additional wording to provide clearer explanation of the accounts.

4. Statement of Accounts 2017/18

4.1 The Council's outturn position was reported to Cabinet on the 5th June 2018. This showed a breakeven position after the application of reserves, and other funds held on the balance sheet.

4.2 The General Fund Balances as at 31 March 2018 is £9.168m. This represents 5% of the net revenue budget which remains at the 5% recommended minimum approved within the Medium Term Financial Strategy.

4.3 The Balance Sheet shows our assets, liabilities and reserves. The reserves are split in to usable and unusable reserves. The unusable reserves are not available to the council but are part of technical accounting requirements.

4.4 The main movements on the Balance Sheet between 31 March 2017 and 31 March 2018 are summarised below:

4.4.1 Non-current Assets

- Property, Plant and Equipment has increased by £33.014 million partly due to the revaluation of a number of assets and also due to the addition of assets through the capital programme
- Investment Property has increased by £39.526 million due to the Council's Asset Investment fund. The Council's Capital Programme includes the provision for the purchase of Investment Properties. Investing more in these types of properties allows the Council to deliver wider benefits to the residents and economy of Plymouth.
- Long Term Investments have increased by £5.772 million reflecting a movement from short to long term investment on the advice of the Council's Treasury Management consultants Arlingclose

4.4.2 Current Assets

- Short Term Debtors have increased by £18.480 million due to a variety of reasons:
 - Increase in commercial rent invoices
 - Various central government grants outstanding
 - Capital debtors for a variety of capital schemes
 - PCC's share of Tamar Bridge debtors
- Cash and Cash Equivalents have increased by £12.079 million due to the fact that we were holding cash at year end ready to purchase property at the beginning of April. The property investment is mentioned in the note 3.2 of this report regarding Post Balance Sheet Events.

4.4.3 Current Liabilities

- Short Term Borrowing has increased by £56.948 million. This is to finance the Capital Programme in accordance with the 2017/18 approved budget and TM Strategy..
- Short Term Creditors have increased by £11.177 million for the following reasons:
 - Capital Grants received in advance from the Department of Transport and the Ministry of Housing, Communities and Local Government
 - Outstanding payment to HMRC
 - Increase in revenue grants received in advance
 - Increase in the short term creditor for the NHS and for the Devon Pension Scheme
 - Capital creditor accruals have increased in line with the increase in capital expenditure

4.4.4 Long Term Liabilities

- Long Term Creditors have increased by £14.263 million. This is mainly due to a movement in the Long Term Capital Grant Receipts in Advance which include grants from the Heritage Lottery Fund for The Box, Growth Deal funding for the Derriford Transport Scheme and Homes England for city redevelopment.
- Long Term Provisions have increased by £4.806 million which relates to an increase in the provision for business rate appeals and landfill site provision

- Long Term Borrowing has increased by £19.970 million. Some of this increase relates to additional funding for the Tamar Bridge and Torpoint Ferry Capital Programme and increases to our own Capital Programme.
- Long Term Liabilities Pensions have reduced by £36.453 million. The Council's net liability has reduced due to a reduction in the present value of the defined benefit and an increase in the fair value of the plan assets. Further detailed explanation on this movement is contained within note 34 of the Statement of Accounts.

5. Looking to the year ahead - Issues for the 2018/19 Statement of Accounts

- 5.1 This was our third and final year working with BDO and the external audit process has continued to improve. The draft Statement of Accounts were produced one week prior to the statutory deadline of the 31 May 2018.
- 5.2 There are some challenging changes to the Code of Practice in 2018/19 and we will work with the new auditors Grant Thornton (GTUK) to incorporate these changes into the Statement of Accounts for 2018/19.
- 5.3 The 2018/19 edition of the Code introduces new, or amended, accounting standards or reporting requirements in a number of areas including:
- IFRS 9 Financial Instruments.
 - IFRS 15 Revenue from Contracts with Customers.
 - Amendments to IAS12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
 - Amendments to IAS7 Statement of Cash Flows: Disclosure Initiative

As well as changes to the Codes of Practice, Officers will also be considering other documentation published by CIPFA which will have an impact on either 2018/19 or future years' accounts.

- 5.4 A detailed closedown plan has been prepared and continuously worked on since last September. We will also ensure that any improvements identified as part of this year's closedown process will be incorporated into the closedown plan for 2018/19.

We will work closely with Grant Thornton during 2018/19 to identify what testing can be brought forward to the interim audit in January. This is of particular importance due to the statutory changes and earlier deadlines which were introduced for the 2017/18 audit process.

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