

# Public Document Pack



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## **AUDIT COMMITTEE**

**DATE:** FRIDAY 26 MARCH, 2010

**TIME:** 10.00 A.M.

**PLACE:** COUNCIL HOUSE, PLYMOUTH (NEXT TO THE CIVIC CENTRE)

### **Members –**

Councillor Sam Leaves, Chair.  
Councillor Vincent, Vice-Chair.  
Councillors Stark, Thompson and Tuohy.

### **Independent Members –**

Mr. Clarke, Ms. Myles and Mr. Stewart.

### **Substitutes -**

Any Members other than a Member of the Cabinet may act as a substitute member provided that they do not have a personal and prejudicial interest in the matter under review

***Members are invited to attend the above meeting to consider the items of business overleaf***

***Members and Officers are requested to sign the attendance list at the meeting.***

BARRY KEEL  
CHIEF EXECUTIVE

## **AUDIT COMMITTEE**

### **PART I (PUBLIC COMMITTEE)**

#### **AGENDA**

**1. APOLOGIES**

To receive apologies for non-attendance submitted by Committee Members.

**2. DECLARATIONS OF INTEREST**

Members will be asked to make any declarations of interest in respect of items on this agenda.

**3. MINUTES (Pages 1 - 10)**

To confirm the minutes of the meetings held on 11 December, 2009, and 5 February, 2010.

**4. CHAIR'S URGENT BUSINESS**

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

**5. MATTER ARISING FROM DECEMBER 2009 AUDIT COMMITTEE - PROJECT MANAGEMENT ARRANGEMENTS**

The Committee will receive a presentation on Project Management Arrangements.

**6. INTERNAL AUDIT PLAN 2010/11 (Pages 11 - 22)**

The Assistant Head of Devon Audit Partnership will submit the Internal Audit Plan for 2010/11.

**7. EXTERNAL AUDIT REPORT - ANNUAL AUDIT FEE 2010/11 (Pages 23 - 28)**

The City Council's External Auditor, Grant Thornton, will submit the Annual Audit Fee for 2010/11.

**8. AUDIT COMMISSION - ANNUAL INSPECTION FEE 2010/11 (Pages 29 - 30)**

The Committee will receive the Audit Commission's Annual Inspection Fee for 2010/11.

**9. EXTERNAL AUDIT REPORT - GRANTS REPORT 2008/09 (Pages 31 - 46)**

The City Council's External Auditor, Grant Thornton, will submit the Grants Report for 2008/09.

**10. EXTERNAL AUDIT REPORT - FINANCIAL STATEMENTS PLAN 2009/10 (Pages 47 - 60)**

The City Council's External Auditor, Grant Thornton, will submit the Financial Statements Plan for year ending 31 March, 2010.

**11. EXTERNAL AUDIT PROGRESS REPORT (Pages 61 - 62)**

The City Council's External Auditor, Grant Thornton, will submit a progress report.

**12. ANNUAL REVIEW OF FINANCIAL REGULATIONS 'TO FOLLOW'**

The Director for Corporate Support will submit the Annual Review of Financial Regulations.

**13. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) TRANSITION PROJECT - PROGRESS REPORT (Pages 63 - 72)**

The Director for Corporate Support will submit a progress report in respect of the International Financial Reporting Standards (IFRS) Transition Project.

**14. CHAIR'S DRAFT AUDIT COMMITTEE ANNUAL REPORT 2009/10 (Pages 73 - 82)**

The Chair will submit her Audit Committee Annual Report for 2009/10.

**15. AUDIT COMMITTEE SELF-ASSESSMENT (Pages 83 - 94)**

The Assistant Head of Devon Audit Partnership will submit a draft self-assessment of the Committee's performance against the checklist recommended in CIPFA's "Toolkit for Local Authority Audit Committees".

**16. STRATEGIC RISK REGISTER MONITORING REPORT 'TO FOLLOW'**

The Director for Corporate Support will submit the Strategic Risk Register Monitoring Report.

**17. REVISED RISK MANAGEMENT STRATEGY 'TO FOLLOW'**

The Director for Corporate Support will submit the Revised Risk Management Strategy.

**18. AUDIT COMMITTEE WORK PROGRAMME**

**(Pages 95 - 98)**

The Assistant Head of Devon Audit Partnership will submit the Audit Committee's Work Programme for 2010/11.

**19. EXEMPT BUSINESS**

To consider passing a resolution under Section 100A(4) of the Local Government Act 1972 to exclude the press and public from the meeting for the following item(s) of business on the grounds that it (they) involve the likely disclosure of exempt information as defined in paragraph of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

**PART II (PRIVATE COMMITTEE)**

**AGENDA**

**MEMBERS OF THE PUBLIC TO NOTE**

that under the law, the Committee is entitled to consider certain items in private. Members of the public will be asked to leave the meeting when such items are discussed.

NIL

## Audit Committee

Friday 11 December, 2009

### PRESENT:

Councillor Sam Leaves, in the Chair.

Councillor Mrs. Aspinall (substitute for Councillor Vincent), Vice-Chair.

Councillors Stark, Thompson and Tuohy.

Independent Members: Mr. Clarke and Mr. Stewart.

Apology for absence: Councillor Vincent.

Also in attendance: Councillor Bowyer, Cabinet Member for Finance, Property, People and Governance.

The meeting started at 10.00 a.m. and finished at 1.05 p.m.

*Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.*

### 24. APPOINTMENT OF VICE-CHAIR

Having been proposed by the Chair and seconded by Councillor Thompson, and in the absence of any other nominations, it was resolved that Councillor Mrs. Aspinall be appointed Vice-Chair for this meeting.

### 25. DECLARATIONS OF INTEREST

The following declaration of interest was made in accordance with the Code of Conduct –

Name	Minute No. and Subject	Reason	Interest
Councillor Thompson	34 – Use of Resources 2009 – Findings and Conclusions	Governor at Plymstock School	Personal
	35 - Plymouth City Council's Use of Resources Action Plan	Governor at Plymstock School	Personal
Councillor Mrs. Aspinall	34 – Use of Resources 2009 – Findings and Conclusions	Governor at Brook Green Centre for Learning	Personal
	35 - Plymouth City Council's Use of Resources Action Plan	Governor at Brook Green Centre for Learning	Personal

### 26. MINUTES

Resolved that the minutes of the meeting held on 25 September, 2009, be confirmed as a correct record, subject to the following amendments –

(i) Minute No. 12 – Declarations of Interest

delete 'relative' from Councillor Vincent's reason so that the reason reads 'Employed by Plymouth City Bus Ltd.';

(ii) Minute No. 13 – Minutes

delete 25 September 2009 and replace with 26 June, 2009.

**CHAIR'S URGENT BUSINESS**

**27. Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice**

The Committee was informed that the City Council had received two new CIPFA codes of practice outlining changes to the Council's Treasury Management governance arrangements, following the Icelandic banking crisis and reflecting the recommendations of the Government Select Committee. The two key recommendations affecting Audit Committee were –

- (i) that a committee of the Council, preferably Audit, should have formal responsibility for the scrutiny of the Treasury Management Strategy before it was submitted to Full Council for approval;
- (ii) that members should be appropriately trained to undertake this role effectively.

Resolved that the –

- (1) provisional committee date of 22 January be used to undertake the Treasury Management Training;
- (2) Democratic Support Officer liaise with members to find an additional date in early February for general Audit Committee training.

**28. Icelandic Bank Update**

The Committee was advised that, whilst it had initially been hoped that most of the money would be recovered, including interest, it was now likely that only £5m out of the total £13m would be recovered. The City Council would be appealing this decision and was working with a number of other affected authorities to this end.

The Chair commented that this was very disappointing news and asked that members be kept informed in advance of any press release.

(In accordance with Section 100(B)(4)(b) of the Local Government Act, 1972, the Chair brought forward the above items of business because of the need to inform Members).

**29. OPERATIONAL RISK MANAGEMENT - UPDATE REPORT**

The Director for Corporate Support submitted a report outlining the continuing progress being made across services in delivering Operational Risk Registers. In attendance to present the report was the Head of Corporate Risk and Insurance who advised that -

- (i) the red risk identified in June around the structural condition of the Hoe Foreshore had been reduced to amber for a number of reasons namely –
  - the ongoing Growth and Prosperity Task and Finish Group looking at the Hoe Foreshore
  - £406,000 of health and safety improvement works to be implemented
  - decision taken to demolish Tinside Diving Stage
- (ii) two new red risks had been identified in respect of the –
  - reduction/withdrawal of grant funding for Community Safety Commissioning (drug rehabilitation and domestic violence)
  - ability of Carefirst to meet business requirements in terms of changes to service provision
- (iii) work was underway to consult on an update to the current Risk Management Strategy which, once redrafted, would be brought to the next meeting of this Committee;

- (iv) the Risk Management and Insurance Team had recently been awarded an ISO 9001 Quality Assurance accreditation.

In response to questions raised, the Committee heard that –

- (v) with regard to (ii) above, funding would run out in 12 months. In the meantime, discussions were taking place with partners in Health and the Police to explore what opportunities existed to fund jointly commissioned services;
- (vi) with regard to (ii) above, the risk was related to a computer programming problem and the Carefirst Programme Board (Chaired by the Assistant Chief Executive) was looking at how records were maintained in Children and Adult Services;
- (vii) there were 10 or 11 Risk Champions whose role was to –
- maintain the departments' individual risk registers
  - promote the importance of the risk registers through their respective departmental management teams.

The Committee thanked the Head of Corporate Risk and Insurance for his report and congratulated him and his team on receipt of their ISO 9001 Quality Assurance accreditation.

Resolved that the current position with regard to operational risk management be noted.

### 30. **OPERATIONAL RISK MANAGEMENT - COMMUNITY SERVICES DIRECTORATE**

Further to minute 19, the Assistant Director for Community Services (Business Support) and the department Risk Champion were in attendance to report on operational risk management within the Community Services Department. The Committee was informed that –

- (i) as risk registers now included mitigation actions/controls for all risks identified and were being built into the business plan monitoring framework in each service, they were proving to be a useful tool in helping departments keep an eye on the 'golden thread' between priorities and service delivery;
- (ii) the Community Services departmental management team discussed risk on a monthly basis and submitted a bi-monthly report to Cabinet. In addition, once a quarter, a formal review of strategic and operational risks was undertaken and anything of significance highlighted and fed down through the department.

In response to questions raised, Members heard further that –

- (iii) relations with health partners were very good and had recently been formalised through the establishment of the following –
- Health and Adult Social Care Board, chaired by the Cabinet Member for Adult Health and Social Care
  - Joint Provider Board, chaired by the Director for Community Services
  - Joint Commissioning Board, chaired by the Chief Executive of NHS Plymouth
- (iv) there was a growing awareness amongst staff of the importance of managing risk, particularly managers as it featured as a management competency in the Council's employee Competency Framework. The appraisal process would help cascade this information down further to staff of all levels;
- (v) the Council was prepared to deal with a flu pandemic through both its Business Continuity Planning process and its separate Pandemic Flu Plan. All of the Adult Social Care frontline staff were being vaccinated on a voluntary basis.

The Committee welcomed the opportunity to hear from departments direct on operational risk management and thanked the officers for their attendance.

## 31. **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) TRANSITION PROJECT - PROGRESS REPORT**

The Director for Corporate Support submitted an update in respect of the International Financial Reporting Standards (IFRS) Transition Project. The report advised –

- (i) that detailed impact assessments had now been completed for each of the International Reporting Standards;
- (ii) of work which was currently in progress;
- (iii) that new accounting requirements for Private Finance Initiative (PFI) contracts would be coming into effect for the 2009/10 accounts.
- (iv) of the main changes that had been made to the draft IFRS Code of Practice;
- (v) that, following representations from CIPFA, the Department for Communities and Local Government had issued draft regulations outlining proposals to mitigate any financial impact resulting from the move to IFRS based accounting to Council Tax payers;
- (vi) that officer training in this regard was continuing and that a meeting had been arranged with Plymouth Primary Care Trust in order to learn from the NHS experience;
- (v) that officers would shortly be asking the external auditor to review the initial work undertaken.

The Committee's attention was drawn to an error in the report at paragraph 1.1 which should read 2010/11 and not 2011/12.

Resolved that progress on the IFRS Transition Project as at the end of December, 2009, be noted.

## 32. **AUDIT COMMITTEE WORK PROGRAMME**

The Assistant Head of Devon Audit Partnership submitted the Audit Committee's Work Programme for January 2010 – December 2010. The Committee was advised that –

- (i) further to minute 27, the provisional meeting date of 22 January would now be used for Treasury Management training;
- (ii) the following issues required timetabling –
  - demonstration of ePerform
  - Treasury Management updates
- (iii) the timeline for consideration of the Annual Audit Letter 2008/09 needed to be changed to reflect the fact that it had been considered at this meeting.

Resolved that the Work Programme be noted.

## 33. **ANNUAL AUDIT LETTER 2008/09**

The Committee considered the Annual Audit Letter for 2008/09 as submitted by the City Council's External Auditor, Grant Thornton. The letter summarised the key messages and conclusions which had arisen from the work of Grant Thornton during their 2008/09 audit namely –

- auditing the 2008-09 financial statements
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources



- PAYE and Employment Tax review
- Certification work on grant claims and returns

Members welcomed the positive nature of the letter and thanked Grant Thornton for their involvement and encouragement during the auditing process.

Resolved that –

- (1) the Annual Audit letter for 2008/09 be noted with thanks;
- (2) an e-mail be sent to all staff sharing the External Auditor's positive view of the Council's performance in regard to managing its finances and delivering improvements to the residents of Plymouth;
- (3) with regard to (2) above, a press release be prepared on behalf of the Audit Committee by the Assistant Director Finance, Assets and Efficiencies in consultation with the Chair and Vice-Chair.

34. **USE OF RESOURCES 2009 - FINDINGS AND CONCLUSIONS**

The Committee considered the report submitted by the City Council's External Auditor, Grant Thornton. The report presented the findings of the 'use of resources' and 'value for money' work undertaken by Grant Thornton in 2008/09. Members were advised that -

- (i) the new assessment, introduced by the Audit Commission in 2009, presented a more robust challenge than the old framework based on different scoring criteria;
- (ii) despite the more robust assessment, Plymouth City Council had continued to perform well in a number of areas and had achieved an overall 'Use of Resources' score of 2 – performs adequately – from the following themes –
  - Managing Finances 3
  - Governing the Business 2
  - Managing Resources 2
- (iii) the key actions for the Council arising from the assessment were included in the action plan against which progress should continue to be monitored by the Audit Committee.

The Chair welcomed the report which contained lots of good news and was very encouraging. The Assistant Director Finance, Assets and Efficiencies reiterated the comments of the Chair, highlighting that two years ago the theme scores had been mostly 1s and 2s whereas now they were mostly 2s and 3s. He was confident that, should this momentum continue, the Council would be able to achieve an overall score of 3 next year.

Resolved that the report be noted.

(Councillors Mrs. Aspinall and Thompson declared personal interests in respect of the above item).

35. **PLYMOUTH CITY COUNCIL'S USE OF RESOURCES ACTION PLAN**

The Assistant Director Finance, Assets and Efficiencies updated the Committee on the 'Use of Resources' Action Plan. Members were advised that –

- (i) a detailed action plan had been prepared identifying officer leads against each action point;
- (ii) the importance of financial planning was recognised and bi-monthly reports were produced;
- (iii) a new Head of Value for Money was now in post;
- (iv) outcomes for 2009/10 would be improved by focussing on –

- Use of Data
- Use of Natural Resources
- Workforce (new assessment)

In response to questions raised, Members heard further that –

(v) the message was getting through to the public in a number of ways –

- publication of the Council's Statement of Accounts
- presentation of the Corporate Improvement Priorities (CIPs) at various public events such as Area Committees and CMT sessions (one of which had been held in Drake Circus)

however, officers continued working to identify other appropriate methods of communication;

(vi) different ways of working within the Council were being considered and, despite initial reservations by some staff, the new 'hot-desking' arrangement in Finance was working well.

Councillor Mrs. Aspinall highlighted the importance of educating staff in energy conservation and quoted an example of where, despite installation of a new more efficient heating system at Brook Green Centre for Learning, energy bills remained high. It had subsequently been discovered that the thermostats had been set high and teachers had been opening windows to compensate for the heat instead of turning the thermostats down.

Resolved that –

- (1) the update on the Use of Resources Action Plan be noted;
- (2) a copy of the presentation be circulated to Committee Members at the earliest opportunity.

(Councillors Mrs. Aspinall and Thompson declared personal interests in respect of the above item).

## 36. **AUDIT PLAN - PROGRESS REPORT**

The Committee received the Audit Plan Progress Report for 2008/09 as submitted by the City Council's External Auditor, Grant Thornton.

Resolved that the report be noted.

## 37. **PROJECT MANAGEMENT ARRANGEMENTS**

The Committee considered the Project Management Arrangements report, as submitted by the City Council's External Auditor, Grant Thornton. The report detailed the key findings of the review of the Council's corporate project management arrangements, focussing on –

- elements of achievement of the Corporate Improvement Priorities (CIPs) and the Building Schools for the Future programme
- the project management methodology for capital schemes

The Assistant Director Finance Assets and Efficiencies commented that –

- an action plan was being drawn up in response to the recommendations set out in the report and would be brought back to a future meeting of this Committee
- proper governance boards were in place in respect of Capital Schemes and officers were looking at different ways of how they could be monitored. This included a very graphical pilot being trialled over 12 projects

Concern was expressed that public perception of large-scale schemes such as the Life Centre was often negative and that they were a waste of money. More needed to be done to highlight the benefit of such schemes and demonstrate value for money.

Resolved that –

- (1) a member of the Project Management team be invited to attend a future meeting of the Committee;
- (2) the report be noted.

### 38. **EXEMPT BUSINESS**

Resolved that under Section 100A94) of the Local Government Act 1972 the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

### 39. **INTERNAL AUDIT - 6-MONTHLY PROGRESS REPORT (E3)**

The Director for Corporate Support submitted the Internal Audit six-monthly progress report. The report –

- (i) reviewed audit work carried out since April, 2009;
- (ii) commented on current commitments and performance;
- (iii) outlined proposed audit coverage for the remainder of the financial year.

Although computer misuse now formed part of the staff induction programme, Members still had concerns that not all staff were fully aware of what the policy entailed and that communication in general to staff was poor. The Chair suggested that this may be something that scrutiny would like to consider as part of its work programme. Councillor Thompson advised that he was a member of the Overview and Scrutiny Management Board and would be happy to take this proposal forward.

Resolved that -

- (1) the report be noted;
- (2) the adjustments to the 2009/10 Audit Plan be approved;
- (3) future reports be submitted under Part I of the agenda;
- (4) the Overview and Scrutiny Management Board be requested to consider looking at communication to staff as part of the scrutiny work programme, particularly in light of the Council's equality and diversity agenda.

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## Audit Committee

Friday 5 February, 2010

### PRESENT:

Councillor Sam Leaves, in the Chair.  
Councillor Vincent, Vice-Chair.  
Councillors Thompson and Tuohy.

Independent Members: Mr. Clarke and Mr. Stewart.

Apologies for absence: Councillor Stark and Ms. Myles, Independent Member.

Also in attendance: Councillor Bowyer, Cabinet Member for Finance, Property, People and Governance.

The meeting started at 9.15 a.m. and finished at 10.00 a.m.

*Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.*

#### 40. **DECLARATIONS OF INTEREST**

There were no declarations of interest made in accordance with the Code of Conduct.

#### 41. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's Urgent Business.

#### 42. **TREASURY MANAGEMENT STATEMENT AND INVESTMENT STRATEGY 2010/2011**

The Director for Corporate Support submitted for the Committee's consideration the Treasury Management Statement and Investment Strategy 2010/2011. Members were informed that the report would be considered by Cabinet on 9 February and the Overview and Scrutiny Management Board, as part of the budget scrutiny process, on 15 and 17 February, 2010.

The report –

- (i) outlined how the treasury management function contributed to the Council's policy objectives;
- (ii) set out in detail the risks inherent within the treasury management function and how officers would seek to minimise those risks;
- (iii) made recommendations to Cabinet –
  - (1) to approve the Treasury Management Strategy Statement for 2010/11, subject to feedback from Audit Committee;
  - (2) to approve the Investment Strategy for 2010/11 as outlined in Section 13 of the report, subject to feedback from Audit Committee;
  - (3) to approve the Lending Organisations and Counter Party Limits as outlined in Appendix E;
  - (4) to request the Director for Corporate Support acting under delegated authority in accordance with Financial Regulations, to keep the lending list under review and update the list during the year as dictated by market circumstances;
  - (5) to recommend to Full Council (subject to any amendments that may be required as a result of the inclusion of the PFI scheme on the balance sheet) to approve:

- a) the Authorised Borrowing limits of £312m, £302m and £289m for the period 2010/11 to 2012/13;
  - b) the Operational Boundary of £260m, £260m and £258m for 2010/11 to 2012/13;
  - c) the Prudential Indicators set out in Appendix B;
  - d) the MRP Policy for 2010/11.
- (6) a formal mid-year review and monitoring report be taken to Audit Committee.

In response to questions raised, Members were advised that –

- (iv) the Capital Financing Requirement (CFR) was one of the indicators against which the Council benchmarked with other authorities;
- (v) the section of the report relating to Treasury Management Risk had been rewritten to take account of comments made by Members at the Treasury Management Training held on 22 January, 2010;
- (vi) officers continued to work closely with the Council's Treasury Management advisors, Arlingclose Ltd., to maximise borrowing and investment opportunities whilst minimising financial risk;
- (vii) Arlingclose Ltd. received a payment of £20,000 per annum for their services;
- (viii) in light of the Icelandic Bank situation all current borrowing was on a short-term loan basis. Interest rates were reviewed daily and, whilst it was anticipated that they would remain static for some time to come, if they did start to rise existing investments could be use to pay off any short-term loans and longer-term borrowing options explored;
- (ix) there were 4 members of staff in the Treasury Management team but only one of whom worked on Treasury Management full-time. The Treasury Management Board, comprising the Corporate Accountancy and Finance Manager, Director for Corporate Support, Assistant Director Finance, Assets and Efficiencies and the Cabinet Member for Finance, Property People and Governance, met on a weekly basis;
- (x) borrowing was informed by the capital programme which allowed for changes to be made depending on the current financial climate. There was also the opportunity to borrow to invest in advance of spending on the capital programme.

Resolved that the recommendations to Cabinet, as set out in the report and at (iii) above, be supported.

43. **EXEMPT BUSINESS**

There were no items of exempt business.

## CITY OF PLYMOUTH

**Subject:** Internal Audit Plan 2010/11  
**Committee:** Audit Committee  
**Date:** 26<sup>th</sup> March 2010  
**Cabinet Member:** Cllr Bowyer  
**CMT Member:** Director for Corporate Support  
**Author:** Sue Watts, Asst Head of Devon Audit Partnership  
**Contact:** Tel: (01752 (30) 6710  
Email: sue.watts@devonaudit.gov.uk  
**Ref:**  
**Part:** I

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**Executive Summary:**

This report provides information on the legislative requirement for local authorities to provide an Internal Audit (IA) service in accordance with the Accounts and Audit Regulations 2006; the need for an annual risk-based IA plan to be prepared; and the methodology of identifying the audit needs for the Authority.

The report comments on the delivery of the Council's Internal Audit provision by Devon Audit Partnership (DAP) which is a shared service arrangement between Plymouth City, Torbay and Devon County Councils and which commenced on 1<sup>st</sup> April 2009.

This report comments on IA resources available to carry out the 2010/11 plan, and identifies the number of days work to be carried out analysed between systems / procurement reviews, IT audits, school's reviews, anti-fraud work, consultancy, corporate governance, contingency and other chargeable work. The report also contains details of the specific audit reviews to be undertaken.

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**Corporate Plan 2009-2012:**

The work of the Internal Audit assists the Authority in maintaining high standards of public accountability and probity in the use of public funds. The Service has a role in promoting high standards of service planning, internal control, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.

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**Implications for Medium Term Financial Plan and Resource Implications:**  
**Including finance, human, IT and land**  
None

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment etc.**

The work of Internal Audit is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

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**Recommendations and Reasons for recommended action:**

It is recommended that:

1. The report be noted
  2. The proposed Internal Audit Plan for 2010/11 at Appendices 1 and 2 be approved.
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**Alternative options considered and reasons for recommended action:**

The Accounts and Audit Regulations 2003 and 2006 require that the Authority maintains an adequate and effective system of internal audit and the annual audit plan sets out the Authority's intentions and commitment in this respect. No alternatives have, therefore, been considered.

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**Background papers:**

Accounts and Audit Regulations 2003 and 2006

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**Sign off:** comment must be sought from those whose area of responsibility may be affected by the decision, as follows (insert initials of Finance and Legal reps, and of Heads of HR, Corp Prop, IT and Strat. Proc.):

Fin	MC 26/2/10	Leg		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Asst Head Devon Audit Partnership											



## **INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2010/11**

### **1. INTRODUCTION**

- 1.1 All principal Local Authorities, including Plymouth City Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006, which require that the Authority should make provision for Internal Audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code).
- 1.2 The Code requires, inter alia, that Internal Audit should prepare an annual risk-based plan for approval by the Audit Committee. In addition the Code requires that the Chief Internal Auditor should provide, annually, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 1.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

### **2. AUDIT NEEDS ASSESSMENT**

- 2.1 The audit plan for 2010/11 plan has been identified by:
  - Adopting a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines a schedule of priorities for audit attention.
  - Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including the introduction of new systems and corporate initiatives.
  - Taking into account results of previous internal audit reviews.
  - Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to improving the Council's Comprehensive Area Assessment.
  - Consideration of risks identified in the Authority's strategic and operational risk registers.

The resultant Internal Audit Plan for 2010/11 is set out in Appendices 1 and 2.

### **3. INTERNAL AUDIT PARTNERSHIP**

- 3.1 Since 1<sup>st</sup> April 2009 the Internal Audit Service for Plymouth City Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and is constituted under section 20 of the Local Government Act 2000.

- 3.2 Although delivery of each authority's audit requirements is resourced by DAP, each authority's audit plan for 2010/11 has been prepared individually as hitherto.

#### **4. INTERNAL AUDIT RESOURCES**

- 4.1 The level of internal audit resource provided by DAP to each partner authority is based on the number of staff, and budget, transferred to the partnership on 1<sup>st</sup> April 2009 and the 3 year partnership agreement provides for a minimum of 95% budget funding in years 2 and 3 of the partnership.
- 4.2 The total number of direct audit days available to service Plymouth's internal audit requirement will be 2107 days in 2010/11.

#### **5. PLANNED AUDIT COVERAGE 2010/11**

- 5.1 Appendix 1 shows a summary of planned audit coverage for 2010/11 totalling 2,107 direct days. A more detailed analysis of proposed audit reviews is provided in Appendix 2. It should be borne in mind that, in accordance with CIPFA's Code of Practice for Internal Audit, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority. In this respect the IA Plan includes a contingency to allow for unplanned work. Any future proposed changes to the plan will be brought back to Audit Committee for approval.
- 5.2 The following paragraphs give a brief overview of the focus of proposed audit coverage for the year:-

##### **Systems / Procurement / Cross Cutting Reviews**

- 5.3 A key element of the IA Plan for the year is to undertake reviews of the Authority's material systems. The International Standards for Auditing (ISA) require that an annual review is carried out of the effectiveness of controls for each of the Council's systems from which the balances and disclosures in the Authority's accounts are derived. Under the Managed Audit arrangements, the External Auditor looks to place reliance on the work undertaken by Internal Audit to assist them in determining their opinion as to whether or not the annual accounts provide a true and fair view of the Council's financial position. This framework for co-operation helps to lessen the disruption to staff in the service areas and minimises the external audit fee.
- 5.4 In addition to the material systems audits, IA carries out other reviews throughout the whole of the Authority to address critical business and management issues which pose a threat or risk to the Authority achieving its strategic and corporate objectives eg data quality, and safeguarding etc.
- 5.5 The IA plan also links with the Council's corporate improvement priorities (CIP's) for 2010/11 where value can be added eg individual budgets within social care, and the customer relations and management process etc.

#### **ICT Audit**

- 5.6 The Authority uses a wide range of Information Technology for an increasingly diverse and complex range of business needs. The 2010/11 Audit Plan includes time for reviewing key risks in relation to ICT and has been compiled using the same risk analysis methodology as the rest of the Audit Plan and in many cases reflects areas that appear on the Council's strategic and operational risk registers to ensure that the best use is made of the limited specialised resources available. The plan is focussed around information management and security but also includes the review of IT aspects of the material systems and the examination of both ICT infrastructure and procedures. In addition, technical advice and assistance on ICT control issues will be given to departments throughout the Authority.

### **Schools Audits**

- 5.7 Audit reviews of the control and governance arrangements within schools will continue to be carried out on a three year cyclical basis with the outcome used by schools to evidence that they meet certain elements of the Financial Management Standard in Schools (FMSiS), most notably that there is effective control over income, payroll, purchasing, banking, petty cash, taxation, voluntary funds and assets. During 2009/10, Internal Audit combined the routine audit review and FMSiS external assessment so that the majority of schools will now receive one rather than two separate visits.
- 5.8 It is worth noting that schools have budget delegation which enables them to purchase Internal Audit services with either a buy-back provision from Devon Audit Partnership; or via the private sector, subject to the Director for Corporate Support being satisfied with the quality of the proposed supplier. All of the Council's 97 schools opted to buy-back the in-house Internal Audit service for 2009/10 and confirmation is currently awaited on the take-up for 2010/11.

### **Anti Fraud**

- 5.9 Counter-fraud arrangements are a high priority for the Council and they impact directly on the CAA Use of Resources assessment for Internal Control.
- 5.10 Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud.
- 5.11 The Audit Commission runs a national data matching exercise (National Fraud Initiative) every two years. During the coming year, Internal Audit will again work with departments to ensure that the data sets required by the Audit Commission for the 2010/11 NFI exercise are extracted from the Council's systems in accordance with the data specifications needed for uploading to the NFI web application in October 2010.
- 5.12 The data matches will be made available to the Authority at the end of January 2011 and Internal Audit will co-ordinate the departmental investigation of potentially fraudulent matches which have been identified by the Audit Commission during the data matching exercise.

**Consultancy / Advice**

- 5.13 Internal Audit will continue to be consulted by all departments throughout the Authority on many and varied topics including, for example, interpretation of Financial Regulations/Standing Orders, corporate governance, internal controls, legislation (e.g. Data Protection), security, letting of contracts, PC/network access etc. The pro-active involvement of Internal Audit in risk and control issues, relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse.

**Corporate Governance**

- 5.14 Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2010/11, eg Audit Committee, CAA, Annual Governance Statement.

**6. RECOMMENDATIONS**

- 6.1 It is recommended that:-

- (i) The report be noted
- (ii) The proposed Internal Audit plan for 2010/11 at Appendices 1 and 2 be approved

## APPENDIX 1

**INTERNAL AUDIT****SUMMARY WORK PROGRAMME 2010/11**

	<b>TOTAL DAYS</b>	<b>%</b>
Systems / Procurement / Cross Cutting	917	44
ICT	200	9
Schools	250	12
Anti-fraud / NFI	250	12
Consultancy / Advice	95	5
Corporate Governance	100	5
Contingency	115	5
Other Chargeable Activities	180	8
<b>Total Audit Days</b>	<b>2107</b>	<b>100</b>

## System Reviews

Total resources of 917 direct days will be allocated in this area on the following reviews:

System	System Priority
<b><u>Material Systems</u></b>	
Housing Benefits	Compulsory
Creditors	Compulsory
Main Accounting System	Compulsory
CareFirst - Care Leavers (CYPS)	Compulsory
CareFirst - Residential Care Payments (Comm Serv)	Compulsory
Payroll	Compulsory
Council Tax	Compulsory
Loans & Investments	Compulsory
Capital Accounting (Asset Register)	Compulsory
NNDR	Compulsory
Debtors	Compulsory
Cash Collection	Compulsory
Supporting People	Compulsory
CareFirst - Children Independent Placements 09/10 (Follow-Up)	Compulsory
CareFirst – Dom Care 09/10 (Follow-Up)	Compulsory
<b><u>Other Systems - Development and Regeneration Directorate</u></b>	
PCH Monitoring	High
Plymouth Market	High
Concessionary Fares 09/10 Follow-Up	Compulsory
Parks Services – Equipment Store 09/10 Follow-Up	Compulsory
Housing Retained Services – Choice Based Lettings 09/10 Follow-Up	Compulsory
<b><u>Other Systems - Corporate Support</u></b>	
SAP Development	Critical
Lifecycle of Employment	Critical
Governance/Monitoring of Capital Programme	High
CRB & Independent Safeguarding Authority (inc CRB 09/10 Review Follow-Up)	High
Customer Relations Management (CRM)	High
Telephony	High
<b><u>Other Systems – Chief Executive</u></b>	
Stretch Target 6 (Drugs)	High
LAA - National Indicator Set	Medium

<b><u>Other Systems - Community Services Directorate</u></b>	
Data Quality	High
Safeguarding Adults	Medium
Individual Budgets	Medium
Mt Edgcumbe – End of Year Accounts 09/10	Compulsory
Trade Waste 09/10 Follow-Up	Compulsory
Fleet & Garage 09/10 Follow-Up	Compulsory
Mt Edgcumbe	Medium
<b><u>Other Systems – Children and Young People Directorate</u></b>	
Data Quality	Critical
Learning Skills Council transfer	Medium
ContactPoint	Medium
Review of Local Safeguarding Children Board (LSCB) 09/10 Follow-Up	Compulsory
<b><u>Procurement / Contract Audit</u></b>	
BSF Exec Board and School Construct Projects	High
Corporate Procurement Policies and Strategies	High
Life Centre / Leisure Management	High
Purchase to Pay Project (P2P)	High
Waste Management - SWDWP (Waste PFI)	Medium
Commissioning & Contracting – Adult Social Care	Medium
Waste Management – Interim Solution 09/10 Follow-Up	Compulsory
Schools PFI Contract Monitoring 09/10 Follow-Up	Compulsory
Highways Amey Contract 09/10 Follow-Up	Compulsory
Security Contract 09/10 Follow-Up	Compulsory
<b><u>Cross Cutting Reviews</u></b>	
Implications of Significant Partnerships	High
Carbon Management	Medium
DCal (transaction testing) 09/10 Follow-Up	Compulsory
<b><u>Grant Certification</u></b>	
New Growth Points Grant 09/10	Compulsory
Supporting People Grant 09/10	Compulsory
National Stroke Strategy Grant 09/10	Compulsory
<b><u>Carry Forward Completion Work</u></b>	
Main Accounting System 09/10	Compulsory
Loans & Investments 09/10	Compulsory
Capital Accounting 09/10	Compulsory
Security Contract 09/10	Compulsory
Highways Amey Contract 09/10	Compulsory
LAA – Data Quality Nat Indicator Set 09/10	Compulsory
Concessionary Fares 09/10	Compulsory
Child Independent Placements 09/10	Compulsory
Payroll System 09/10	Compulsory
Commercial Rents Follow-up	Compulsory

Devonport Regeneration Com Partnership 09/10	Compulsory
Fleet & Garage 09/10	Compulsory
Choice Based Lettings 09/10	Compulsory
Cash Collection 09/10	Compulsory
Direct Payments Financial Monitoring F/U	Compulsory

### ICT Work Programme

Total resources of 200 direct days will be allocated in this area on the following reviews:

System	System Priority
<b><u>ICT Audit</u></b>	
Material Systems IT Issues (09/10)	Compulsory
Material Systems IT Issues (10/11)	Compulsory
Carefirst 5 System Review	Critical
Carefirst 6 (Children)/ Programme Board/Follow up	Critical
Implementation of Single Sign-On	Critical
Corporate Information Management	High
File Storage (Includes S:\ & F:\ Drives)	High
Information Security	High
Program Management System (PMG)	High
Corporate Business Continuity	High
Partnership Working (ICT Systems)	High
Follow up of previous work	Compulsory
Internal Audit Consultancy on IT Issues/Projects/Policy	High
HR/Payroll / SAP	High

### Corporate Governance

Total resources of 100 direct days will be allocated in this area on the following reviews:

System	System Priority
Audit Committee	Compulsory
CAA	High
Benchmarking	High
Policy Development & Advice	High
External Audit	Compulsory
Whistleblowing	High
Audit Bulletins (inc Schools)	High
Annual Governance Statement	Compulsory



## Schools Audit Reviews

Total resources of 250 direct days will be allocated in this area at the following schools:

Establishment
<b><u>Combined Routine School Audits and FMSiS External Assessments</u></b>
<b>Primary &amp; Special</b>
Estover Primary School
Longcause Community Special School
Manadon Vale Primary School
High View Primary School
Mayflower Community School
Shakespeare Community School
Leigham Primary School
Holy Cross Catholic Primary School
Pomphlett Primary School
High Street Primary School
Hooe Primary School
Goosewell Primary School
Courtlands School
St Joseph's Catholic Primary School
Compton C of E Primary School
Old Priory Junior School
Mill Ford School
Widely Court Primary School
Hyde Park Infant School
Plympton St Maurice Primary School
Ford Primary
Morice Town Primary School
<b>Secondary</b>
Completion of 2009/10 visits
Devonport High School for Boys
Ridgeway School
Stoke Damerel Community College
Lipson Community College
Devonport High School for Girls

<b><u>FMSiS External Assessment Only – (Deferred from 09/10 at Schools' Request)</u></b>
Thornbury Primary
Plympton St Mary C of E Infant
<b><u>FMSiS External Re-Assessments</u></b>
Salisbury Road Primary
Whitleigh Community Primary
<b><u>Routine Audit Visits Only</u></b>
Tamarside Community College
John Kitto Community College
<b><u>Plymouth Tuition Service - Pupil Referral Unit</u></b>
Centre For Young Parents – Wood View Campus



# Grant Thornton

Our Ref BM/LAW - PCC

Mr Barry Keel  
Chief Executive  
Plymouth City Council  
Civic Centre  
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8 March 2010

Dear Barry

## **ANNUAL AUDIT FEE 2010-11**

Further to our recent discussions with the Director of Corporate Support, I am writing to confirm the audit work that we propose to undertake for the 2010-11 financial year at Plymouth City Council. The proposed fee includes the audit elements of work carried out by us as your appointed auditors. This is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010-11.

The fees relating to the “managing performance” theme that informs the Comprehensive Area Assessment (CAA) will be reported separately through your CAA Lead at the Audit Commission.

As we have not yet completed our audit for 2009-10, the audit planning process for 2010-11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The Audit Commission has published its work programme and scales of fees for 2010-11. It has defined the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice. It represents the Audit Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.

The Audit Commission expectation is that the fee payable is the scale fee. Any variation to the scale fee needs to be justified on the grounds of more or less work being undertaken than is envisaged within the scale fee because of specific local factors or risks.

The scale fee for Plymouth City Council for 2010-11 is £335,978 (2009-10 £319,441), exclusive of VAT. The audit fee proposed for 2010-11 is in line with the above scale fee and compares to the planned fee of £319,441 for 2009-10. This represents an increase of just under 5.2%.

A summary of this is shown in the table overleaf.

### **Chartered Accountants**

Member firm within Grant Thornton International Ltd  
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP  
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

**Audit fee**

<b>Audit area</b>	<b>Planned fee 2010-11</b>	<b>Planned fee 2009-10</b>
Financial statements	218,386	206,904
Use of Resources/VFM Conclusion	115,912	110,827
WGA	1,680	1,170
<b>Total audit fee</b>	<b>335,978</b>	<b>319,441</b>
Certification of claims and returns (estimate)	55,000	80,000

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009-10. A separate plan for the audit of the financial statements will be issued in late 2010, once the outcomes of the 2009-10 audit are known. This will detail the risks identified, planned audit procedures and any changes in fee.

From 2010-11, the Council will be required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase our work, particularly in the first year when the Council needs to restate its previous year's accounts on the new basis, to provide prior year comparatives. The scale fee has been increased by 6% nationally to reflect the costs of this additional work. The Audit Commission has already confirmed its intention to offset this increase by a subsidy to cover the one-off element of the cost of the transition to IFRS. The Audit Commission will be writing to you separately to confirm the arrangements for payment of this subsidy.

The fee quoted for grant certification work is an estimate and will be charged based on the actual time required to audit each claim at prescribed rates set out in the Audit Commission's published work programme and scales fees guidance for 2010-11. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Our use of resources assessments will be based upon the evidence from three themes:

- managing finances;
- governing the business; and
- managing resources.

The Audit Commission is committed to carrying out a fundamental review of their approach to value for money work, including the use of resources, with a view to making changes with effect from 2010-11. Pending the results of this review, further details of the specified key lines of enquiry and the timetable for the 2010-11 assessments will be published as part of the use of resources guidance, on the Audit Commission's website. We will discuss any proposed changes to this approach with the Council, once these are known.

Our work on use of resources informs our 2010-11 value for money conclusion. However, we have identified a number of potential issues and risks in relation to our value for money conclusion. For each of these audit risks, we consider the arrangements put in place by the Council to manage this and, plan our work accordingly. Our initial assessment for our value for money audit work is shown in the table below:

Issue	Planned response
<p>In the current economic climate, the Council continues to face a challenging revenue budget. Government funding is reducing, income streams are significantly reduced and demand for services remains high. Furthermore, the Council needs to manage the shortfall in its pension funding. However, the Council continues to be ambitious with its future plans. To address this, the Council will continue to reduce back office support functions and to allocate resources to improving front line services. The Council will need to manage this process effectively to ensure that there is no impact on front line services. Furthermore, there is a risk to the delivery of the Council's priorities if these real savings are not achieved or not considered to be on-going.</p>	<p>We will review the Council's budget setting process for 2010-11 including its efficiency saving programme, and budget monitoring and prioritisation during the year as part of the 'managing finances' theme.</p>
<p>IFRS will apply at local government bodies from 2010-11 onwards.</p> <p>Unlike the transition to IFRS for NHS bodies and probation boards/trusts, the Audit Commission has not received a request for auditors to consider the restatement of the balance sheet. Additional work beyond that to support the opinion on the financial statements will not be mandated by the Audit Commission. Our experience, working with the NHS shows that the transition to IFRS is a complex and time consuming process.</p> <p>We have had early discussions with the finance team on their process to date with their transition to IFRS and we agree that they are assessed as an amber risk with regard to successful implementation.</p>	<p>We will regularly review the Council's progress with IFRS implementation as part of the 'managing finances' theme.</p>
<p>The proposed capital programme for 2010-11 to 2014-15 is £267m. This programme includes strategic projects such as the Life Centre, capital investment in schools, waste disposal improvements and major transport improvements. As there is uncertainty around future capital receipts and future government funding, the Council is only approving schemes where specific funding has been clearly identified with a supporting business case.</p> <p>As identified in our 2009-10 audit fee letter, there remains a risk that, without adequate management of these projects, corporate objectives on regeneration will not be met, and the limited Council finances available may not be utilised effectively.</p>	<p>We will undertake a follow up review of our work on capital and project management as part of the 'managing finances', 'governing the business' and 'managing resources' theme.</p>
<p>The Department for Communities and Local Government has approved the Council's entry into the Building Schools for the Future programme with an estimated allocation of £80m. If the Council is successful in obtaining this funding then the legal and</p>	<p>We will review the management, procurement and governance arrangements in place for the Building Schools for the Future programme building on our knowledge from our</p>

procurement process and wide stakeholder involvement will need to be adequately managed in order to deliver part of the, 'developing high quality places to learn in' corporate improvement priority.	project management review undertaken in 2008-09.
Adult social care will continue to help people to live independently and to increase the number of residents who have a personal budget. The principle supporting personal budgets is that if users are given choice and control over their support they will buy, or request, personalised and more appropriate services. This could lead to improved outcomes and, potentially, cost savings. Adequate systems need to be in place for monitoring personal budgets, both to measure value for money outcomes and to ensure that adequate safeguarding processes are in place to prevent fraud and financial abuse.	We will review and monitor the Council's systems that are in place to record personal budgets, to assess if the key risks are being managed. This review will involve joint working between external and internal audit.
A significant current and future budget pressure facing the Council is adult social care. The Council faces the challenge of an ageing population as public spending reduces. The Council is intending to make significant changes to its service delivery through personalisation, integration with health and modernising services.  The Audit Commission has recently published their report, 'Under Pressure' where it has identified that most councils do not know enough about the costs of their ageing populations. Furthermore, they may also miss the savings that could flow from preventive services and better work with other organisations.	We will review the transformation process for delivery of adult social care including the arrangements in place to ensure effective partnership working with other organisations.
From 2010, subject to legislation, local authorities will have a statutory duty to provide/commission learning places for pre-19 years olds. In addition, they will have a duty to secure sufficient provision for young people up to the age of 19 in their areas.  By 2013 local authorities (LAs) will have a statutory duty to deliver full participation for all 17 year olds in education and training (rising to 18 year olds by 2015). There will be transition arrangements in 2009 and a gateway process to ensure LAs have capability to assume commissioning responsibilities.  The change may lead to audit risks relating to controls put in place to manage and account for new resources, including the risk of financial misstatement.	We will review the Council's management arrangements in place to manage and account for the transfer of Learning Skills Council funding. We will use the work of Internal Audit, as far as possible, to complete this review.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The proposed fee excludes any work requested by you that we may agree to undertake using our advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key numbers of the audit team for 2010-11 are unchanged from the previous year and, their contact details are:

Barrie Morris - Engagement Lead                      0117 305 7708

Lesley Whitworth - Audit Manager                      0117 305 7753

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the Head of Government Audit, Sarah Howard at [sarah.howard@gtuk.com](mailto:sarah.howard@gtuk.com).

Yours sincerely

**BARRIE MORRIS**

**Director and Engagement Lead**

**For Grant Thornton UK LLP**

**c.c. Adam Broome, Director for Corporate Support**

**c.c. Councillor Sam Leaves, Chair of the Audit Committee**

DRAFT

## Appendix 1:      Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Resources Scrutiny committee.

**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit Fee Letter 2010-11	March 2010
Financial Statements Plan	November 2010
Interim Audit Report	April 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Annual audit letter	November 2011
Grants certification report	December 2011



**Our reference** SK/GE

15 March 2010

Mr Barry Keel  
Chief Executive  
Plymouth City Council  
Civic Centre  
Plymouth  
Devon  
PL1 2AA

— Dear Barry

### **Annual Inspection Fee 2010/11**

Further to our discussions, I am writing to confirm the assessment and inspection work that we propose to undertake for the 2010/11 financial year at Plymouth City Council. The inspection fee:

- is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance; and
- reflects only the Audit Commission's inspection work, excluding any audit fees. Your appointed auditor will be writing to you separately on fees for audit work.

CAA will deliver a more proportionate and risk based approach to inspection, targeting only high risk services and outcomes for inspection where alternative improvement activity is not appropriate. The inspection plan will be reviewed and updated as necessary.

The total indicative fee for inspection for 2010/11 is £16,630 and is shown in the table overleaf. The inspection fee has been set in accordance with the Audit Commission's work programme and scales of fees 2010/11.

**Assessment and inspection work plan and fee**

<b>Assessment / inspection activity</b>	<b>Planned fee for 2009/10</b>
Area assessment of local partnership	n/a (CLG grant funded)
Managing performance theme of organisational assessment	£16,630
Add: Risk based inspection if applicable  <i>Note: Benefits and fire inspections are grant funded by DWP and CLG respectively. No fee is payable for these. Obtain fee for housing inspections from lead housing inspector (LHI)</i>	0
<b>Total inspection fee</b>	£16,630

If I need to make any significant amendments to the inspection plan and fee during the course of the year, I will first discuss this with you and then confirm in writing outlining the reasons for the change, including the proposed scope for the work.

The above fee excludes any work you requested and the Commission has agreed to undertake using its advice and assistance powers.

If you have any questions regarding this letter, please contact me in the first instance. Alternatively you may wish to contact the Southern Region Head of Operations, Bill Sanderson.

Yours sincerely

Gary Emery  
*Comprehensive Area Assessment Lead*

**cc** Malcolm Coe, Assistant Director of Finance & Efficiencies



Grant Thornton

## Plymouth City Council

Grants Report 2008-09

February 2010

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<b>1 Executive summary</b>	<b>1</b>
<b>2 Detailed findings</b>	<b>3</b>

**Appendices**

- A Approach and context to certification**
- B Details of claims and returns certified in 2008-09**
- C Action plan**

# 1 Executive summary

## Introduction

- 1.1 The Council received nine grant claims and returns from government departments and other bodies that required external certification in 2008-09, representing income in excess of £197 million.
- 1.2 Grant Thornton, as the Council's external auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-9 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, who agree the scope of the work with each relevant government department or agency and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 A summary of all claims and returns subject to certification is provided at Appendix B, together with the certification fee and outcome of our review.
- 1.7 The key messages from our review are summarised in Exhibit one below, and set out in detail in the next section of the report.

### Exhibit One: Key Messages

Aspect of certification arrangements	Action
The Council submitted all claims and returns by the required deadline, and all claims were certified within the timescales specified by the Audit Commission and government departments.	On-going liaison between the Council's grants co-ordinator and Grant Thornton will ensure continued compliance with deadlines.

#### Arrangements for certification:

- amounts claimed below £100,000 - no certification
- amounts claimed between £100,000 - £500,000 - agreement to underlying records
- amounts claimed over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Aspect of certification arrangements	Action
Opportunities for improvement have been identified in the Council's overall management arrangements, which can help the Council reduce the number of claims subject to amendment or qualification.	The Council can improve this performance through implementing the recommendations included at Appendix C.
Significant additional work was required to certify the Housing and Council Tax Benefit Subsidy claim due to the number of errors found.	The Council should consider enhancing its quality assurance procedures to ensure that assessment errors are detected and acted upon during the year.
The reconciliations required as part of the Housing and Council Tax Benefit Subsidy claim contained unresolved reconciling items, resulting in qualification of the claim.	The Council should ensure that the required reconciliation procedures are followed, and that any reconciling items are investigated and resolved.

### The way forward

- 1.8 We have made a number of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will assist the council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional certification fees.
- 1.10 The new use of resources assessment in 2009 required auditors to consider the results of certification work when undertaking the Use of Resources assessment, including, in particular, the impact of housing benefit and council tax testing on data quality. The 2010 assessment will be further integrated with grant certification work, including consideration of the outcome of a wider range of grant claims.

### Acknowledgements

- 1.11 We would like to take this opportunity to thank the grant claim co-ordinator and Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**January 2010**

## 2 Detailed findings

### Introduction

- 2.1 This section of the report summarises our detailed findings arising from the certification of grants and returns in 2008-09. Further details of the individual grants that have been certified are provided at Appendix B and the Action Plan at Appendix C sets out our recommendations and improvement opportunities arising from the certification of individual grants.

### Performance against targets

- 2.2 Exhibit two summarises the Council's performance against key certification performance targets for the nine claims and returns submitted for certification in 2008-09 compared to the ten claims and returns in 2007-08.

#### Exhibit two: Performance against key certification targets

Performance measure	Target	Achievement in 2008-09		Achievement in 2007-08		Direction of travel
		No.	%	No.	%	
Number of claims submitted on time	100%	9	100%	8	80%	↑
Number of claims certified on time *	100%	9	100%	8	80%	↑
Number of claims amended by the auditor	0%	6	67%	2	20%	↓
Number of claims qualified by the auditor	0%	3	33%	2	20%	↓

\* The certification deadline is that prescribed by the grant paying body as advised by the Audit Commission, or if a claim is received after the submission deadline, within three months of receipt.

- 2.3 This analysis of performance against targets shows that:
- the Council's arrangements to ensure that claims are submitted for certification by the required deadline are working effectively, with all claims submitted on time.
  - all claims were certified by the deadline agreed by the Government department, including the processing of amendments; and
  - there has been an increase in the number of claims requiring amendment or qualification, resulting in an increase in the time required by both officers and the audit team to certify the claims.

- 2.4 We charged a total fee of £54,165 against a budget of £100,000 for the certification of claims and returns in 2008-09. The actual fee charged is significantly lower than planned as the fee set out in the Audit & Inspection Plan, was issued before the 2007-08 certification work was undertaken and therefore based on the expected costs to be incurred. Since then:

- there has been a significant change in the certification approach to housing and council tax benefit. In 2007-08 the Audit Commission introduced a series of workbooks to make the certification and data recording for this claim consistent for all council's in England; and
- there has been a reduction in the number of claims requiring certification. In addition, a number of claims are now no longer applicable to the Council.

Details of fees charged for specific claims are included at Appendix B.

### **Management arrangements**

- 2.5 Good arrangements are required for successful management of the certification of grant claims and returns. The results of our review of aspects of the management arrangements in place are set out below. Associated recommendations for improvement are included at Appendix C.

#### **Grants co-ordination**

- 2.6 As noted in exhibit two above, the Council provided Grant Thornton with all claims and returns by the required deadline, highlighting the effectiveness of the grants co-ordinator in managing the submission process.

#### **Sign off arrangements**

- 2.9 Claims and returns are signed by a number of different staff across the Council. The Council should ensure a letter, signed by the responsible finance officer, is available to confirm which officers have delegated authority to sign grant claims.

#### **Independent review**

- 2.8 There is limited evidence of independent review on the majority of claims submitted for certification. Independent review can identify errors that may otherwise result in an adjustment or qualification as a result of our work.
- 2.9 Each claim form and its associated working papers should be subject to independent review prior to submission for certification, evidenced by a signature and date.

### **Significant findings in relation to individual claims and returns**

- 2.10 A summary of all claims and returns we have certified is attached at Appendix B, together with the certification fee and outcome of our review.
- 2.11 Of the claims and returns submitted for certification the most significant findings were in relation to the following claims:
- Housing and Council Tax Benefit Subsidy claim and
  - Sure Start, Early Years and Childcare grant.
- 2.12 Recommendations for improvement are included at Appendix C.



**Housing and Council Tax Benefit Subsidy claim**

- 2.13 Our certification work included a review of 70 individual claims, which identified errors in the assessment of 12 cases. We were required to extend our sample, which resulted in significant additional officer and auditor time. As the errors could not be quantified, the claim required qualification. This issue was reported to the Department for Work and Pensions.
- 2.14 The Council should consider carrying out additional routine testing to ensure that errors in the assessment of claims are detected throughout the year and provide additional training on areas of concern. This will reduce the number of incorrect assessments and the number of overpayments made.
- 2.15 Reconciliations are provided by Academy and the Department to prove the integrity of the data in the subsidy claim form. Both of these reconciliations were reviewed as part of our certification work, and unresolved reconciling items were identified in both the Academy reconciliation pack and the in-year reconciliation cells on the claim form, resulting in qualification of the claim. This issue was reported to the Department for Work and Pensions.
- 2.16 The Council should ensure that the required reconciliation procedures are followed, and that any non reconciling items are investigated and resolved.
- 2.17 Benefits assessors use the customer information system (CIS) operated by the Department for Work and Pensions to confirm the entitlement of claimants to benefits such as income support and incapacity benefit. However, the Council did not retain screen prints from this system and claimants' entitlement could not therefore, be confirmed during our certification work.

**Sure Start, Early Years and Childcare grant**

- 2.18 The Council is required to maintain a register of the assets funded by this scheme. Although the Council has included such assets on the corporate fixed asset register, they are not separately identifiable as assets funded by the Sure Start scheme. This issue required reporting to the Department for Education and Skills.
- 2.19 The Council is currently working on the development of a corporate register of grant funded assets, which will resolve this issue. The Council should ensure that this is progressed and that a register is implemented as soon as practically possible.

## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £100,000 - no certification required;
- for amounts claimed above £100,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council; and
- for amounts claimed over £500,000 - certifying that the claim agrees to underlying records of the Council and an assessment of the control environment. Where reliance is not placed on the control environment, detailed testing is performed.

### Roles and responsibilities

The following table sets out the roles and responsibilities of the parties involved in the certification of claims and returns.

Party	Role and responsibility
Grant paying body	Sets grant conditions and the deadlines for submission of the pre-certificated and certified claim
Audit Commission	Issues certification instructions
Council	Submits claims and returns to the Appointed Auditor within grant paying body submission deadlines. Ensures adequate documentation is maintained to support compilation of claims and returns.
Appointed Auditor	Certifies claims in accordance with Audit Commission instructions and within certification deadlines.

### Scope

We assess the Council's arrangements for submission of grant claims for certification. We do not review the Council's wider arrangements for managing external funding or maximising its entitlement to external funding.

## B Details of claims and returns certified in 2008-09

Ref	Claim	Claim value (£)	Amended? Y/N	Amendment value (£)	Qualified?	Budgeted fee (£)	Actual fee (£)
BEN01	Housing and Council Tax Benefit Subsidy	83,906,142	Y	5,601	Y	-	25,693
CFB06	Pooling of Housing Capital Receipts	962,804	Y	25	N	-	2,333
EYC02	Sure Start, Early Years and Childcare Grant	8,979,641	Y	0 *	Y	-	4,665
HOU01	Housing Revenue Account Subsidy	2,022,762	Y	0 *	N	-	3,095
HOU02	Housing Revenue Account Subsidy Base Data Return	Non-Financial	Y	0 **	Y	-	3,583
HOU21	Disabled Facilities Grant	511,000	N	N/A	N	-	2,303
LA01	Nation Non-Domestic Rates Return	75,470,386	N	N/A	N	-	4,050
PEN05	Teachers' Pensions Return	16,184,669	N	N/A	N	-	1,470
RG03	New Deal for Communities	9,120,919	Y	-71,919	N	-	6,975
<b>TOTAL</b>		<b>197,158,323</b>		-66,293		<b>100,000</b>	<b>54,165</b>

\* Amendment to claim did not affect amount of funding received.

\*\* Note that HOU02 includes non-financial cells, two of which were amended.

## Action plan

Ref	Claim	Recommendation	Priority	Management response and implementation details
	All claims	The Council should ensure a letter, signed by the responsible finance officer, is available to confirm which officers have delegated authority to sign grant claims.	Low	A letter will be drawn up and made available to Grant Thornton as per the recommendation.  Responsible Officer : Director for Corporate Support Implementation Date : March 2010
	All claims	Each claim form and its associated working papers should be subject to independent review prior to submission for certification, evidenced by a signature and date.	Medium	Each of the claim forms passed for audit are subject to independent review by the relevant finance lead for that area. Each officer will be asked to sign and date the forms on review. Corporate Grants Co-ordinator to liaise with each finance lead / Departmental Grant Co-ordinators to ensure that this is happening consistently, and provide further spot checks where necessary.  Responsible Officer : Corporate Grants Co-ordinator Implementation Date : 2010/2011 Financial Year

Ref	Claim	Recommendation	Priority	Management response and implementation details
BEN01	Housing and Council Tax Benefit Subsidy claim	The Council should consider carrying out additional routine testing to ensure that claim assessment errors are detected and provide training on areas of concern.	High	<p>Due to the increased level of errors identified during this audit, a significant amount of work has already gone into drawing up an action plan to improve the testing process. The new process will allow errors to be captured in a more effective way, so as to learn from them and be able to provide a better training programme to staff assessing claims. This will, in turn, reduce the recurrence of such errors. [A copy of the Action Plan is attached.]</p> <p>Responsible Officer : Revenues &amp; Benefits Service Manager Implementation Date : April 2010</p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
BEN01	Housing and Council Tax Benefit Subsidy claim	The Council should ensure that the required reconciliation procedures are followed, and that any reconciling items are investigated and resolved.	High	<p>It is evident that a substantial amount of reconciliations are taking place on a monthly basis, and are further backed up by regular spot checking through Internal Audit. Current issues do exist with the Academy System, which can result in minor errors in the reconciliations, particularly when new releases of the system are introduced (currently on the 12<sup>th</sup> release in 3 years) Due to the complexities of the system and the Claim feeding from it, it is problematic to amend these variances manually, and DWP have been consulted on the potential impact of these minor variations. A response from DWP is currently awaited.</p> <p>In the meantime, it has been advised that the Revenues and Benefits Service Manager liaise further with Academy or seek advice from a suitably qualified external consultant, on the recurring issues to help prevent them being an issue for future years. It has also been agreed that other Local Authorities should be approached to discuss such issues and share best practice where possible.</p> <p>Responsible officer: R&amp;B Serv. Mgr Implementation date: asap</p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
BEN01	Housing and Council Tax Benefit Subsidy claim	The Council should retain screen prints from CIS to support the benefits assessments made.	Medium	Screen prints are not retained at present, due to Data Protection Issues around additional information appearing on CIS, considered being over and above the information required to process the claim. The Revenues & Benefits Services Manager has agreed to liaise with DWP to see whether it is possible to obtain permission to retain such information in the future, as this produces further Data Protection issues for us as an authority, because of the wider information being held in our systems on individuals. This issue requires further discussion and possibly advice from Grant Thornton, as to how this could be handled differently if DWP do not agree to this. Responsible officer: R&B Serv. Mgr Implementation date: tic

Ref	Claim	Recommendation	Priority	Management response and implementation details
EYC02	Sure Start, Early Years and Childcare grant	The Council should ensure that the introduction of the grant funded asset register is implemented as soon as practically possible.	Medium	<p>The Council is currently aware of this issue and is planning a full review of the Asset Register, to identify grant funded assets and consequently conditions etc attached to them. In the interim the Corporate Grants Register identifies all grants coming into the authority, with flags for those with grant conditions i.e. claw back, attached them. Each of these grants is given a unique reference and it is planned to use this reference as a link when reviewing the Asset Register.</p> <p>Responsible Officer: Group Accountant (Corporate – Partnerships).</p> <p>Work scheduled to be completed during 2010/2011.</p>





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**Financial Statements Plan**  
**Plymouth City Council**  
**For the year ended 31 March 2010**

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To the Audit Committee of Plymouth City Council

The purpose of this plan is to highlight the key elements of the audit work to be undertaken on the financial statements of Plymouth City Council for the year ended 31 March 2010. This report has been written for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the expectations of the Audit Commission.

We set out in this report our statutory responsibilities under the Code of Audit Practice. Most significant is our responsibility to provide an opinion on the Council's financial statements, including the Council's Annual Governance Statement, which should be issued by 30 September 2010.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention.

We look forward to continue working with the Council over the next year.

Grant Thornton UK LLP

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# 1 Our audit approach

## 1.1 Introduction

This plan sets out the work to be undertaken for the audit of the 2009-10 financial statements. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- our Code of Audit Practice responsibilities;
- current national risks relevant to the Council's local circumstances; and
- our assessment of the Council's local risks and improvement priorities, based on outcomes of our recent audit of its 2008-09 financial statements.

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended Practice (SORP).

We are required to audit the financial statements and to give an opinion as to:

- whether they present fairly the financial position of the Council and its expenditure and income for the period in question;

- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

## 1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff.

Our audit strategy comprises:

- updating our understanding of the Council through discussions with management and Internal Audit;
- reviewing the Council's Internal Audit service, to determine whether it complies with the requirements of CIPFA's Code of Practice on Internal Audit and the extent to which we can take assurance from its work;
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements;

- reviewing the adequacy of the Council's general controls in respect of its information technology (IT);
- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures;
- testing the operating effectiveness of the internal financial controls, where we consider it appropriate to rely on controls;
- reviewing the adequacy of material disclosures in the financial statements;
- maintaining regular contact with officers to discuss emerging issues and any new accounting or auditing requirements;
- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams; and
- ensuring that the balances reported in the Council's Whole of Government Accounts (WGA) consolidation pack are consistent with the financial statements.

These are detailed further in section 2 below.

#### 1.4 Materiality

We consider an item to be material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer present fairly the transactions, assets and liabilities of the Council.

Materiality is set at the planning stage of the audit to ensure that an appropriate level of work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed both individually and in aggregate, discussed with you and, if you decide not to adjust the financial statements for them, we will request that you confirm in your letter of representation to us your view that they are not material to the financial statements.

Even if an item or balance is of low value, below the level of materiality, it might be judged material because of its nature, for example any item that affects the disclosure of individuals' emoluments. Equally, an item of higher value may be judged not material if it does not distort the fairness of the financial statements.

#### 1.5 Internal controls

We are required to evaluate the design of the Council's internal controls over risks, which could lead to material misstatement in the financial statements and determine whether they have been implemented effectively. Our

#### 1.3 Identified high risk areas

In summary, our audit approach, in respect of high risk areas will be as follows:

- we will work with the Council to advise it on accounting developments that will impact on the 2009-10 financial statements, in particular relating to the 2009 SORP and International Financial Reporting Standards (IFRS);
- we will continue to assess the adequacy of the Council's Treasury Management arrangements and undertake a detailed review of their working papers supporting the impairment of the Icelandic bank deposits, to ensure that it reflects the latest available guidance;
- we will continue to focus on areas where judgments and estimates are used, in particular accruals and provisions, to ensure that these are reasonable and can be supported with robust evidence;
- we will undertake a detailed review on the accounting treatment of the Large Scale Voluntary Transfer and the sale of the Plymouth Citybus subsidiary to ensure that the requirements of the SORP and UK GAAP

emphasis will be on identifying and obtaining an understanding of control activities that address the areas where we consider material misstatements are more likely to occur.

We plan to carry out this work prior to the financial year end, i.e. undertake an interim audit visit in advance of when we carry out our audit of 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 audit, we identify any control weaknesses, we will report these to the Council.

In consequence, our work cannot necessarily be relied upon to disclose deficiencies or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

#### **1.6 Use of the work of internal audit**

We review Internal Audit's overall arrangements against the CIPFA Standards for Internal Audit to ensure that they are adequate to produce robust and reliable work. Where the arrangements are considered to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that, the service in itself, is contributing positively to the internal control environment and overall governance arrangements within the Council.

In accordance with professional standards and our audit approach, a comprehensive review of the Internal Audit service is only undertaken every three years, unless there is an indication that a more frequent review is required.

We completed a full review of the Council's Internal Audit service in 2007-08. However, from 1st April 2009, Internal Audit services are provided by the Devon Audit Partnership, a partnership formed by Plymouth City Council, Devon County Council and Torbay Council Internal Audit departments. Due to this significant change, we are required to undertake a full review of the Internal Audit service for 2009-10.

In addition, where Internal Audit has completed specific work and detailed testing on an area that we have determined as representing an accounts risk

to the Council's financial statements, we will review this work in detail, to establish whether we can place reliance upon the testing undertaken and the conclusions reached. Where we seek to place reliance on specific areas, we undertake re-performance work to ensure that we would have drawn the same conclusions from the testing undertaken and resultant findings. This approach ensures that we maximise the assurance gained from Internal Audit's work in addressing the risk factors we have identified from our overall review of the financial statements and minimises the duplication of audit work.

#### **1.7 Audit of IT systems**

Our audit approach requires a review of the Council's internal controls in the IT environment, as the Council uses computer systems for accounting applications that process a large number of transactions.

As in previous years, we will involve our information specialists to undertake this element of the audit.



## 2 Key audit issues and financial reporting matters

<p>As we have now completed our work on the 2008-09 accounts, we have set out below our detailed risk assessment for our audit of the 2009-10 accounts. This risk assessment, summarised in the table below, reflects both national developments and issues as well as local risks that have emerged during the course of our 2008-09 audit. We will keep our risk assessment under review, and if necessary, amend this plan.</p>	<p>We will report to you in our annual report to those charged with governance (ISA260) our findings and conclusions in respect of each of the risks that we have identified at the planning stage of the audit. We plan to present our ISA260 report to the Council's Audit Committee following the conclusion of our financial statements audit in September 2010.</p>
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2.1 National and other financial reporting matters	Issue	How we plan to respond
SORP 2009 - Accounting for Private Finance Initiatives (PFI)	<p>The Council currently has one PFI agreement, to provide new school facilities at Whitleigh and the amalgamation of primaries at Bull Point and Barne Barton. The 2009 SORP requires local authorities to adopt requirements for accounting for PFI schemes that are consistent with International Financial Reporting Standards and the adaptation of IFRIC 12 <i>Service Concessions</i> contained in the Government's 2009-10 Financial Reporting Manual (FRoM).</p> <p>We expect this to conclude that the PFI assets should be recorded on the Council's own balance sheet. There is a risk that these may be incorrectly accounting for, due to their complexity and nature.</p>	<p>We will discuss developments and significant accounting issues early on in the process so that we are able to agree with the Council appropriate accounting treatment at the earliest opportunity.</p>
Impairment in deposits in Icelandic Banks	<p>The Council had £13 m invested in the Icelandic institutions when the banks collapsed in October 2008. There continues to be uncertainty regarding the</p>	<p>We will continue to discuss developments with the Council as more information becomes available. We will undertake a detailed review of the</p>

<p><b>Issue</b></p>	<p><b>How we plan to respond</b></p> <p>amounts that will be recovered in respect of these deposits. In particular, preferential creditor status has not been given to local government depositors by one of the Icelandic institutions and the status is being challenged in the courts for one of the others. The fact that such large sums of public money remains at risk has highlighted the importance of maintaining effective arrangements for managing investments and treasury management. The Council have been granted a capitalisation direction. There is a risk that the Council will fail to recognise an appropriate level of impairment in the 2009-10 financial statements or that the capitalisation director is either insufficient or not accounted for appropriately.</p> <p><b>SORP 2009 - Accounting for National Non Domestic Rates and Council Tax</b></p> <p>The 2009 SORP has introduced a number of changes in the accounting for national non domestic rates and council tax in the Council's financial statements. It now requires local authorities to account for transactions on an agency basis, i.e. the Council only discloses its own share of debtors and creditors of the Collection Fund, and any associated impairment allowance for doubtful debt. This is a change in accounting policy in respect of Council Tax balances and as such the 2008-09 balances will need to be restated.</p> <p>There is a risk that the Council does not correctly account for these changes.</p> <p><b>International Financial Reporting Standards</b></p> <p>CIPFA has confirmed that local authorities will be required to follow International Financial Reporting Standards from 1 April 2010. Financial data for 2009-10 will require restatement in order to provide comparative data in the financial statements. There is a risk that the Council has not put adequate plans in place to manage this transition and collate the required information to prepare the restatement entries.</p> <p>We will continue to work with the Council's finance team to ensure that arrangements are in place to prepare an IFRS transition plan and we will monitor progress against this plan throughout the year. We will provide advice and support to the Council on the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and the commercial sector.</p>

## 2.2 Key local audit matters

Issue	How we plan to respond
<b>Current Economic Climate</b>	
<p>The Council's allocation from the government revenue settlement for 2009-10 has been set at £103.5 m, an increase of 2.8%. In future years, it is anticipated that there will be cuts in real levels of revenue support grant and in capital grants.</p> <p>Increase demand for services coupled with a low grant increase is likely to result in severe revenue budget pressures for the Council and there is an increased risk that proper accounting practice may not be followed in preparing and reporting the financial statements which may result in an error of misstatement.</p>	<p>We will continue to focus our audit on those areas where judgments and estimates are used extensively, in particular provisions and accruals, to ensure that these are reasonable, in line with accepted proper practice and can be appropriately supported by robust evidence.</p>
<b>Large Scale Voluntary Transfer</b>	
<p>On 20 November 2009, the ownership and management of the Council tenant's homes transferred from the Council to Plymouth Community Homes, a registered social landlord. This transfer will have a significant impact on the accounts and there is a risk that the Council does not correctly account for the transfer and other transfer related transactions.</p>	<p>We will continue to work with the Council to ensure that any significant accounting issues are identified early in the process. We will undertake a detailed review of the working papers supporting the accounting entries to ensure that the entries are appropriate and in accordance with the SORP 2009.</p>
<b>Sale of Plymouth Citybus</b>	
<p>The Council sold its shareholding in Plymouth Citybus, which was a 100% subsidiary of the Authority, on 2 December 2009. Accounting for an undertaking that ceases to be a subsidiary can be complex. There is a risk that the Council does not correctly account for the disposal of this subsidiary in their accounts and in the group accounts.</p>	<p>We will undertake a detailed review of the transaction supporting the disposal to ensure that the accounting entries conform with accepted accounting practice.</p>
<b>Group Accounts</b>	
<p>The Council is required to prepare Group Accounts. In 2008-09 and in</p>	<p>We will review the Council's arrangements for obtaining all their subsidiaries'</p>

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<b>Issue</b>	<b>How we plan to respond</b>
prior years, the subsidiaries' accounts and audit opinions were signed late and not in accordance with the agreed timetable. This resulted in considerable amount of negotiation being undertaken by Senior Council staff with the staff at the subsidiaries to ensure that the Council's Group Accounts were signed within the required deadline. To prevent a re-occurrence, the Chair of the Audit Committee has recommended that the 'Subsidiaries accounts' should be added as an agenda item for a future Audit Committee meeting..	associates' and joint ventures' signed accounts and audit opinions in a timely manner to allow the Council's group accounts to be signed within the required deadline.
<b>Remuneration disclosures</b>	
The Accounts and Audit (Amendment No. 2; England) Regulations 2009 brings authorities in line with level of disclosures for other government bodies and companies. There is now a requirement to provide details of salaries for senior employees. There is a risk that remuneration disclosures are not complete in the accounts.	We will review the disclosures to ensure that they are in accordance with the regulations.
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## 3 Administration

### 3.1 Engagement team

Our senior team for the audit is unchanged from last year. Contact details for them are:

Name	Role	Contact details
Barrie Morris	Engagement Lead	T: 0117 305 7708 E: <a href="mailto:barrie.morris@gtuk.com">barrie.morris@gtuk.com</a>
Lesley Whitworth	Audit manager	T: 0117 305 7753 E: <a href="mailto:lesley.whitworth@gtuk.com">lesley.whitworth@gtuk.com</a>
Phil Little	Assistant manager	T: 0117 305 5395 E: <a href="mailto:phil.little@gtuk.com">phil.little@gtuk.com</a>

### 3.2 Fees

We proposed our audit fee for 2009-10 in a separate fee letter to the Council dated 16 March 2009, which was agreed with management. This was ratified by the Council at its Audit Committee on 25 March 2009. The agreed fee in relation to the audit of the financial statements is £206,904, the total for the audit for 2009-10 being £319,441.

In setting the fee, we have assumed that:

- the Council will inform us of significant developments impacting on our audit;
- internal audit continues to meet the appropriate professional standards;
- internal audit undertakes sufficient appropriate work on all systems that provide material figures in the financial statements so that we can take necessary assurances from their work for the purposes of our audit;
- good quality working papers and records will be provided to support the financial statements by 30 June 2010;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports.

### 3.3 Information required

We will issue a client arrangements letter to the Council setting out the specific information and working papers requirements for our audit. We will issue this to the Council by 31 March 2010.

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### 3.4 Specialist support

The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- IT audit specialists;
- governance and risk assurance specialists; and
- technical accounting specialists.

### 3.5 Independence

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix A.

### 3.6 Quality assurance

We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact John Golding as engagement lead, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (Southern), Bill Sanderson, or Grant Thornton's National Head of Government Audit, Sarah Howard.

## A The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Executive matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and

- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as non Code work in the plan.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;



- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years.
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.





### 2009-10 Audit Plan progress report

Work Area	Reason chosen	Work objective	Draft to lead officer	PCC Lead Officer	Progress to date
<b>Accounts</b>					
Systems of internal financial control.	Code of Audit Practice.	To gain assurance from systems of financial control for opinion.	May 2010.	Adam Broome.	Fieldwork to start on 22 March 2010.
Annual Governance Report (ISA260 report).	Statutory requirement.	To comment on all code work undertaken to date and include the items needed to be discussed with those charged with governance.	Mid September 2010.	Adam Broome.	Fieldwork to start in July 2010.
Accounts Opinion.	Code of Audit Practice.	To provide an opinion on the accounts.	September 2010.	Adam Broome.	Fieldwork to start in July 2010.
<b>Assessments</b>					
Use of Resources.	Code of Audit Practice.	To provide auditor judgment for Use of Resources.	August 2010.	Adam Broome.	Fieldwork ongoing.
Value for Money conclusion.	Code of Audit Practice.	To provide auditor judgment for VFM.	September 2010.	Adam Broome.	Ongoing
<b>Risk based projects</b>					
Follow up on customer access arrangements	Code of Audit Practice	Local risk based work to support VFM conclusion	May 2010.	Adam Broome.	Scoping the project.
Follow up on Partnership working arrangements	Code of Audit Practice	Local risk based work to support VFM conclusion	May 2010.	Adam Broome.	Scoping the project.
Corporate Restructuring arrangements.	Code of Audit Practice	Local risk based work to support VFM conclusion	May 2010.	Adam Broome.	Scoping the project.
Joint Strategic Needs Assessment.	Code of Audit Practice	Local risk based work to support VFM conclusion	May 2010.	Adam Broome.	Scoping the project.
<b>Other reports</b>					
Annual Audit Letter.	Code of Audit Practice.	To summarise issues arising from audit and assessment work.	September 2010.	Barry Keel.	N/A
Grant Certification and report	Acting as agents for the Audit Commission	To review and provide a certificate on a number of prescribed grant claims and returns.	December 2010.	Adam Broome	To start June 2010.

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**CITY OF PLYMOUTH**

**Subject:** Progress Report – International Financial Reporting Standards (IFRS) Transition Project

**Committee:** Audit Committee

**Date:** 26 March 2010

**Cabinet Member:** Portfolio Holder for Budget & Asset Management, Revenues & Benefits, People and Governance

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**Ref:** ACCT/SW

**Part:** 1

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**Executive Summary:**

This report provides an update on the IFRS transition project for the period January 2010 to March 2010.

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**Corporate Plan 2009- 2012**

The Council's expenditure and income forms the basis on which the Corporate Plan can be delivered. Delivering quality, IFRS compliant accounts will be assessed under the new Use of Resources Assessment and the project therefore falls under CIP14, Value for Money.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including Finance, Human IT and Land:**

The implementation of IFRS requires considerable time and resources, which will continue over the medium term. Whilst the majority of the work will be undertaken within existing resources, there may be a need for specialist support which will be identified as the project progresses.

Work continues to be undertaken by the public sector professional accountancy body (CIPFA) in order that accounting issues that might impact adversely on the Councils' finances are identified and potential solutions developed as early as possible. The Department for Communities and Local Government have issued regulations which mitigate on the Council's revenue budget as a result of implementing the requirements in respect of employee benefits, PFI and lease reclassifications.

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety etc:**

N/A

**Recommendations & Reasons for recommended action:**

Audit Committee note the progress on the IFRS Transition Project as at March 2010.

**Alternative options considered and reasons for recommended action:**

None – Statutory requirement to produce the Statement of Accounts using the relevant codes of practice.

Background papers:

Various articles, guidance and literature published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and accountancy firms PricewaterhouseCoopers and Grant Thornton.

IFRS reports to Audit Committee— 18 December 2008, 24 June 2009, 25 September 2009 and 11 December 2009.

**Sign off:**

Fin		Leg	n/a	HR	n/a	Corp Prop		IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

## **Progress Report – IFRS Transition Project**

### **1. Introduction**

- 1.1 This report provides an update on the work undertaken during the period January to March 2010 to ensure the Council will be able to produce its statutory accounts on an IFRS basis from 2010/11.

### **2. Progress during the period**

- 2.1 The main work during this period has been:
- reviewing the PFI financial model and analysing the contract costs over the separate elements, identifying the accounting treatment and entries;
  - to produce a draft restatement of the 2008/09 accounts into the proposed new IFRS format;
  - a presentation to Officers at finance staff briefings to raise awareness of IFRS across the department;
  - a meeting with the PCT to learn from and share best practice;
  - attendance at a schools' administrators meeting to increase awareness of leasing and a general IFRS overview from a schools perspective;
  - meetings with our group companies to outline IFRS requirements;
  - continuation of work on the detailed impact assessments;
  - review and reclassification of investment assets;
  - initial drafting of IFRS accounting policies;
  - draft IFRS 'chart of accounts' and update to the Council's financial systems;
  - identification of additional data to be collected as part of 2009/10 closedown requirements and update to internal guidance notes to enable restatement of the 2009/10 accounts;
  - continuing attendance at specialist training events.
- 2.2 A meeting has been held with the external auditor to discuss the progress and the completed detailed impact assessments and work is ongoing to address questions raised.
- 2.3 The main areas of focus continue to be around the high risk areas identified as part of the detailed impact assessments. These areas are fixed assets, leasing, employee benefits and PFI. Officers continue to work with staff across the Council, including Asset Management and Human Resources to ensure the project is delivered within the required timescale.
- 2.5 The progress on the project is expected to slow over the next few months as closure of the 2009/10 accounts takes priority.

### 3. The IFRS Code of Practice

- 3.1 The final IFRS Code of Practice was published by CIPFA at the end of December 2009 and, although there is currently no date for publication of the more detailed guidance notes, this has brought an element of clarity and certainty to the required changes in accounting treatment and has enabled work to progress. CIPFA have now started to publish draft transitional guidance to assist authorities in moving forward.
- 3.2 The table below compares the proposed IFRS statements to the current statements produced in accordance with the SORP.

Order	Old Name under SORP	IFRS name	IFRS Code of Practice
1	SMGFB	Statement of changes in Equity	Movement in reserves statement
2	Income and Expenditure Account +STRGL	Statement of Comprehensive Income	Comprehensive Income and Expenditure Statement
3	Balance Sheet	Statement of Financial position	Balance Sheet
4	Cash Flow Statement	Cash Flow Statement	Cash Flow Statement
5	Notes to the accounts	Notes to the accounts	Notes to the accounts

- 3.3 Appendix A outlines in more detail the differences between the current SORP requirements and the accounting presentation for the Balance Sheet under the IFRS Code. A more detailed explanation of each statement will be made to Audit Committee at a later session as part of restatement of the 2009/10 accounts.

### 4. Mitigation of financial implications of IFRS

- 4.1 The report to Audit Committee in December outlined that CLG were consulting on proposed regulations to mitigate the impact of IFRS on Council's budgets. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 have now been finalised and published. These regulations confirm mitigating provisions in respect of:
- Employee benefits
  - Leasing reclassification
  - PFI schemes

- 4.2 The only change from the draft regulations in terms of IFRS is an extension to the effective date for lease classification mitigation to include all leases entered into up to 31 March 2010 (under the draft regulations the effective date was to be November 2009).

## 5. **Audit Commission Report – Countdown to IFRS**

- 5.1 In November 2009, external auditors were required to collect evidence from all local authorities to enable the Audit Commission to establish Local Governments readiness for the transition to IFRS. The results were published during February in the audit Commission report “Countdown to IFRS- Implementation in Local Government”.
- 5.2 The survey of auditors identified that only one authority in seven was on track, and one in five was having serious difficulties. As reported to Audit Committee in December, this authority scored itself as ‘amber’ within the survey.
- 5.3 The report identifies a number of areas that authorities should now prioritise and the table below shows how the Council compares.

<b>Audit Commission Recommendations</b>	<b>PCC Progress</b>
Develop and maintain a detailed project plan, including a budget and resource plan	The Council has an outline project plan and has set up a number of specific work groups to review each of the IFRS standards to identify issues for the Council. Additional budget provision has been agreed and included within the 2010/11 budget specifically for IFRS implementation. This will be utilised in Asset management to complete the fixed asset review and to fund specialist advice as required
Conduct a detailed impact assessment	Each workgroup lead has completed a detailed impact assessment for each standard and, where applicable, identified actions required to ensure compliance with the standard. The workgroups meet to monitor progress. Initial discussions of the detailed impact assessments have been held with the external auditor
Engage the wider organisation because IFRS is not just a finance issue	The specific workgroups have cross departmental representation. In particular Asset Management are leading on the fixed asset and

	property leasing workstream, HR have been closely involved in the employee benefits work stream, and Children's Services have made a major contribution to the PFI workstream.
Ensure their audit committee is aware of the implications of IFRS	Audit Committee has ultimate responsibility for Governance of the project and receive a progress report at each Committee meeting.
Begin a dialogue with their external auditor on the authorities plans and progress, and the issues arising.	An initial meeting has been held with the external auditor, and further meetings will be held over the next few months.

## 6 Recommendations

- 6.1 Audit Committee note the progress on the IFRS Transition Project as at the end of March 2010.



SORP 2009 title	IFRS Code title	Changes ?
Intangibles	Intangibles	<ul style="list-style-type: none"> <li>Wider definition of intangible assets under IFRS</li> </ul>
Operational Land and Buildings	PPE	<ul style="list-style-type: none"> <li>Detail subsumed into PPE total – but can split it out if want to</li> <li>May now includes PFI assets and finance lease assets put back on balance sheet</li> </ul>
Infrastructure		
Vehicles, plant and equip		
Community assets		
Investment properties	Investment properties	<ul style="list-style-type: none"> <li>Tighter definition – see later session</li> </ul>
Assets under construction	PPE	<ul style="list-style-type: none"> <li>Detail subsumed into PPE total – but can split it out if want to</li> </ul>
Surplus assets held for disposal	Assets held for sale	<ul style="list-style-type: none"> <li>Strict definition of ‘assets held for sale’</li> <li>Excludes investment properties</li> <li>Sits as either a non-current or current asset on balance sheet</li> <li>If not asset held for sale then goes back to PPE or investment property</li> <li>Different measurement basis</li> </ul>
Long term investments	Long term investments	<ul style="list-style-type: none"> <li>No change</li> </ul>
Investments in Associates and joint ventures	Investments in Associates and joint ventures	<ul style="list-style-type: none"> <li>No change</li> </ul>
Long term Debtors	Long Terms Debtors	<ul style="list-style-type: none"> <li>May now include lessor finance lease transaction</li> </ul>
Stocks and WIP	Stocks and WIP	<ul style="list-style-type: none"> <li>Can’t use LIFO</li> <li>Could include land/ property held for resale for a short period of time</li> <li>Different measurement for some items of inventories</li> </ul>
Debtors	Short term Debtors	<ul style="list-style-type: none"> <li>No change</li> </ul>
Short term investments	Short term investments	<ul style="list-style-type: none"> <li>Reclassify some short-term investments to cash equivalents</li> </ul>
Cash and Bank	Cash and cash equivalents	<ul style="list-style-type: none"> <li>Includes cash equivalents defined as ‘being held for the purpose of meeting short term cash commitments rather than for investment or other purposes’</li> <li>LA’s to set their own policy</li> <li>Must be consistent with the cash flow statement</li> </ul>

SORP 2009 title	IFRS Code title	Changes ?
Short term borrowings	Short term borrowings	<ul style="list-style-type: none"> <li>No change</li> </ul>
Short term creditors	Short term creditors	<ul style="list-style-type: none"> <li>Includes employee benefit accrual</li> </ul>
Bank overdraft	Bank overdraft	<ul style="list-style-type: none"> <li>Reclassify some of the bank overdraft to cash equivalents</li> </ul>
Long term creditors	Long term creditors	<ul style="list-style-type: none"> <li>May now include grant unapplied creditor and/ or donated asset creditor</li> </ul>
Provisions	Provisions	<ul style="list-style-type: none"> <li>Classify as either non-current or current</li> </ul>
Long term borrowing	Long term borrowing	<ul style="list-style-type: none"> <li>No change</li> </ul>
Govt grant deferred		<ul style="list-style-type: none"> <li>Removed from balance sheet ( see later presentation)</li> </ul>
pension liability / deferred liabilities / credits	Other long term liabilities	<ul style="list-style-type: none"> <li>Merged into one heading</li> <li>Includes PFI/ finance lease liabilities</li> </ul>
Usable capital receipt reserve Deferred capital receipts reserve General fund balance HRA reserve Earmarked reserves MRA (HRA)	Usable capital receipt reserve Deferred capital receipts reserve General fund balance HRA reserve Earmarked reserves MRA	<ul style="list-style-type: none"> <li>No change – assuming mitigations in place</li> </ul>
Revaluation reserve CAA	Revaluation reserve CAA	<ul style="list-style-type: none"> <li>Significant changes – detail provided in later sessions</li> </ul>
Available For Sale Financial Instrument Account Financial Instrument Adjustment account Pensions reserve Unequal pay back pay account Collection Fund Adjustment Account	Available For Sale Financial Instrument Account Financial Instrument Adjustment account Pensions reserve Unequal pay back pay account Collection Fund Adjustment Account	<ul style="list-style-type: none"> <li>No change</li> </ul>
	Employee benefit reserve Capital Grants unapplied account Donated Assets Account	<ul style="list-style-type: none"> <li>New accounts established</li> </ul>

UK GAAP balance sheet	IFRS Balance sheet (minimum presentation)
Intangible assets	
Tangible Fixed Assets <i>Operational assets :</i> Operational Land and Buildings Infrastructure Vehicles, plant and equipment Community Assets  <i>Non operational assets:</i> Investment properties Assets under construction Surplus assets held for disposal	Property Plant and Equipment  Optional to include detail  Investment property Intangible assets Assets held for sale
Long Term Investments	Long term investments (including net pensions asset)
Investment in associates and joint ventures Long term debtors	Investment in associates and joint ventures Long term debtors
<b>LONG TERM ASSETS TOTAL</b>	<b>LONG TERM ASSETS TOTAL</b>
<i>Current assets:</i> Stocks and work in progress Debtors Short term investments Cash and bank	<i>Current assets:</i> Short term investments Stock Short term debtors Cash and cash equivalents Assets held for sale
<b>TOTAL ASSETS</b>	<b>CURRENT ASSETS TOTAL</b>
<b>Current liabilities:</b> Short term borrowings Short term creditors Bank overdraft	<b>Current liabilities:</b> Short term borrowing Short term creditors Provisions Bank overdraft <b>CURRENT LIABILITIES TOTAL</b>
<b>Long term liabilities</b> Long term creditors Provisions Long term borrowings Government Grants Deferred Pensions Liability Deferred liabilities / credits	<b>Long term liabilities</b> Long term creditors Provisions Long term borrowing  Other long term liabilities (comprising net pensions liability, deferred liabilities, Donated Assets Account and any other long term liabilities) <b>LONG TERM LIABILITIES TOTAL</b>
<b>NET ASSETS</b>	<b>NET ASSETS</b>

UK GAAP balance sheet	IFRS Balance sheet (minimum presentation)
<b>Financed by:</b> Usable capital receipts reserve General Fund Balance HRA reserve Earmarked reserves Major repairs reserve (E & W) Capital grant unapplied Account	<b>Usable reserves</b>  <a href="#">Option to include detail</a>
Revaluation reserve Available for sale financial instruments reserve Capital Adjustment Account Financial Instruments Adjustment Account Pensions reserve Unequal pay back pay account Collection Fund Adjustment Account Employee benefit reserve ?	<b>Unusable reserves</b>  <a href="#">Option to include detail</a>
	<b>TOTAL RESERVES</b>

**DRAFT**

**This draft report is for discussion, comment and approval by Audit Committee at its meeting on 26 Mar 2010. The draft assumes that the period of the report will be the financial year ended 31 Mar 10, and areas which will need amendment are highlighted in blue. The report will also need to be updated for business conducted on 26 March, and, subject to Member approval, could be finalised by the Chair after the meeting.**

**PLYMOUTH CITY COUNCIL****ANNUAL REPORT OF THE AUDIT COMMITTEE – 2009/10****Introduction**

The Audit Committee was established by Plymouth City Council in 2002. Whilst there is no statutory obligation to have such a committee, they are widely recognised as a core component of effective governance and are essential in order to score well under the Comprehensive Area Assessment (CAA) Use of Resources Key Lines of Enquiry (UoR KLOE) in respect of good governance and internal control.

**Role of the Audit Committee**

An audit committee is a key component of corporate governance. It is an important source of assurance about the Council's arrangements for managing risk and maintaining an effective control environment. It provides independent scrutiny of financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.

An effective audit committee brings many benefits to a local authority including:

- Raising greater awareness of the need for internal control and the implementation of audit recommendations
- Increasing public confidence in the objectivity and fairness of financial and other reporting
- Reinforcing the importance and independence of internal and external audit and any other similar review process such as providing a view on the Annual Governance Statement
- Providing additional assurance through a process of independent and objective review

Plymouth's Audit Committee has agreed Terms of Reference which are included in the Council's Constitution and they are attached at Appendix 1.

**Committee Members and Meetings**

**This report covers the financial year ending 31 March 2010.** The Audit Committee is a fully constituted committee comprising 5 elected Council Members, and 3 appointed Independent Members. The Committee met on **4/5** occasions during the period for a normally convened meeting, and all meetings were quorate:- 26 June 2009, 25 Sept 2009, 11 Dec 2009, and 22 Jan 2010 **(?26 March 2010)**.

In addition, 2 training and development events were arranged especially for Audit Committee Members on 22 Jan 2010 and 5 Feb 2010. Invitations to attend this training were also extended to Cabinet and Scrutiny Members.

During the period **1 April 09 to 5 February 2010 / ? 28 Mar 2010** Members of the Audit Committee were as follows:-

Cllr Mrs Leaves	Chair
Cllr Vincent	Vice Chair
Councillor Stark	
Cllr Thompson	
Cllr Wildy	(to 26 June 09)
Cllr Tuohy	(from 25 Sept 09)
Mr R Clark	Independent Member
Ms L Myles	Independent Member
Mr I Stewart	Independent Member

Although not a Member of Audit Committee, Cllr Bowyer, Cabinet Member for Finance, was in regular attendance at Audit Committee throughout the period. This demonstrated the high profile of the Committee within the Council, and enabled many important issues or questions raised by the Committee to be addressed immediately, or referred back to full Cabinet by the Cabinet Member as necessary.

### **Achievements in 2009-10**

Members of Audit Committee identified several achievements, and positive outcomes of the Committee when it carried out a self-assessment at the training workshop held on 5 February 2010:-

- Widewell school land – public engagement
- More openness of information (agreed to move reports from Pt II to Pt I agenda)
- Chair Issued press release to engage more with the public
- Better understanding between officers and Members working together
- Positive benefit of calling in officers to Committee
- Clarifying responsibilities between Audit and Scrutiny
- Improvements to Treasury Management
- Quality of debate and challenge
- Expedited an unqualified auditors opinion on the accounts of City Bus to enable Plymouth's Annual Accounts to be signed by the statutory deadline

Further details are contained within this report.

### **Training and Development**

In order to be effective, Members of the Committee have recognised that, when serving the Committee, they should be apolitical and objective, and have a clear

understanding of risk management, internal control and governance issues, and how the arrangements in place across the City Council operate.

Training was provided to assist the continued development of Committee Members throughout the course of the year. There was regular awareness and update training at all scheduled Audit Committee meetings as follows:-

- Risk Management (Sept 09, Dec 09, Mar 10 ?)
- Statement of Accounts (Jun 09)
- International Financial Reporting Standards (IFRS) (June, Sept and Dec 09 ? March 2010)

In addition there were specifically convened workshops arranged as follows:-

- Treasury and Investment Management (22 Jan 2010)
  - Arlingclose and GriffithsMorley provided a personalised Plymouth, comprehensive training programme to assist Committee Members fulfil their role and obligations under the new CIPFA Treasury Management Code of Practice, to enable them to scrutinise the Authority's treasury management policies and practices
- Audit Committee Training Workshop (5 Feb 2010)
  - The programme included sessions on Internal Audit/Fraud Awareness by Devon Audit Partnership; an overview of External Audit/Annual Accounts arrangements from Barrie Morris, a Director with Grant Thornton; and a facilitated group discussion by Committee Members to prepare their Audit Committee self-assessment

### Assurances

The Committee has considered a range of reports during the year, covering risk management, annual governance statement, internal and external audit reports, examination and approval of internal and external audit plans, scrutiny of a revised Treasury Management Strategy, and review and approval of the annual financial statements.

### Risk Management

The Audit Committee continues to review both strategic and operational risk management arrangements across the Council, and the Corporate Risk and Insurance Manager reports regularly to the Committee.

In September 09 the Committee received the Risk Management Annual Report which summarised the work carried out during 2008/09 to develop the Council's approach to risk management. The Annual Report also provided information on the focus of proposed risk management activity for the following twelve months following the transition from Comprehensive Performance Assessment (CPA) to the "harder test" under the Comprehensive Area Assessment (CAA) from April 09.

The 6-monthly formal Strategic Risk Register (SRR) update and monitoring report was also submitted to the Sept 09 Audit Committee for endorsement. The report indicated that strategic risks had, overall, increased from 32 to 36. There had been 7

new risks added and 3 deleted. (NB – The next updated SRR is due to go to March 10 Cttee)

The Audit Committee also monitors the embedding of operational risk management across the Council. During 2008/09 the Committee was informed that departmental Operational Risk Registers (ORR's) were being revised to identify and align risks with departmental Business Plans. In September 09 the Committee received an update report informing on progress being made and, as part of their monitoring role, Members requested that Directors be asked to attend future meetings of Audit Committee to provide feedback on the operation of risk management in their areas. The Asst Director for Community Services (Business Support) and the departmental Risk Champion attended Committee in December 09 and outlined the arrangements in place for their department.

The committee will continue to monitor progress on the embedding of risk management across the Council.

### **Annual Governance Statement (AGS)**

In England, the preparation and publication of the AGS is necessary to meet the requirement of the Accounts and Audit Regulations 2006 to prepare such a statement in accordance with 'proper practices'. The AGS replaced the previous Statement on Internal Control and is our review mechanism for the Council's Code of Corporate Governance and its application.

The AGS is published with the financial statements, but is intended to be a broad reflection of the whole governance of the authority. As such, it summarises the annual review of the effectiveness of the governance arrangements within the Council.

There were 5 significant governance issues identified in the AGS 2008/09 which was submitted to, and approved by, the Audit Committee on 26 June 09:

- Deliverability of Decent Homes in North Prospect Estate
- Financial impact of listing of the Civic Centre as a Grade II building
- Economic downturn affecting Treasury Management
- Significant financial pressures on the Council's medium term financial strategy
- Corporate impact of housing stock transfer

### **Internal Audit**

Internal audit services, which have been provided by Devon Audit Partnership since April 2009, provide the Council with important assurances that Council assets and resources are properly applied and used wisely.

The Committee has received regular reports and information from the Head of Internal Audit. These have included:-

- The annual risk assessment, and audit plan for 2009/10. (NB the plan for 2010/11 will be going to March cttee) This plan was prepared in line with the Audit Strategy and took into account strategic and operational risk registers, the results of the CPA Use of Resources assessment, and issues arising out of audit and inspection reports.



- The Internal Audit Annual Report for 2008/09, and the 6-month progress report (09/10) were presented, respectively, to the June 09 and December 09 Committees which:-
  - summarised the work undertaken by the Internal Audit Service during 2008/09 and the first 6 months of 2009/10;
  - reviewed the performance and effectiveness of the Internal Audit Service;
  - provided an audit opinion on the adequacy of internal controls on individual system reviews carried out;
  - provided overall reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment;
  - confirmed that fundamental weaknesses previously identified had all been addressed;
  - outlined the relevance of the reports in the preparation of the AGS;
  - provided a summary of fraud and irregularity investigations and outcomes;
  - gave details of the proactive role internal audit continued to play in providing fraud awareness training to management teams across the Authority.

As part of the AGS review process, the effectiveness of the system of internal audit should be reviewed annually. Receipt of the above reports has enabled the Committee to draw conclusions regarding eg Internal Audit's independence and objectivity, approach and performance against targets set, compliance with professional auditing standards etc.

In addition, the Committee has considered reviews of Internal Audit carried out by external auditors where they have repeatedly concluded that they can place reliance on Internal Audit's work. Audit Committee is therefore satisfied that the system of internal audit in place is adequate and effective, and this was endorsed at Audit Committee on 26 June 09.

At Audit Committee in December 09, Members discussed, and agreed, that in future Internal Audit reports would be submitted under Part I of the Committee's agenda in the interests of openness and transparency on the Council's internal control and governance arrangements.

## **External Audit – Governance and Statement of Accounts**

External audit is an essential element in the process of accountability for public funding and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

The Committee has considered the following detailed reports from our external auditors, Grant Thornton during 2009/10:

- Audit of Accounts 2008/09 – Annual Report to those Charged with Governance (Sept 09)
- Annual Audit Letter 2008/09 (Dec 09)
- Use of Resources 2009 – Findings and Conclusions (Dec 09)
- Project Management Arrangements Report (Dec 09)
- Regular progress reports from the Audit Manager on the external audit plan

The Annual Audit Letter 2008/09 summarised the key messages and conclusions which had arisen from the above work during the auditors' 2008/09 audit, namely:-

- Auditing the 2008/09 financial statements
- Assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources
- PAYE and Employment Tax review
- Certification work on grant claims and returns

The Annual Audit Letter issued by the Council's external auditors said the Council was managing its finances well and delivering improvements to the residents of Plymouth.

The auditors said they had found good practice in many areas, and the Council was in a strong position to build upon these. "The scores achieved by Plymouth City Council are fairly strong when compared to the assessments of council's nationally and reflects positively on the progress being made by the Council in both improving underlying arrangements as well as delivering sustainable outcomes that meet the needs of the local community."

The auditors added: "The Council's strong performance needs to be considered against the backdrop of new assessment criteria which has been designed to be more demanding, with an emphasis on demonstrating improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed council to achieve higher assessment ratings in the first place."

The Auditors issued an "unqualified" audit opinion on the Council's financial statements and accounts and on its arrangement to secure value for money, meaning there were no major issues for concern. They said the quality of financial statements was 'good'.

The auditors also said the Council had sound arrangements for managing and improving value for money and that it had been actively reviewing the costs of delivering its service. It had a good understanding of its cost base, with clear links through to the performance of services.

They also found particularly good arrangements around governance, risk management and internal control.

The 2009 Annual Audit Letter also commented that "the new Audit Committee that is now in place continues to provide effective and robust challenge." The opportunity was taken by Audit Committee to improve engagement with the public by issuing a press release summarising the good practice highlighted in the Auditors Annual Audit Letter.

### **International Financial Reporting Standards (IFRS)**

The Audit Committee was first appraised in December 2008 of the new requirement for Local Authority Accounts to be produced on an IFRS basis with effect from

2010/11. Since that time an update report on progress made by the Steering Group towards implementation has been given to every meeting of the Audit Committee.

### **Treasury Management**

Audit Committee had been briefed on the potential impact of the Icelandic Banking crisis on the Council's loans and investments portfolio when the risk was first alerted. However, whilst it had initially been hoped that most of the loans (£13 million) would be recovered, Audit Committee were informed at the December 09 meeting that recovery might be as low as £5 million.

At the same Committee, Members were informed that the Council had received two new CIPFA Codes of Practice outlining changes to Council Treasury Management governance arrangements following the Icelandic crisis and reflecting the recommendations of the Government Select Committee.

Two recommendations affected Audit Committee which were (a) that a Council Committee (preferably Audit) should have formal responsibility for the scrutiny of the Treasury Management Strategy prior to approval by full Council and (b) Members should be appropriately trained to undertake this role. This training was subsequently arranged for 22 January 2010, which is referred to previously in this report.

The training was both timely and beneficial to Committee Members and they were able to robustly challenge the draft revised Treasury Management Strategy Statement and Investment Strategy at a specially convened Audit Committee on 5<sup>th</sup> March 2010.

### **Transfer of land at Widewell School**

There had been much strength of feeling from the local community at the loss of usage of land at Widewell School when the School changed its legal status to a Trust School. This had been followed by a complaint to the Commission for Local Administration. As a result, an independent review of the circumstances surrounding the land transfer had been commissioned from external solicitors and their report was considered by Audit Committee at its meeting on 26 June 09.

With several members of the local community present at Committee, the circumstances surrounding the transfer were scrutinised to establish if there were any internal control or procedural issues that needed to be strengthened to prevent any similar situation recurring in the future.

The outcome from Committee to ensure that procedures were robust was that, in future, there should be consultation with Ward Members and that revised procedures should be reviewed by Devon Audit Partnership and the external solicitors.

### **Looking Forward**

Apart from continuing to monitor, on an ongoing basis, the Council's corporate governance arrangements as set out in the Committee's Terms of Reference, Audit Committee will in 2010/11:-

- Review the Whistleblowing Policy
- Monitoring the Council's implementation of its UoR action plan

- Further develop the Audit Cttee as identified by it's self-assessment eg:-
  - Look at trends in anti-fraud referrals and consider preventative measures
  - Maintain an integrated "tracker" of issues arising at Committee
  - Consider how to improve communication on financial information to the public
  - Further enhance training / discussion on the statement of accounts in advance of signing
  - Forge better links to the Scrutiny Management Board
  - Promote the Audit Committee's Annual Report / increase publicity

### **Conclusion**

The Audit Committee has had a successful year in providing the Council with assurances on the strength of its governance and stewardship arrangements and to challenge those arrangements, and will continue to build on this in 2010/11.

**Cllr Mrs Leaves**

**Chair, Audit Committee**

Date .....

## THE AUDIT COMMITTEE

### 1. General

1.1 The Council's established Audit Committee is comprised of:

- five Councillors
- three independent members
- four of the five Council members shall not be members of the Cabinet.

1.2 Council Members may serve on both the Audit Committee and the Standards Committee

1.3 The independent members of Audit Committee shall not be those appointed to the Standards Committee

### 2. Function

#### 2.1 External Audit Functions of Audit Committee

(a) To consider the appointment of the Council's external auditor, as far as the Audit Commission rules permit.

(b) To discuss with the external auditor the nature and scope of audit coverage, including Value for Money (VFM) and Best Value Work and to agree level of fees chargeable.

(c) To review external audit reports and annual audit letters, together with management response and make recommendations to the Cabinet.

(d) To respond to any other concerns of the external auditors.

#### 2.2 Internal Audit Functions of the Audit Committee

(a) To monitor the progress and performance of Internal Audit.

(b) To review and approve the Internal Audit annual programme.

(c) To consider significant findings of Internal Audit reviews and investigations together with management responses and monitor implementation of agreed recommendations.

(d) To advise Council on the Internal Audit function, resourcing and standing within the authority.

(e) To ensure co-ordination between internal and external auditors.

(f) To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council.

## **2.3 Risk Management Functions of the Audit Committee**

- (a) To approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the authority.
- (b) To review and advise the Cabinet and Council on the content of the corporate governance report in the annual report, statement of accounts and Best Value Performance Plan.
- (c) To monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders Contracts.
- (d) To keep under review corporate policies such as Public Information Disclosure Code (Whistleblowing) and Anti-fraud Strategy.

## **2.4 Corporate Governance**

To advise Council on the promotion, maintenance and review of Code of Corporate Governance for the City Council.

## **3. Procedures**

3.1 Council Rules of Procedure apply to meetings of Full Council, and to all meetings of committees of the Council.

### **3.2 Quorum**

The quorum of the Audit Committee is three, which number must include at least one independent member. If, as a result of a declaration of interest, an independent member is required to leave the meeting, the meeting shall remain quorate during his/her absence.

### **3.3 Appointment of Substitute Members**

Any member of the City Council may act as substitute to the Audit Committee provided that the balance of the membership of the Committee is maintained.

### **3.4 Lead Officer**

Council's Chief Internal Auditor

**CITY OF PLYMOUTH**

**Subject:** Audit Committee Self-Assessment Checklist  
**Committee:** Audit Committee  
**Date:** 26<sup>th</sup> March 2010  
**Cabinet Member:** Cllr Bowyer  
**CMT Member:** Director for Corporate Support  
**Author:** Sue Watts, Asst Head of Devon Audit Partnership  
**Contact:** Tel: (01752 (30) 6710  
Email: sue.watts@devonaudit.gov.uk  
**Ref:**  
**Part:** I

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**Executive Summary:**

The Audit Committee is a key component of corporate governance and it brings many benefits to a local authority. Effective working of the Committee is an essential element of the Council's Use of resources assessment under the Comprehensive Area Assessment (CAA).

The Committee is working well and the Authority's External Auditors have commented "the new Audit Committee that is now in place continues to provide effective and robust challenge." However, the Committee wishes to develop still further and has already self-assessed where it has performed well, and identified areas for improvement. It now wishes to self-assess itself against the checklist recommended in CIPFA's "Toolkit for Local Authority Audit Committees"

The attached document is an initial draft assessment completed by Officers which is intended should form the basis of discussion, amendment and agreement by Members of Audit Committee themselves.

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**Corporate Plan 2009-2012:**

The work of the Audit Committee assists the Authority in maintaining high standards of public accountability and probity in the use of public funds.

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

None

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment etc.**

The work of the Audit Committee is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

**Recommendations and Reasons for recommended action:**

It is recommended that:

Audit Committee Members consider the attached draft self-assessment document and amend as required

**Alternative options considered and reasons for recommended action:**

The alternative is not to complete the self-assessment, but this would miss an opportunity to enhance further the profile and performance of the Audit Committee

### Background papers:

## CIPFA's "Toolkit for Local Authority Audit Committees"

**Sign off:** comment must be sought from those whose area of responsibility may be affected by the decision, as follows (insert initials of Finance and Legal reps, and of Heads of HR, Corp Prop, IT and Strat. Proc.):

Fin		Leg		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Asst Head Devon Audit Partnership											



# Audit Committee self-assessment checklist

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>					
<b>Role and remit</b>					
<b>Priority</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/a</b>	<b>Comments/action</b>
1	Does the audit committee have written terms of reference?	✓			
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	✓			
1	Are the terms of reference approved by the council and reviewed periodically?	✓			
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	✓			
1	Can the audit committee access other committees and full council as necessary?	✓			Chair of Audit Committee is a member Support Services Scrutiny. Other serving Audit Committee Members also serve on other committees. Cabinet Member routinely attends Audit Committee – and is challenged by Audit Committee and takes back comments (if relevant) to Cabinet. Recently agreed Audit Committee Chair to attend Scrutiny to ensure common themes are identified.
1	Does the authority's statement on internal control include a description of the audit committee's establishment and activities?	✓			
2	Does the audit committee periodically assess its own effectiveness?	✓			Recently introduced. (February 5 <sup>th</sup> training day + March 26 <sup>th</sup> Audit Committee Self Assessment)

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>					
<b>Role and remit</b>					
<b>Priority</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/a</b>	<b>Comments/action</b>
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	✓			Now being implemented - 26 <sup>th</sup> March Audit Committee – draft annual report.
<b>Membership, induction and training</b>					
1	Has the membership of the audit committee been formally agreed and a quorum set?	✓			Constitution / Terms of Reference
1	Is the chair independent of the executive function?	✓			
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	✓			
1	Are new audit committee members provided with an appropriate induction?		✓		Has been discussed at training workshop on 5 Feb and agreed that this should be addressed in the future
1	Have all members' skills and experiences been assessed and training given for identified gaps?				Need to liaise with Member Training Team.
1	Has each member declared his or her business interests?	✓			Should have done !?
2	Are members sufficiently independent of the other key committees of the council?	✓			
<b>Meetings</b>					
1	Does the audit committee meet regularly?	✓			

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>					
<b>Role and remit</b>					
<b>Priority</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/a</b>	<b>Comments/action</b>
1	Do the terms of reference set out the frequency of meetings?		✓		No – but committee forward plan (updated each Audit Committee meeting) for Audit Committee identifies calendar of meetings over forthcoming 12 months and planned reports / topics for agendas. Meetings have recently been increased from 4 to 6 p.a.
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	✓			
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	✓			Where elected Members cannot attend, substitute will normally act (included in constitution). Independent Members have attended regularly in the past
1	Are meetings free and open without political influences being displayed?	✓			
1	Does the authority's S151 officer or deputy attend all meetings?	✓			Normally
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	✓			
<b>INTERNAL CONTROL</b>					
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?	✓			
1	Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?	✓			

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>					
<b>Role and remit</b>					
<b>Priority</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/a</b>	<b>Comments/action</b>
1	Does the audit committee consider how meaningful the AGS is?	✓			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	✓			
1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	✓			Audit Committee has responsibility for risk management but links with other committees, eg. scrutiny, are being strengthened.
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?"			✓	PCC has not specifically adopted CIPFA's "Red Book" but the examples of best practice and action recommended in particular circumstances have been compared with current practice adopted in Plymouth and the policies in place, which identified no significant variations.
1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?			✓	See above
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	✓			
2	Does the audit committee review the authority's strategic risk register at least annually?	✓			Twice yearly.
2	Does the audit committee monitor how the authority assesses its risk?	✓			
2	Do the audit committee's terms of reference include oversight of the risk management process?	✓			
<b>FINANCIAL REPORTING AND REGULATORY MATTERS</b>					

ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/a	Comments/action
1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	✓			Terms of Reference
1	Does the audit committee consider specifically: • the suitability of accounting policies and treatments • major judgements made • large write-offs • changes in accounting treatment • the reasonableness of accounting estimates the narrative aspects of reporting?				In part – could be improved.
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	✓			
1	Does the audit committee review management's letter of representation?	✓			
2	Does the audit committee annually review the accounting policies of the authority?	✓			Annual / periodic review of amendments to Financial Regulations.
2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	✓			Specific annual accounts training (June + September) and periodic update training, eg. regular updates to Audit Committee on IFRS

ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/a	Comments/action
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	✓			Specific updating training at both routine Audit Committee meetings (eg. IFRS) and ad hoc training sessions (eg. Treasury Management training 22 <sup>nd</sup> Jan. and training workshop 5 <sup>th</sup> Feb. Also inclusion on Audit Committee agenda or raised as part of urgent business.
INTERNAL AUDIT					
1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	✓			
1	Does internal audit have an appropriate reporting line to the audit committee?	✓			
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	✓			
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	✓			
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?		✓		Private talks held with Chair of Audit Committee.
1	Is there appropriate cooperation between the internal and external auditors?	✓			
1	Does the audit committee review the adequacy of internal audit staffing and other resources?	✓			

ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/a	Comments/action
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom?	✓			Based on periodic reports from Chief Auditor and regular reports from external audit's review, which assesses IA against CIPFA code.
2	Are internal audit performance measures monitored by the audit committee?	✓			
2	Has the audit committee considered the information it wishes to receive from internal audit?	✓			Ongoing – but most recently considered at Audit Committee training workshop.
EXTERNAL AUDIT					
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?	✓			
1	Does the audit committee hold periodic private discussions with the external auditor?	✓			At least 1 over the past year but this could be formalised
1	Does the audit committee review the external auditor's annual report to those charged with governance?	✓			
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	✓			eg. UoR action plans monitored by Audit Committee.
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	✓			Reports by External Auditors are presented to Audit Committee but not those covered by other agencies, eg. Ofsted, Care Commissioners etc

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>					
<b>Role and remit</b>					
<b>Priority</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/a</b>	<b>Comments/action</b>
1	Does the audit committee assess the performance of external audit?	✓			In part, where opportunity to challenge arises when external audit reports presented to Audit Committee.
1	Does the audit committee consider and approve the external audit fee?	✓			
<b>ADMINISTRATION</b>					
<b>Agenda management</b>					
1	Does the audit committee have a designated secretary from Committee/Member Services?	✓			
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	✓			
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	✓			
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?		✓		
<b>Papers</b>					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	✓			
2	Does the audit committee issue guidelines and/or a pro forma concerning the format and content of the papers to be presented?		✓		Format of reports tends to follow corporate standard.



ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/a	Comments/action
Actions arising					
1	Are minutes prepared and circulated promptly to the appropriate people?				Promptness could be improved.
1	Is a report on matters arising made and minuted at the audit committee's next meeting?				Recently agreed that this be implemented.
1	Do action points indicate who is to perform what and by when?		✓		In part – being strengthened.

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**PLYMOUTH CITY COUNCIL**

**AUDIT COMMITTEE**

**WORK PROGRAMME**

**April 2010 - March 2011**

Work Plan 2010/11													
		2010							2011				
Item	Cabinet Member / Lead Officer	A*	M	J*	J	A	S*	O	N	D*	J	F	M*
Additional Provisional Meetings		9											
Annual Governance Report (ISA 260)	External Auditors						24						
2009/10 Annual Audit Letter	External Auditors									10			
External Audit - Progress Report	External Auditors			28			24			10			25
Internal Audit - Annual Plan	Cllr Bowyer / DfCS												25
Internal Audit - 6 Monthly Progress Report	Cllr Bowyer / DfCS									10			
Internal Audit Annual Report	Cllr Bowyer / DfCS			28									
Audit Committee Forward Work Plan	Chief Auditor			28			24			10			25

Work Plan 2010													
		2010								2011			
	Cabinet Member / Lead Officer	A*	M	J*	J	A	S*	O	N	D	J*	F	M
Review of Whistleblowing Policy	Cllr Bowyer / DfCS			28									
Operational Risk Register - Update Report	Cllr Bowyer / DfCS			28						10			
Operational Risk Management - Departmental Review				28									
Strategic Risk Register- Monitoring Report	Cllr Bowyer / DfCS						24						25
Risk Management - Annual Report	Cllr Bowyer / DfCS			28									
2010/11 Accounts Audit - Interim Report	External Auditors												25
Statement of Accounts 2009/10	Cllr Bowyer / DfCS			28			24						
Annual Governance Statement	Cllr Bowyer / DfCS			28									
Draft Audit Plan & Fees Letter 2011/12	External Auditors												25

Work Plan 2010													
		2010							2011				
	Cabinet Member / Lead Officer	A*	M	J*	J	A	S*	O	N	D	J*	F	M
External/Internal Audit Protocol	External Auditors			28									26
UoR Report	Cllr Bowyer / DfCS									10			
International Financial Reporting Standards (IFRS) Transition Project - Progress Report	Cllr Bowyer / DfCS			28			24			10			26
Annual Review of Financial Regulations	Cllr Bowyer / DfCS												26
Review of Internal Audit Strategy / Charter	Cllr Bowyer / DfCS			28									

\* *Audit Committee dates to be confirmed*